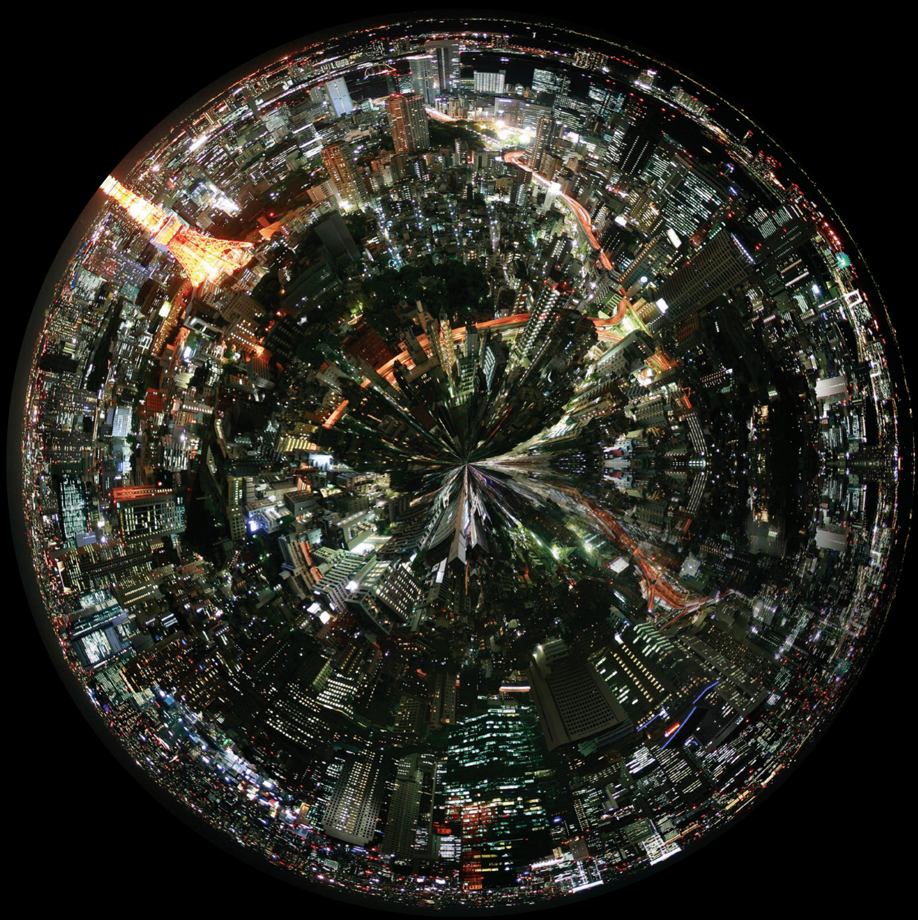
Deloitte.

The CFO Program



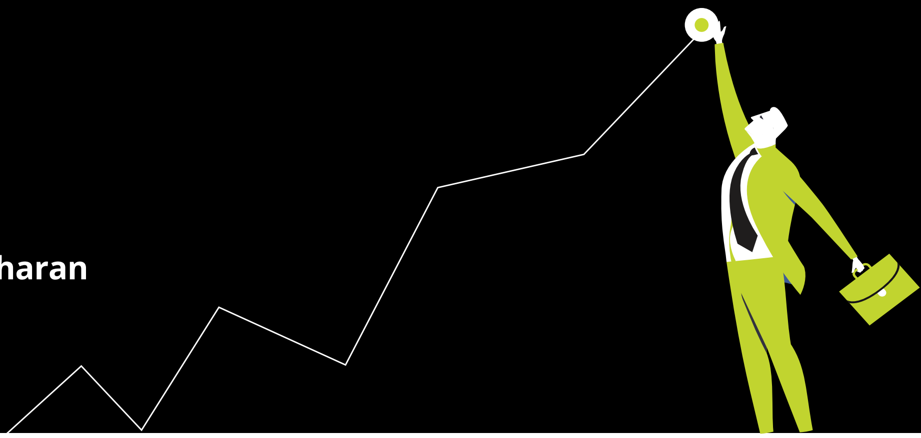
CFO Perspectives

India | CFO Newsletter | July 2018

For Private circulation only

CFO Speaks

Mr. Jairam Sridharan
CFO
Axis Bank Ltd.



1. **There is increasing competition from payment banks and new banking licenses being granted. As a CFO, what are the business growth challenges you foresee for the banking industry in India?**

   In today's environment, many different players, as opposed to only scheduled commercial banks in the earlier days, can perform banking as a function. Today, we have a broader array of players and payments is turning out to be the frontier of all tech-based innovations by these technology-based companies. They are providing powerful services to customers that banks provided earlier, though it is not a complete banking product suite yet. Moreover, many of these new players do not intend to become a full-fledged bank, and their aim is to keep customers constantly engaged on their platform. In addition, we see that many of these payment companies are cost centres and not making money. However, their sheer consumer size is making the market environment dynamic. It is not appropriate for us as banks, to follow their business model and incur losses in anticipation of future market and revenue. Banking is one of the most regulated industries (with reason), and our customers have different expectations. Also, we are fiduciaries of our depositor's funds. Hence, we cannot afford to follow the strategies of the new age payment companies.

   However, we have to acknowledge the fact that the world is changing and our strategies have to be different in terms of providing customer experience, client solutions and a customized range of products, by identifying our core strengths. For example, banks have largely been product centric in the past, but now we need to think differently and keep user experience as the core element in our offerings to the customers. We have a lot to learn from various other technology players around the concept of digital, but should work on the areas which we are good at; this will help us in the long run. As banks, we have fiduciary responsibilities, and we cannot afford to compromise with governance and core banking functions.

   Further, I feel that in the near future, bond markets will bring in a kind of competition that the Indian banking industry has never witnessed before. Government is making efforts towards this and is going to be a reality where we will see large corporates moving away from traditional banking. In a nutshell, yes, banking is getting disrupted, but opportunities continue to remain immense in India with the penetration of customers still being low.

2. **The Insolvency and Bankruptcy code 2016 (IBC) has been enacted at a very critical time with the Indian banking sector struggling to cope up with increasing NPAs. How, in your view, will the IBR benefit Banks in the country?**

   IBC is a very progressive law and still a new landscape for our country. It will certainly evolve more with time. I believe, for any capitalist model to thrive we need to have an easy unwinding process. In India, this had always been tough and time consuming, wherein

corporates and banks face an equal amount of hardship, leading to a negative impact on the economy. IBC will make the process time bound and simpler.

We need to appreciate the fact that, conceptualisation to execution of IBC has happened in 3 years' period, which is quite remarkable. There may be some initial delays and we will see some litigation, but it will continue to be a big game changer for decades to come. Overall, the intent is good and we will have fruitful results in the long run.

3. In today's volatile environment, instances of asset misappropriation, money laundering, cybercrime and accounting fraud are increasing by the day. What, in your view as a CFO, are the key measures that CFOs in Banks should take to minimise the risks and/or to minimise the impact of fraud incidents?

In today's VUCA world, it is important to be a learning organisation and learn from your mistakes, as well as the mistakes by other organisations, so that you do not land in an inappropriate situation. Banks should conform to following key measures:

- Awareness – It all begins with awareness, and we should acknowledge that frauds are a reality and can happen in your organisation too, and it is your problem too and not someone else's problem.
- Board and governance mind space – We need to make sure that board and key governance bodies spend adequate time on these complex issues, and take these threats seriously.
- Education – Top management, mid management, executives and board should be educated constantly and all of them should understand the nature of the problem and things we should be worrying about.
- Monitoring – It is important to have proper monitoring of exceptions reporting and pick up the early warning signals. For e.g., if some unit expenses are increasing suddenly or a particular vendor has started to get more than fair share of our business, we need to ask questions.
- Right organisation structure – This ensures and defines whose job it is to see appropriateness of cost,

etc. and analyse data from non-standard expenses at any level of the organisation.

- Whistle blower mechanism – It needs to be popularised and once something comes to notice, we should never ignore it. It is important to listen and evaluate through open and honest conversations.

4. The Banking industry is undergoing significant digital transformation as well as disruption. What are the top three disruptive trends that you are witnessing and how do you believe they will impact your business? Is the Indian Banking industry geared up for this disruption?

i. **User experience –** In earlier days, people used to plan a day-off for going to a bank and it had special place in lives of people. We need to realise that today customers walk in to the branch or open the bank app on their mobiles and expect the same customer service, as they would be getting at a consumer store or any other travel / leisure app respectively. It is a behavioural change and banks need to understand this in order to provide a better customer experience and instant gratification.

ii. **Reimagining business models –** With the advent of digital technology we can create products like instant loan approval, wherein customers do not have to come to the Branch. For e.g., a customer can convert a particular credit card transaction to EMIs on touch of a button. These are the new business models. We need to have out of the box thinking to encash these opportunities arising from digital.

iii. **Cost efficiency –** With technology favouring us, we are not just looking at bringing down the costs; rather, we can now eliminate certain costs such as the middleman or mid-offices. We only require front and back-end offices to function. The new technologies like artificial intelligence, robotics automation, machine learning, etc. are making this possible and they work 24x7, are fast, consistent and efficient.

5. The CFO is expected to play the role of both strategist and catalyst. How do you manage the growth expectations and profitability of your business?

Over the 1990's and early 2000's, the CFOs role has evolved from controller to a strategist. However, I personally believe that post the global financial crisis, reversal of CFO role to controller has happened globally, and to a certain extent in India too. These are complimentary roles and lot of CFOs love to play stronger role of strategist and support organisation's growth, M&A, etc. While this could be a more glamourous role for a CFO, one should not forget the CFO's core element of controllership. A CFO has to sign the numbers, and stewardship remains their primary responsibility which can't be compromised.

Yes, we have a natural inclination to strategist role and can be the best advisor to CEOs, but many people can do that job. However, what we are doing as CFOs in a steward role, other people cannot do it and so a CFO should never forget their traditional role, which turns out to be more critical in a volatile and uncertain business environment.

Expert Views

Finance 2025

From phone apps to home automation to cashless commerce and beyond, digital disruption is the new normal for consumers today. It is changing, what we do and how we get things done in countless ways.

In business, robots are working alongside human beings to build cars, deliver packages, design computers, and make electricity. Blockchain is tracking supplies of diamonds and monitoring construction equipment, and smart machines are taking up residence in hospitals, shipping containers, drug stores, and more.

What does this have to do with the future of Finance? Everything.

Over the next seven years, these same technologies will be coming to your organisation with the promise of making finance better, faster, and probably less expensive. The work we do and how we do it is up for grabs.

Our predictions

1. **The finance factory.** Transactions will be touchless as automation and blockchain reach deeper into finance operations. Some find it interesting to speculate about finance disappearing under the crush of digital disruption, but we don't see that happening. Yes, Finance will likely be leaner, but that will mostly be a function of headcount in Operational Finance (order-to-cash, procure-to-pay, transactional accounting, etc.). Meanwhile, expectations for support from business finance (business partnering, reporting, planning, budgeting, forecasting, etc.) and specialized finance (tax, treasury, IR, etc.) will continue to grow.
2. **The role of finance.** With operations largely automated, Finance will double down on business insights and service. Success is not assured. The skills required by finance professionals will change dramatically, as new combinations of technology and human workforces in the form of 'humbots' permeate the workplace. Companies will increase data transparency at an organization level and will start sharing knowledge across disciplines, even if it creates headaches. Learn what it takes to make the most of blurring boundaries.
3. **Financial cycles.** Finance goes real time. Periodic reporting will no longer drive operations and decisionsif it ever did. Many finance cycles today are driven by technology and data-processing limitations. Things happen on a regular schedule because that's the only way they can happen. When information becomes available instantly to those who need it, traditional cycles become unnecessary. That frees people to focus on discovering new insights and acting on them. The new age CFO will need to demonstrate digital savviness and drive a sense of urgency in the organization to focus on the right parameters looking ahead, and be able to predict with precision on the day next and secure organizational resources to respond to the stimulus.
4. **Self-service.** Self-service will become the norm. Finance will be uneasy about this in the beginning, but there is no better way to be comfortable than to see your customers being empowered with the information you generate. With growing expectations for responsiveness and quality from finance, getting self-service right is paramount. When your customers have to take care of themselves, the last thing finance needs is for them to be frustrated or unhappy.
5. **Operating models.** New service-delivery models will emerge as robots and algorithms join a more diverse finance workforce,think about the integration of freelancers, gig workers, and crowds. Companies may see significant disruption in the offshoring and outsourcing space, with individual suppliers and their capabilities looking quite different than they do today. At the same time, the need to build dynamic, cross-functional teams will strain finance organizations that aren't preparing now for what's ahead. As with all changes, good leaders will be essential for navigating these transitions.
6. **Enterprise resource planning.** Finance applications and micro services challenge traditional ERP. Big vendors will be prepared. Finance is entering a golden age of technology. As cloud and in-memory computing becomes the norm for ERP, finance applications and micro services will proliferate. You'll be able to drastically reduce the complexity and cost of technology, without sacrificing functionality.
7. **Data.** The proliferation of APIs will drive data standardisation, but it won't be enough. Companies

will still be struggling to clean up their data messes. Data problems hide beneath the surface for many CFOs, some of whom don't fully appreciate the heavy lifting required to fulfill their requests. That's partly because the problems involve technical issues, and partly because there's little motivation for people to elevate the problems to the corner office. No one wants to be the bearer of bad tidings. In the process of digitisation and standardization, it will be critical how companies handle this big data in selecting the right chunk and filtering out the unwanted part

8. **Workforce and workplace.** Employees will be doing new things in new ways, some of which will make CFOs uncomfortable. Implementing new technologies is relatively easy compared to changing your talent model. They're obviously connected, but cultural and organizational shifts related to your workforce may take much more time and care to get right. Your finance organization should be looking at every new hire through the 2025 lens.

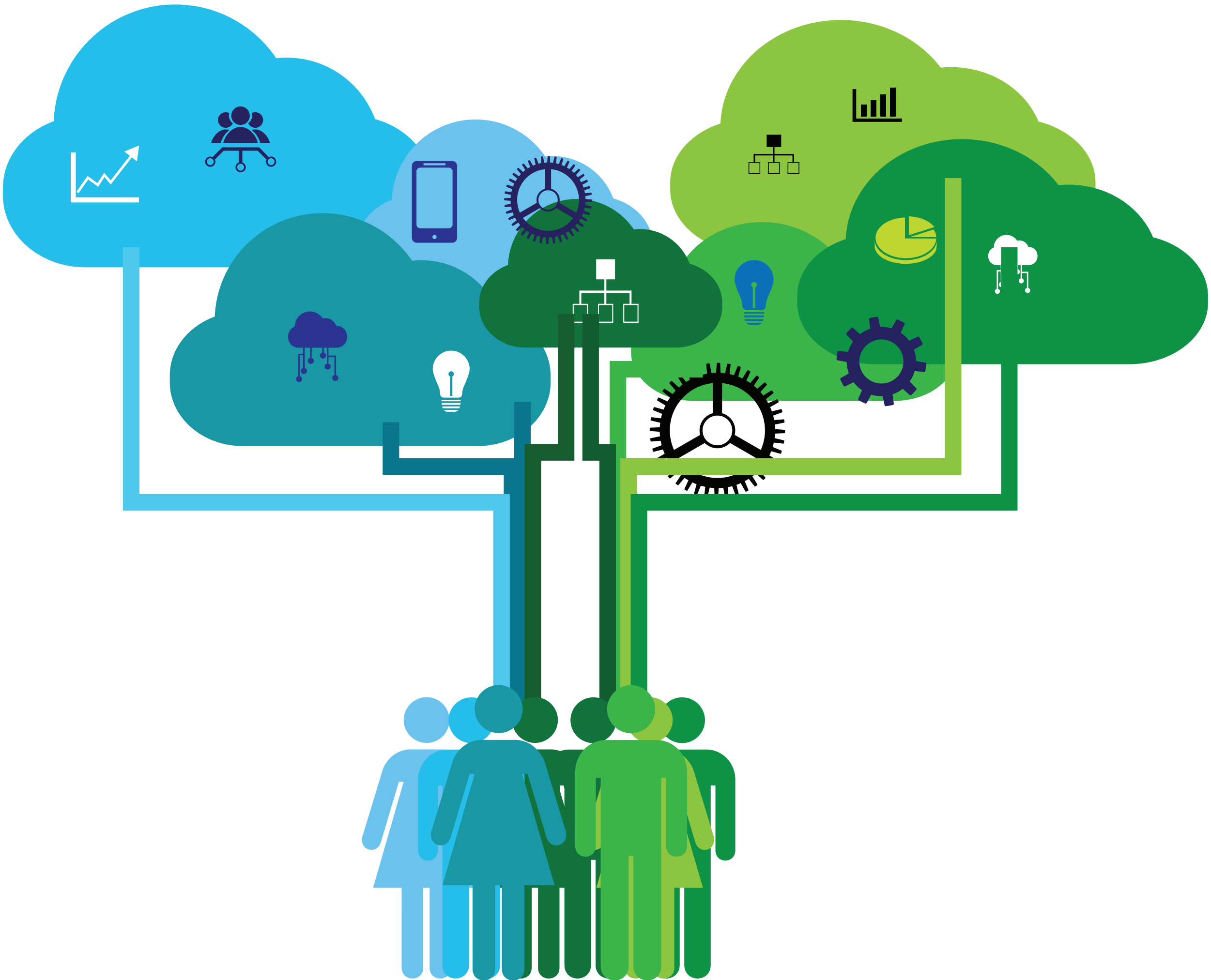
What's next?

None of us knows for certain what the future will hold, but we all have a responsibility to be thinking about what's likely to happen, and to prepare for it. In Finance, that means working now to get the right people and technology in place to take advantage of the inevitable disruption ahead. That's not likely to happen without a clear vision and strategy for Finance in a digital world. Now is the time to step back and make sure your roadmap to that future is clear.

There's no doubt we'll be wrong about some of the predictions in this paper, just as there is no doubt we will be right about others. You can be certain that the automation trend will accelerate and expand in the next seven years. The cost benefits are simply too large to ignore.

The years ahead hold great promise for finance organisations that want to create more value for the companies they support. Getting there may not be smooth and easy, but it will certainly be exciting. CFOs know their companies will benefit if Finance can more efficiently deliver better financial information in a more timely fashion.

Please click here to read the complete report.



About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

incfo@deloitte.com

Deloitte.