The CFO Program

# CFO Perspectives

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# CFO Speaks

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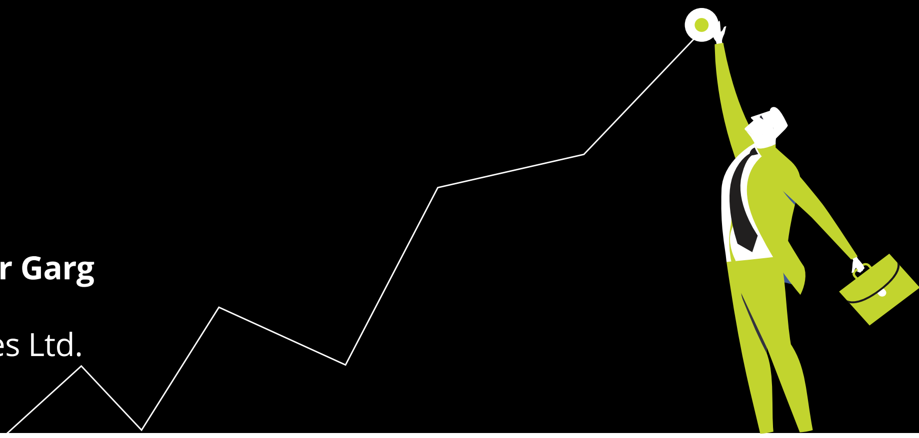


1. **Given the changing technology environment and Government's thrust on digital, what in your opinion are key emerging digital trends that would impact the business in next 2 years?**

   Digital is picking up and we see a great opportunity for the Indian IT industry in the next 2-3 years for the following digital transformation areas:

   - **Customer interaction and database personalisation** will witness an increase in coming years. We are seeing more e-commerce companies adapting to it and making their platforms personalised to customer needs.
   - **Automation** happens to be the most important trend across industry sectors, bringing lot of opportunities for the Indian IT companies
   - **Digital integration platforms** have been on the rise, which helps companies reduce cost and increase interaction between the front and the back-end platforms.
   - **Robotics** will also surge, especially with e-commerce industry growing. We have seen that customers have now built more confidence on the digital platforms and they expect even more.

   Given all these, we feel there is a huge potential in the Indian market. Also from the government perspective, the thrust on 'Smart Cities' will bring lot of opportunities for IT companies to work towards real-time data and data consolidation. However, a lot of implementation is required for 'Smart Cities' concept to take-off.

   In the last few years penetration of IT has increased, with enhanced government thrust; however, high speed internet and seamless telephone connectivity needs to reach every nook and corner of India, which brings huge opportunity for the IT industry. It is important for government and IT companies to work together to address huge market in India for digitization across the industry sectors.

2. **As a CFO how do you think digital, cloud and artificial intelligence will add to the growth of Indian IT industry?**

   I feel, all these areas have a huge potential of growth and we have a long way to go before we exploit the available opportunities in cloud, robotics and artificial intelligence.

   Cloud has started to pick up now which brings in a huge cost saving for the organisation and is a valuable investment to make from CFO's perspective. It allows us to move towards licensing cost system, rather than continuously spending on data maintenance and upgrades.

   Robotic process and automation (RPA) has been growing and companies are realising cost savings from it. For example, we are doing a project with - our Client to automate their entire payment process, which will reduce finance team's manpower substantially. It certainly brings huge cost saving from a CFO's perspective and thus, lot of companies are now open to adapt RPA. It also makes visibility and accessibility to the data very high for the finance teams.

Artificial intelligence (AI) and machine learning is a huge opportunity and can be applied across the industries, but we are still in the premature stage, wherein different companies are at different stages of their digital strategy. Thus, it will take some more time for AI to grow. However, once we focus more towards AI, this is certainly going to be the future for the IT industry, bringing lot of positive vibes for growth and creating value for the organisations.

### 3. Being an organisation with global operations in the rapidly changing environment; regulatory compliance has become a greater challenge. As a CFO, how do you ensure that regulatory compliances are effectively managed?

Regulatory compliance is of utmost importance and it keeps CFOs awake at night. We have so many rules and regulations to comply per the local policy of each country and new regulations are also announced by the countries as they become more vigilant. As a CFO, these activities become very time consuming and an extra effort is required to keep these things in place, apart from our daily work schedule. It sometimes becomes challenging and difficult, but as a CFO we have to be on top of it, because the liabilities and penalties of non-compliance are very high, and more than anything else any non-compliance has a potential of brand damage. We have a three-tier approach to ensure that all the compliances are met properly.

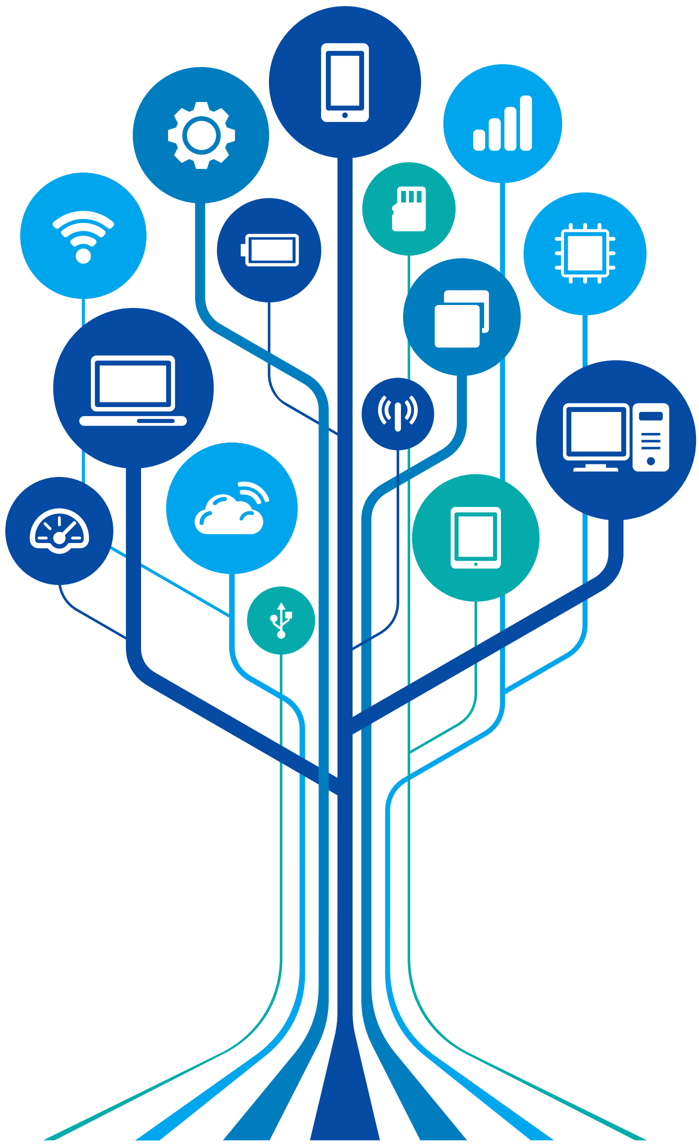
Firstly, it is the organisation culture wherein we have strong corporate governance tone at the top. It becomes important to cultivate the right culture within the organisation and our value system flows from top, wherein we are non-tolerant to non-compliance issues.

Secondly, the framework and organisational policies have to be correct from day-one. This ensures that the culture is set right from the beginning and gives the right framework to the internal compliance team to perform a hygiene check. For us, our compliance policies are within the framework of local policies for respective countries where we do business.

Lastly, it is about right implementation and ensuring correct measures to keep a check. Our internal audit team keeps a track to ensure that all compliances are within the stipulated frame work, and staff ensures compliance on quarterly basis. It is reviewed by the compliance committee and any non-compliance issue is highlighted, if any, for necessary actions. **It is important to build a culture where people respect compliance and it should be way of life for each one of us. At no point, we should allow compromises.**

### 4. Your business verticals have a large exposure to the US. Do you see any impact of the changes in US policies impacting the revenue and business sentiments?

US is a key market for us, where we work with multiple customers and have made significant investments, including an acquisition completed earlier this year. While changes in technology, global economics and government policies do result in uncertainties and challenges, as an organisation our focus is on strengthening our technology capabilities, developing



and skilling our talent pool, and delivering superior experience to our clients as these are what drive growth in the long term. Over the past few years, we have actually seen the contribution of the Americas to our overall consolidated revenues rise and that geography now accounts for half of our total revenue in the latest reported financial quarter (Q2 FY2018).

### 5. What are the top 3 challenges you face as a CFO of an IT organisation and how is it different from the CFOs of other industries?

i. **Pricing and contracting** is a challenge for a CFO of an IT industry in the current scenario. It involves a lot of negotiation and stiff competition from the other market players. With competition being tough and pressure on margin, it has become a prime focus and an important role of a CFO.

ii. Secondly, it is important to look at the **operational excellence,** as every component builds-up the cost and is important towards the growth story. It becomes critical to protect our margin by looking minutely into the cost components.

iii. Lastly, **capital allocation and cash planning** is an important part of the CFO's role. It becomes more important for us with new acquisitions, wherein we have challenges of integration, different tax needs and meeting expectations of the shareholders. Thus, it becomes vital to plan on allocating cash versus investing in future growth to maximize shareholder return.

### 6. Picking up from our above conversation on acquisitions; how do you as a CFO manage the challenge of integration and cultural transition?

Integration is a very critical phase to maximize the return from the value we are paying for company being acquired. It is important to have a right sale and marketing strategy, by building upon the customer base of the newly acquired entity. We need to integrate the back-end and support the newly acquired entity by getting together the synergies of administration and finance teams.

HR integration is very significant in order to build the overall culture of the organisation. We need to realise that the compensation and incentives vary from one company to another, and also the definition of growth rate and margin is different for respective geographies. Thus, employee aspirations are different and it needs to be dealt very carefully, else one might start losing talent. We need to be open in our mind-set to manage different set of people differently.

Further, each organisation needs different kind of autonomy and we need to support it, without compromising on the compliance and regulatory concerns. We define the authority matrix, however it is still important to give a free-hand and consider the different working styles. It helps in harnessing different skill-sets and integrating the efforts to maximize our value for the customers. It also enables us to map the customers to our capabilities from day one.

# Expert Views

## Redefining Financial Distribution

Business as usual will not resolve the pressing challenges faced in the distribution of financial services. These are not permanent paradigms and therefore the rhetoric of financial distribution, calls on the financial services ecosystem to build new capabilities. For instance, there is a need for adequate regulations for all stakeholders to experience significant efficiencies, and for better supervision of adverse incidents that frequently occur in the distribution process. Regulators in India are already steering efforts in that direction. They are giving a voice to beneficiaries of financial services qua steps taken to prevent misselling, ensuring better quality of advice, enhancing trainings, and transparency. Areas of improvement do exist, and a lot can be learnt from supervisory practices in other countries.

As new participants enter the distribution network, the role of all players in helping customers make informed choices (leading to greater customer confidence), cannot be emphasized enough. Appropriateness, integrity, objectivity, and competence in providing financial advice to customers is key for a true capability building in distribution of financial services. The potential of technology in reducing susceptibility to unethical attacks, must also be explored. Serving the truly excluded by the most efficient service providers presents a huge opportunity at both ends of the spectrum. To reach the excluded segments, organizations will have to adapt themselves, and build key capabilities by focusing on providing financial access, and building financial awareness (e.g. literacy, skills). Again, leveraging digital technologies in the process, can benefit both providers, and recipients. This is not to understate the need for coordinated action by the Government, Corporates and our Communities in building the required architecture.

Organizations that have the ambition to take this path, and can be disciplined in the process, can emerge as the "go-to" platforms in the foreseeable future. On the positive side, financial distributors are perfectly capable of restructuring themselves (as they stand to gain) with the emergence of the digital channel as a common platform across products and the channel is meeting many of their requirements, from generating leads to post sales service, and even cross-selling. On the other hand, the real-time insights provided by digital channels about products and themselves, is allowing customers to make better quality decisions.

### Need for regulations on financial product distribution

The world of financial services has evolved over the past few years, with financial institutions exploring new and innovative ways to reach the consumer. Financial institutions are quickly adopting smart technology, to keep up with the evolving landscape of the financial industry. In the new era of digital channels, there is an increase in customer touchpoints, including mobile and internet banking, video channels, chatbots, artificial intelligence based tools, and online robotic advisors. India is witnessing a paradigm shift to a digital environment from its conventional banking routes.

The financial distribution channels across banks, mutual fund houses, insurance companies and other NBFCs prioritize differentiation, customer service, efficiency, and convenience. While the financial industry has migrated to several innovative distribution channels, the need for regulatory reforms takes higher precedence. The need for regulatory reforms is particularly required to address the following:

- Prevention of misselling of products through various financial distribution channels
- Protection of customers that are drawn to the complex nature of financial products
- Financial institutions are defined by regulations and offer visibility and equal treatment to their customers
- Enabling complaint redressal, and ensuring customer protection

### Key challenges with the existing regulatory framework

- **Absence of guidelines regulating digital channels:** The financial services industry in India has been witnessing a shift towards digital channels such as online chatbots, online brokers, availing products and services through digital marketing channels, etc. However, there are very few specific regulations or guidelines currently regulating distribution or advice being provided through these online channels.
- **Conduct Risk management:** Currently the regulatory framework is still to evolve management of conducting risk by financial institutions.
- **In-adequacy of advice on investments:** Majority of the sale of mutual fund products/ insurance policies/ loans is done through third parties such as national

distributors, corporate agents, direct service agents, business correspondents. Customer/ investors often end up purchasing a cross-sell product, due to the insistence of the distributor, with no research or information on the same. Additionally, there is no standard or governing guideline on which the distributor can be held responsible for what they sell.

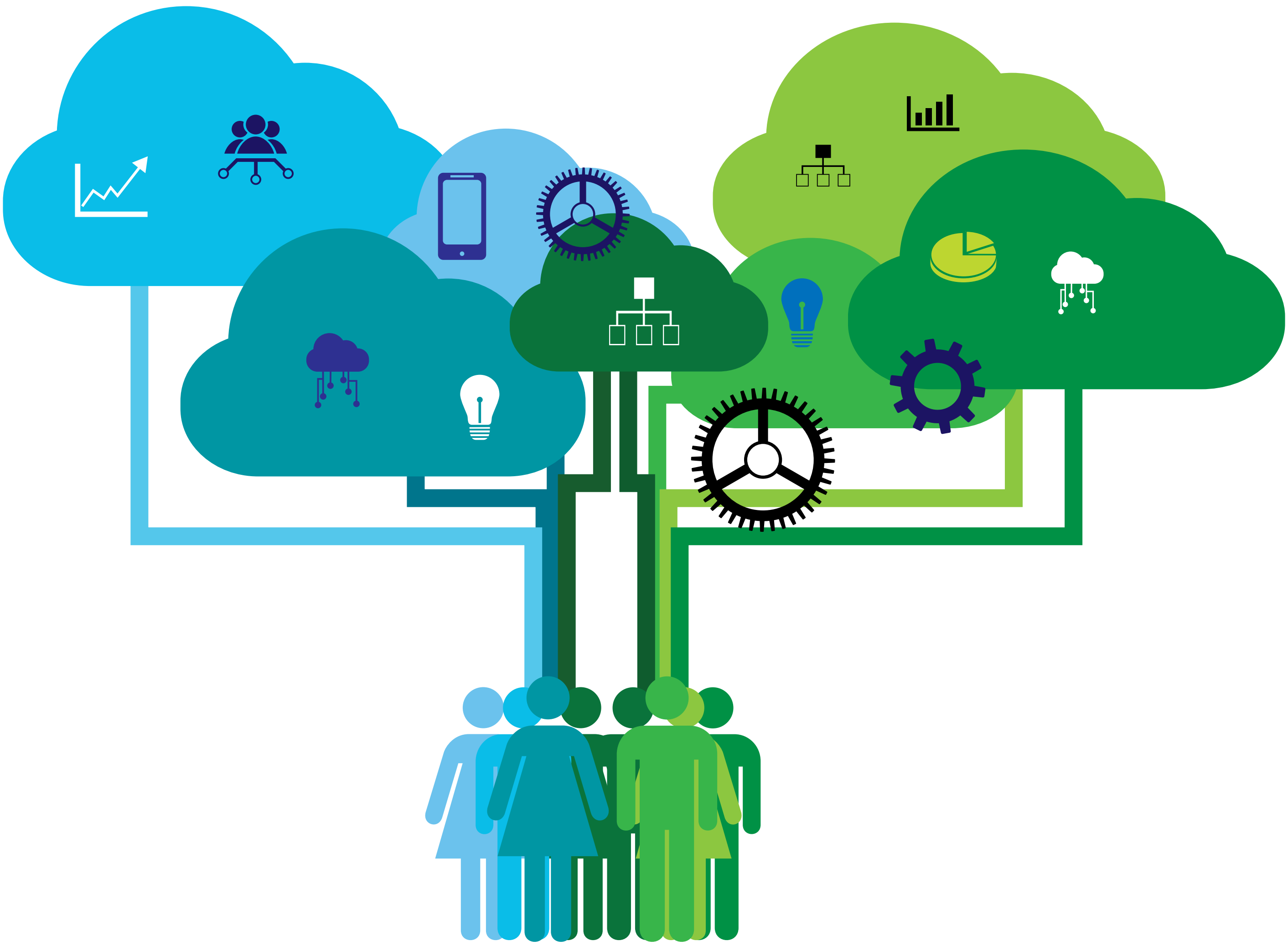
- **Overlap of regulations:** Several distributors sell both mutual fund products, as well as insurance products, leading to fragmented regulation applicability and overlap in regulations. For example: Mutual fund and ULIP products have similar features, however mutual funds are governed by SEBI and ULIP by IRDA.

### Future Outlook

With upcoming technological innovations, evolving investor expectations, the broking industry is amidst of a structural transformation. Key trends being observed in the broking industry include:

- E-KYC and E-Sign – Digital customer on-boarding process with use of electronic KYC and central KYC thus making almost real time account activation.
- Digital platforms - Broking houses are extending trading facility through mobile apps, with significant trading volume shifting to the mobile channel.
- Robo-advisory - Driven by technology evolution, market players have introduced Robo-advisory, offering automated advisory services based on a pre-defined set of rules and algorithms at significantly reduced costs.
- Use of Big Data analytics - Use of big data analytics (like sentiment analysis) to provide investment advice.

**To access the full report please click here**



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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.

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