Deloitte.

CFO Perspectives
CFO Speaks

Mr. Jaimin Bhatt
President & Group Chief Financial Officer
Kotak Mahindra Bank Limited

1. **From your latest experience, what are some of the critical things you would advise a CFO to keep in mind while integrating the entities in case of M&A?**

   The key thing on a CFO's mind is always, the growth of business, whether organic or inorganic. An inorganic option should be looked at only if it is expected to result in growth of the business and is value accretive. In my experience, it is very important to define the objective of doing an M&A, identify the value addition from the acquired business and understand if there is a business fit between the two entities. It is important to spend some time answering these questions and detailing the outcomes from it, as often, we slip on these basics while in rush of acquisition and related negotiations. And once an acquisition is formally effected, the real work starts – which is integration.

   The two most important things for a service industry (like bank), that need to be taken care of during the integration process are people and technology. These are the important pillars which lead to growth. Thus, it becomes important to understand the culture of two organizations and blend it well for delivering results. Though, there would be a constant people challenge which you cannot deny, the message should be very clear stating – "Best man for the job". Technology integration is another important aspect that needs to be planned carefully in advance. It can be cumbersome if the systems used by two entities are very different. Hence, it is necessary to think through, derive learnings from both sides and adopt the best practices to increase overall efficiency.

   Through our experience, the three things I would share which can really make a difference, especially in mergers involving two large entities:

   i. "Do not try and merge everything at one go." It is always better to make a detailed plan for the merger of each function month by month and execute accordingly for smooth transition. Else one will end up fighting too many fires.
   ii. "Set up a core team of leaders for integration." This empowered team, comprising of personnel from both entities, should drive the integration processes. While the respective business teams will be required to contribute to integration when needed, they should focus on day-to-day operational activities and not lose sight of the business.
   iii. From the announcement of the merger till the completion of the integration process, regular communication is the key. It is important that there is a strong and transparent channel of communication for internal employees as well as for external stakeholders including customers, shareholders, vendors, etc.

2. **What in your view is the role of a CFO in acquiring the right technology, utilising it optimally to achieve and maintain high service and efficiency standards?**

   Technology is the key to serve customers in a service industry. Acquiring the right technology is a process which involves joint decision making by the business heads, the COO (Chief Operating Officer), the CFO and the CTO (Chief Technology Officer). The CFO needs to identify the business requirements and work with the technology team to find out the best products and solutions for the organization. The constant changes in environment, including regulatory, needs robust systems that can upscale quickly as per the changes in requirements. One thing we should remember is that, **"a CFO needs to be laser focused on risks involved at each stage".** The affordability to make mistakes is really thin, not only because of the magnitude of the monetary losses but also of the associated brand image.

3. **How do you cope up with increasing regulatory requirements, which requires banks to spend a large part of their discretionary budget to keep up with the escalating requirements?**

   Constant regulatory changes are here to stay and one has to accept it. One can argue that the quantum of changes are high and are happening at a fast pace, but the fact remains that, sometime or the other, these changes would come and the organisations would need to cater to these changes. There is a greater thrust of regulators on the data. A CFO needs to keep himself abreast of all such changes (including those that are in the process) to understand their impact on the business and financials. He then needs to update the teams accordingly and facilitate change in the organization. The CFO also needs to constantly interact with the regulators to understand their requirements. In the current environment, regulators have been extremely upfront and open for discussions to understand the genuine operational issues. The cost of compliance is going up so it is important to collate the right data and have systems and technology in place to comply with these changing requirements.

4. **What are the key challenges faced by you as a CFO in the current environment?**

   The three key industry challenges which I foresee are regulations, technology and analytics.

   i. Regulations are becoming more complex and do cause disruptions in the operation process. These changes add to the significant cost of operations as well. Being on top of all regulatory and other changes that can affect your business is a key element. For that it is important that the CFO has a deep knowledge about the business and the perspective to know the impact of the changes.
   ii. Secondly, optimal use of technology is critical. Technology is changing rapidly and one needs to balance cost with the benefits for the firm. At the same time, we also need to ensure that the technology being adopted has strong security measures in place. "**At the end of the day, we deal with money and thus, it becomes imperative for us to be secure."**
   iii. Analytics has become core part of any business. It becomes really important to analyse data in such a way that it gives focused and comprehensive results at the same time. This ability to leverage the tools to best possible and analyse data to pin-point a certain trend, will keep one a step-ahead in the industry.

5. **How do you think the upcoming payments bank and mobile payments would change the landscape of Indian banking industry?**

   The quantum of customers which the promoters of payment banks have and which traditional banks have is extremely different. Technology that they bring in is the latest. For the past few decades, the country has seen only a handful of new banks come up in every decade. We will now have several payment banks, small banks and now with the on tap guidelines, even many more full-fledged new commercial banks. So one will see more new banks in the next one year than one has seen in the last fifty years. One will, therefore, see interesting times. New technologies, the medium of servicing, the number of customers serviced, the need for bank branches and several other new concepts will be tested. Some of these will be seen immediately while others may take time to settle down like the need for branches. One thing which everyone needs to consider is the profitability of all banks in the system. Recognize, we have not seen mortality of banks in the country.

Integrating risk and compliance – to manage the cost of compliance

Introduction

Risk, control and compliance today are some of the primary areas of focus in the banking and financial services industry – and one of the primary shortcomings observed by regulators is that banks and financial institutions view risk and compliance separately. The financial services industry's collective inability to effectively understand and accurately report on risk and compliance exposures is tied to siloed operations and legacy governance structures residing within their operating model.

With optimization of costs being in the forefront as an important channel to boost profitability, a siloed management of risk and compliance leads to the increase of overall spend or cost of compliance without adequate management visibility. The cost of meeting compliance has significantly increased over the last decade in the financial services industry, owing to increasingly stringent and scrutiny of various regulators. Banks and financial institutions have also witnessed an increase in the number of penalties for non-compliance and have had to cough up vast sums of amount associated with these penalties.

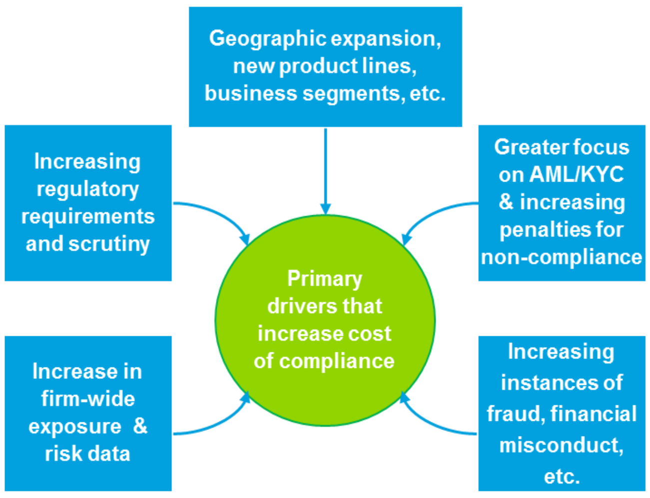

Figure 1: Factors contributing to the cost of compliance

Traditional risk and control programs are focused on establishing well maintained and controlled processes around single compliance areas (siloed functional approach). This approach has added to costs and inefficiencies by creating layers of compliance and audit requirements, redundancies and business burdens without enterprise-wide oversight to address top issues.

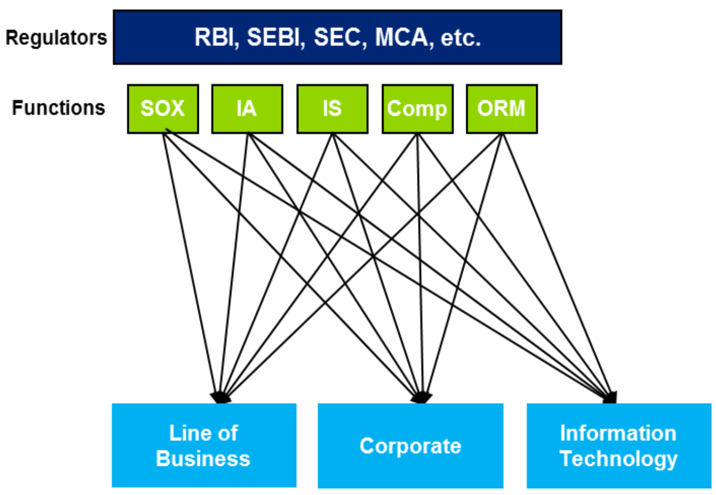

Figure 2: Traditional framework of managing risk, control and compliance

Multiple checkpoints points and stages of evolution of compliance, audit and risk management practices in diverse businesses therefore creates a need for standardization and leveraging a central unit to manage quality and cost of compliance.

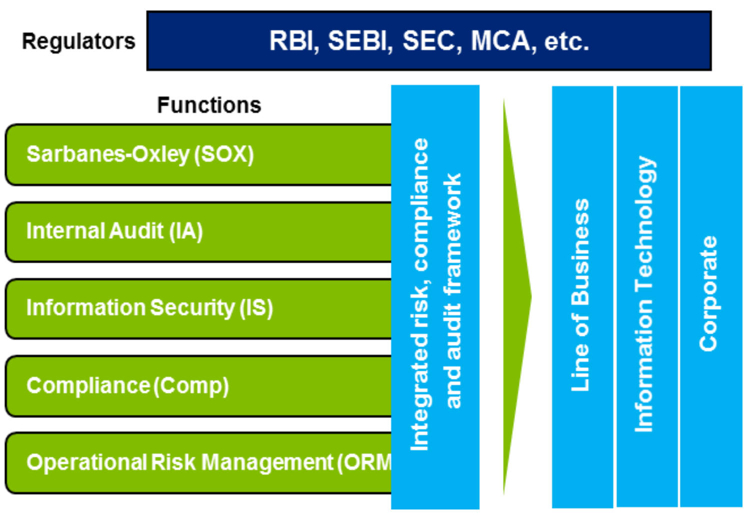

Figure 3: Integrated approach towards risk, control and compliance

While integration of risk, control and compliance is the right way to achieve the optimized cost of compliance and meeting and mitigating any risk of non-compliance, there are several challenges faced in the financial services industry to achieve the requirements, the primary ones being:

- Difficulty obtaining a complete understanding of the nature and location of risks and compliance requirements
- Legacy or siloed systems that are not integrated and offer multiple views of the true underlying information
- Lack transparency into transactional systems, data linkages and data transformations, if any
- Inability to reconcile G/L, transactional and risk systems

The following sections provide an insight on the manner in which the integration of risk, control and compliance can be achieved by addressing the challenges and realizing the benefit of an optimized cost of compliance.

Identifying the common themes between risk, compliance and audit for standardization and integration

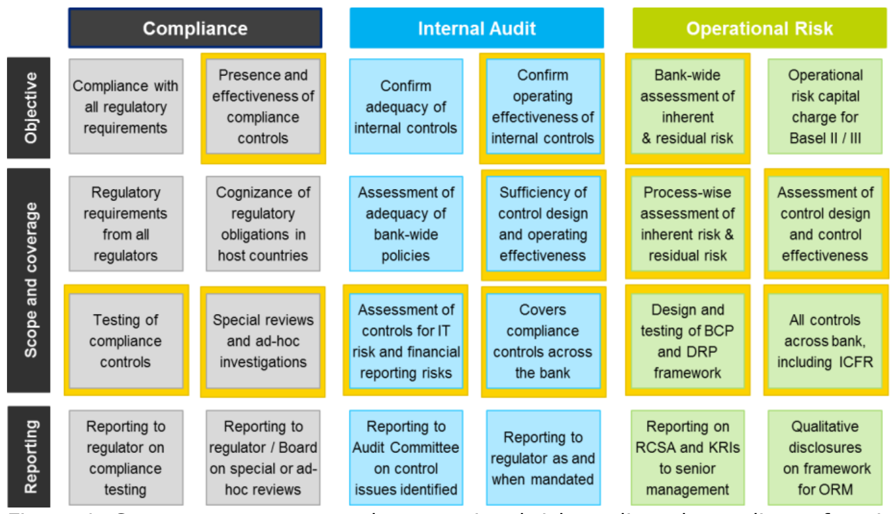

Figure 4: Common areas among the operational risk, audit and compliance functions

A key activity prior to commencing the integration exercise is to identify overlaps or common themes in the responsibilities of the compliance, risk and audit function. For example, the assessment of inherent risk and residual risk which is an operational risk function responsibility, has a dependency on the ability of operating effectiveness of internal (audit function) and compliance controls (compliance function). As a result, the identification of common themes and overlaps creates the need for standardization of data, information, processes and activities in order to achieve a seamless flow among various functions when integrating the risk, control and compliance activities.

Structuring the integrated risk and compliance framework

Phase 1: Readiness assessment

An important step for a bank or financial institution is to assess the maturity level of the compliance and risk (and audit) processes with respect to the extent of coverage maintained around risk and compliance within each business or functional unit, and the use of risk and compliance outputs as a driver for decision making, the extent of automation maintained within the business or functional unit to support processes and activities and the extent of coverage of the risk framework with respect to RCSAs (Risk and control self-assessment) and control rating ability at a business and functional unit level.

Phase 2: Establishing the operating model for the integrated risk and compliance framework

Upon affirming the readiness, the next step is to define and establish the target operating model for the integrated framework, including the governance structure, escalation matrix, responsibilities and technology architecture. This is imperative for structuring an enterprise-wide structure and functional accountability as well as a transparent and coordinated view of risk and compliance. The end outcome of establishing this operating model is to:

- Develop compliance and quality assurance testing procedures
- Identify and eliminate of redundant oversight and monitoring
- Identify clear ownership and accountability for all key risks
- Automate preventive controls and establish early warning indicators supporting detective controls
- Define and objectively measure KPIs / KRIs (Key performance indicators / Key risk indicators) metrics
- Remove unnecessary activities and risk-based testing
- Provide a view on the extent to which a bank or financial institution is 'in control' of the significant operational risks

Phase 3: Roll-out of the integrated risk and compliance framework

A key activity as part of the roll-out of the integrated risk and compliance framework is the establishment of the central risk and compliance unit and associated governance for managing control and compliance testing procedures. Measures to improve the roll-out includes:

- Consolidation of repositories of test cases for control testing across all compliance, audit and operational risk areas and establish process for recording and reporting test results.
- Define automation expectations for operationalizing the framework and selecting and implementing suitable systems to support the integrated risk and compliance framework.

Benefits of an integrated risk and compliance framework

Increased Efficiency		Enhanced Transparency		Greater Effectiveness	
Low control duplication & redundancy	Rationalized controls & single control testing mechanism	Consolidated monitoring & reporting	Common control testing standards for transparency	Better cost management	Clear accountability & increased control effectiveness

A successful establishment of an integrated risk and compliance framework within the bank or financial institution can achieve the following benefits which ultimately form major proponents for an optimized cost of compliance:

- Coordinated operational risk, audit and compliance processes to reduce duplication, including number of tests, activities and reports.
- Rationalized processes and controls to better use resources and manage costs while reducing operational uncertainties and associated losses.
- Effective compliance spend from improved operational efficiency and risk based focus on compliance and audit activities.
- Automated identification of control gaps and automation of controls, with centralized automation to reduce costs.
- Holistic risk response, allowing for linkages between control functions and faster detection of exceptions and control issues.
- Provide management comfort that risks are being managed and increase management visibility on processes and transactions.
- Maximize financial and non-financial benefits from initiatives and enable faster decision making based on timely and accurate data.

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.

For more information feedback or suggestions, please write to us at: incfo@deloitte.com

Deloitte makes an impact that matters

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see **www.deloitte.com/about** for a more detailed description of DTTL and its member firms.

This communication prepared by Deloitte Touche Tohmatsu India LLP (DTTILLP) contains an interview by Mr. Jaimin Bhatt in his individual capacity. This material (including any information contained in it) is intended to provide general information on particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. This material may contain information sourced from publicly available information or other third party sources. DTTILLP does not independently verify any such sources and is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. None of DTTILLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering any kind of investment, legal or other professional advice or services. You should seek specific advice of the relevant professional(s) for these kind of services. This material or information herein is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect you or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person or entity by reason of access to, use of or reliance on, this material. By using this material or any information contained in it, the user accepts this entire notice and terms of use.

©2016 Deloitte Touche Tohmatsu India LLP. Member of Deloitte Touche Tohmatsu Limited

Deloitte Touche Tohmatsu India Private Limited (U74140MH199 5PTC093339), a private company limited by shares, was converted into Deloitte Touche Tohmatsu India LLP, a limited liability partnership (LLP Identification No. AAE-8458), with effect from October 1, 2015.