



Deloitte CFO Signals Survey Report

2016 Q4

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About Deloitte CFO Signals

Deloitte CFO Signals is a CFO opinion survey conducted by Deloitte periodically at a global level in cooperation with the member firms of country. The responses obtained from the CFO survey are gathered and analysed by Deloitte professional specialists, then compiled into a report that is distributed as the "CFOs Signals" to the CFOs.

The questionnaires in the survey are comprised of the globally conducted "survey on the economic environment" and "survey on a hot topic" tailored to each participating region.

The first survey in Japan was conducted in August 2015, and this is the sixth survey. "The survey on the economic environment" investigates the chronologically changing views of CFOs, as well as the latest economic prospects at the time of the survey. In addition to this regular survey, an opinion survey regarding risk scenarios from a macro viewpoint for both Japan and other developed nations were conducted too.

The impact of Robotic Process Automation RPA and Artificial Intelligence (AI) to corporate affairs has been featured as the hot topic in this survey for Japan.

This survey was conducted from January 10th to January 20th, and answers from the CFOs of 45 companies were obtained.

We are sincerely grateful for your cooperation.

Deloitte Tohmatsu CFO Program
2017/2

The **CFO** Program



Survey on the Economic Environment

Financial environmental prospect

The financial environment seems to be improving significantly.

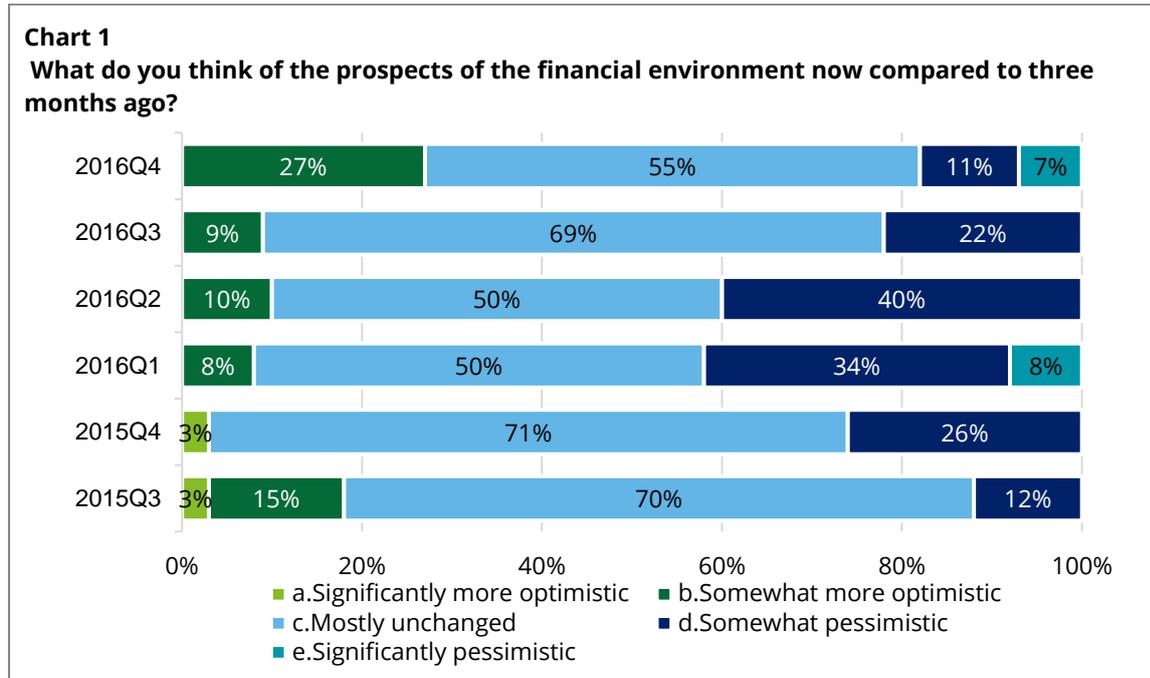


Chart 1 shows the CFOs' forecast of the business environment compared with the 3 months ago. We can see that the environment started improving from the middle of last year and this trend has continued strongly since. Specifically, the answers "d. somewhat pessimistic" and "e. significantly pessimistic" were increasing from 2015Q3 to 2016Q1 but this trend of cautiousness weakened from 2016Q2 to 2016Q3. In 2016Q4, "b. somewhat more optimistic" gained 27%, the largest ratio for the option ever whereas the cautious choices, d and e, is as low as in 2015Q3. This result suggests that the business environment of Japanese companies has entered an improving phase.

 **Business performance outlook**

CFOs think their business performance will be better as 70% of them answered that they expect their income and profit will increase.

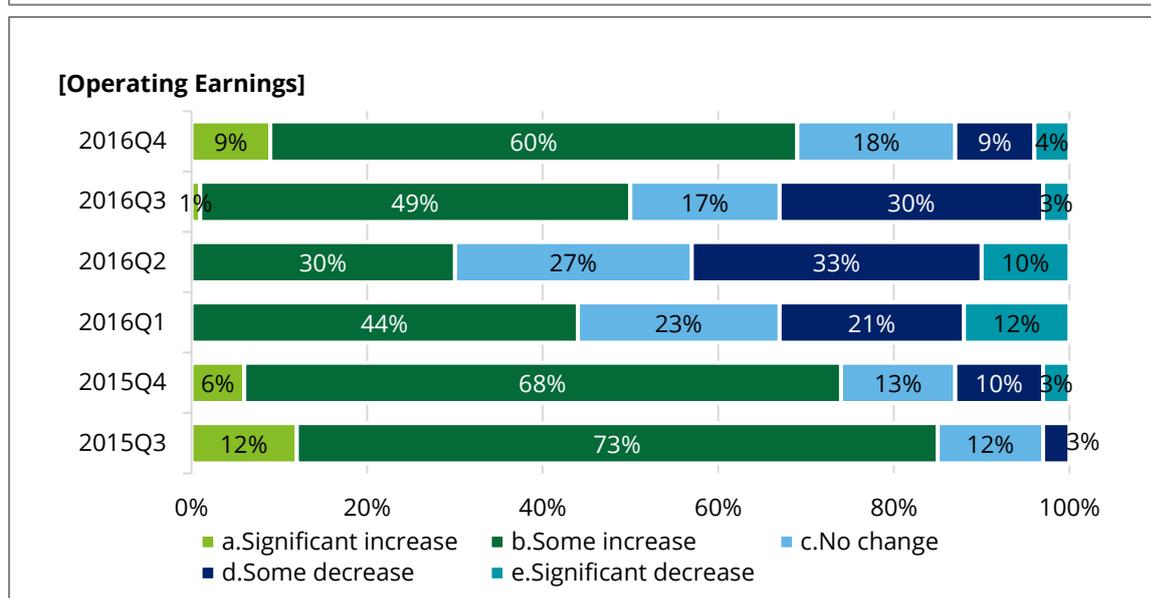
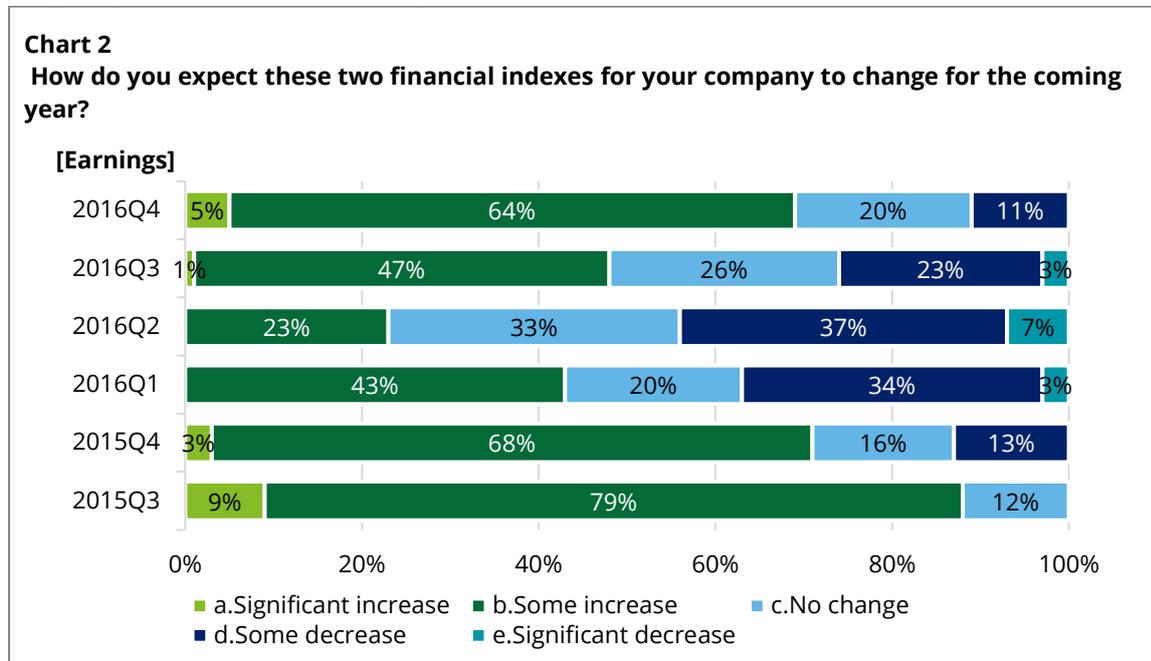


Chart 2 shows the business performance outlook for the coming year. Looking back from 2015Q3 to 2016Q2, CFOs who thought their income and profit would decrease were increasing. For the earnings, the sum of “a. significant increase” and “b. some increase” was 88% at 2015Q3 but it went down to 23% at 2016Q2. The expectation for operating earnings had a similar pattern. However this trend turned around after 2016Q3. In the current survey, 69% of the CFOs expect that both the earning and

operating earnings will increase. In the participating companies, the business performance seems to be returning to a better situation for the first time in a year.

 **Uncertainty**

Most CFOs indicate that they see a high level of uncertainty, despite what they think about improvements of their business environment, income and profits.

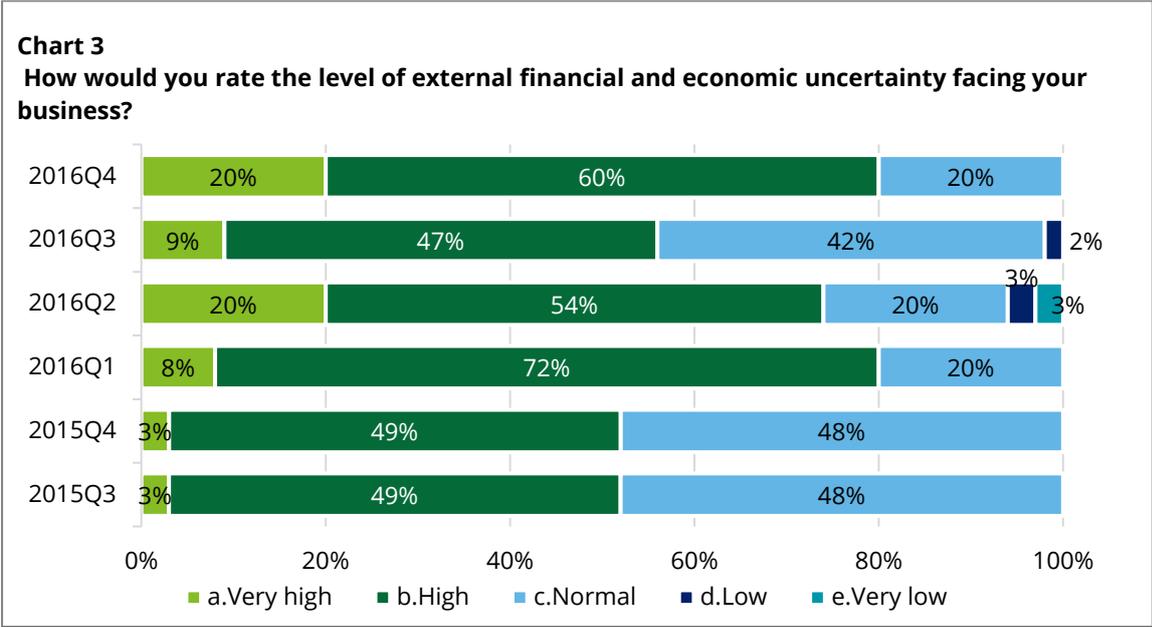


Chart 3 shows the financial and economic uncertainty stemming from external factors. As mentioned above, the CFOs’ outlook regarding their business environment and profit is getting brighter. In contrast, CFOs think the level of external financial and economic uncertainty is high. In the current survey, “a. very high” and “b. high” accounted for 80% of all answers. This is same level as 2016Q1 which was the largest ratio ever. Based on these results, it might be derived that many CFOs see good prospects for an improving business environment and profit, even though they are still very concerned about economics, money markets and politics.

 **The perspective of global and major economies**

According to the CFOs the prospects of global and major economies is improving significantly compared to earlier.

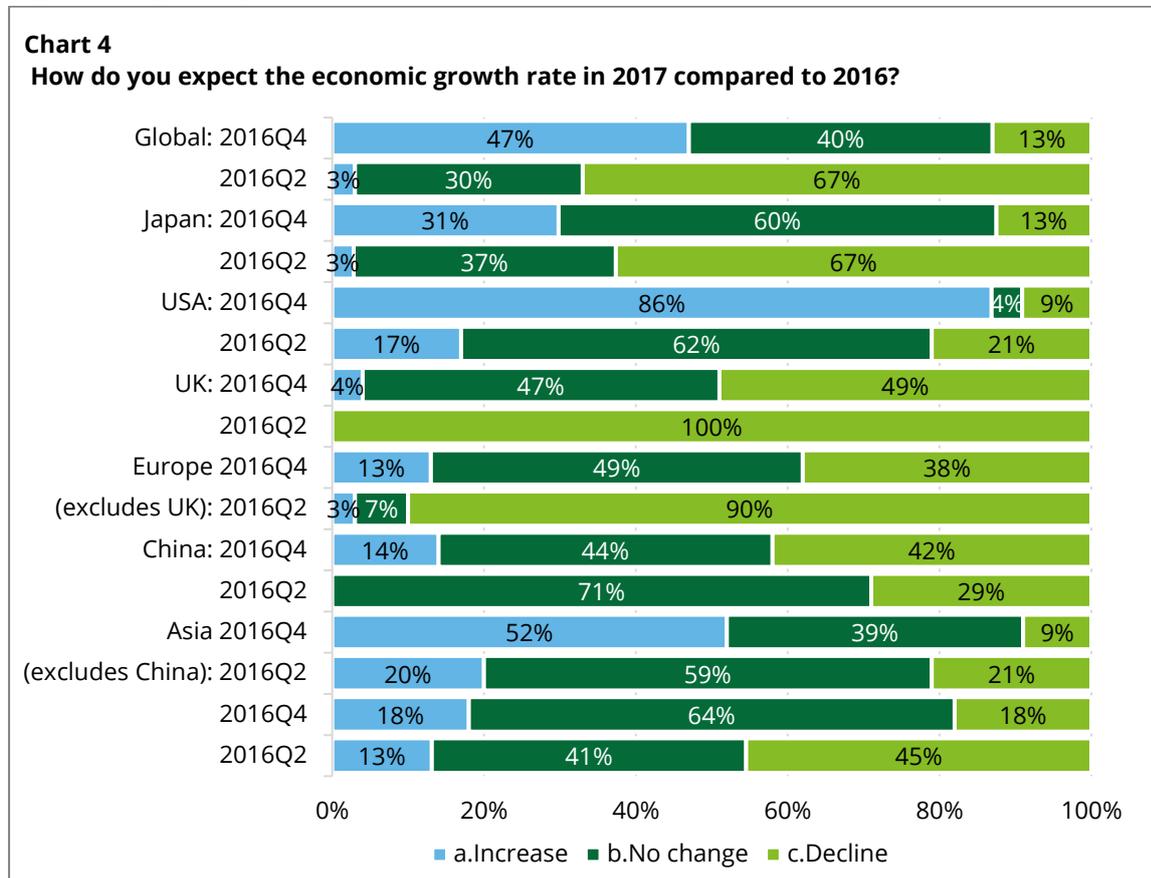


Chart 4 compares the results of 2016Q4 and 2016Q2 regarding the prospects of global and major economies. The CFOs are having more positive thoughts about the global economy except for China..

Firstly, looking at the global economy, “c. decline” accounts for 67% of answers in 2016Q2 but it goes down rapidly to 13% in 2016Q4 and “a. increase” is 47% of answers in the latest survey. Considering “a. increase” was only 3% in 2016Q2, the CFOs’ expectations rose rapidly.

Secondly, looking at region we can see a dramatic positive change for the prospects of the US economy. Looking back on 2016Q2, 62% of the CFOs answered “b. no change” which meant the CFOs forecast US economy would grow stably. In contrast, the answers of “a. increase” increased suddenly to 86% in the latest survey. It seems that most of the CFOs think “Trumpnomics” (the economic policies of president Trump) will be great for the US economy.

An optimistic perspective among CFOs is also seen regarding Japan, Asia except China and Europe except UK. In the Japanese economy, the answers of "c. decline" that gained 67% in 2016Q2 declined to 13%. In addition, 31% of the CFOs answered "a. increase" which means the number of CFOs who are optimistic about Japan's prospects have increased.

Also the changing expectations for the UK economy is notable. Presumably because of the Brexit shock, all of the CFOs answered "c. decline" in 2016Q2. However "c. decline" went down to 49% in the latest survey and the view of the CFOs is no longer only pessimistic. But attention might have to be paid to "a. increase" still being 4%. Even though the UK economy has changed steadily owing to increasing exports due to a weak pound and an increase of tourists, there were only 4% of the CFOs that choose an optimistic answer. It seems that CFOs still have a cautious outlook for the UK economy in the future.

Lastly, it is interesting that there is both optimistic and pessimistic opinions for the Chinese economy. In comparison with 2016Q2, "c. decline" increased from 29% to 42% while "a. increase" also strengthened from 0% to 14% at the same time. Based on these results, we can say that views on the Chinese economy currently differ significantly.



Events you regard as important when considering potential risks for the Japanese economy

When looking at which risks events the CFOs think are most likely to happen in 2017, the CFOs seem more interested in possible foreign events than domestic ones. Especially, where the policies Trump administration is heading, the Chinese economy in the future and the political events in Europe are gathering much attention.

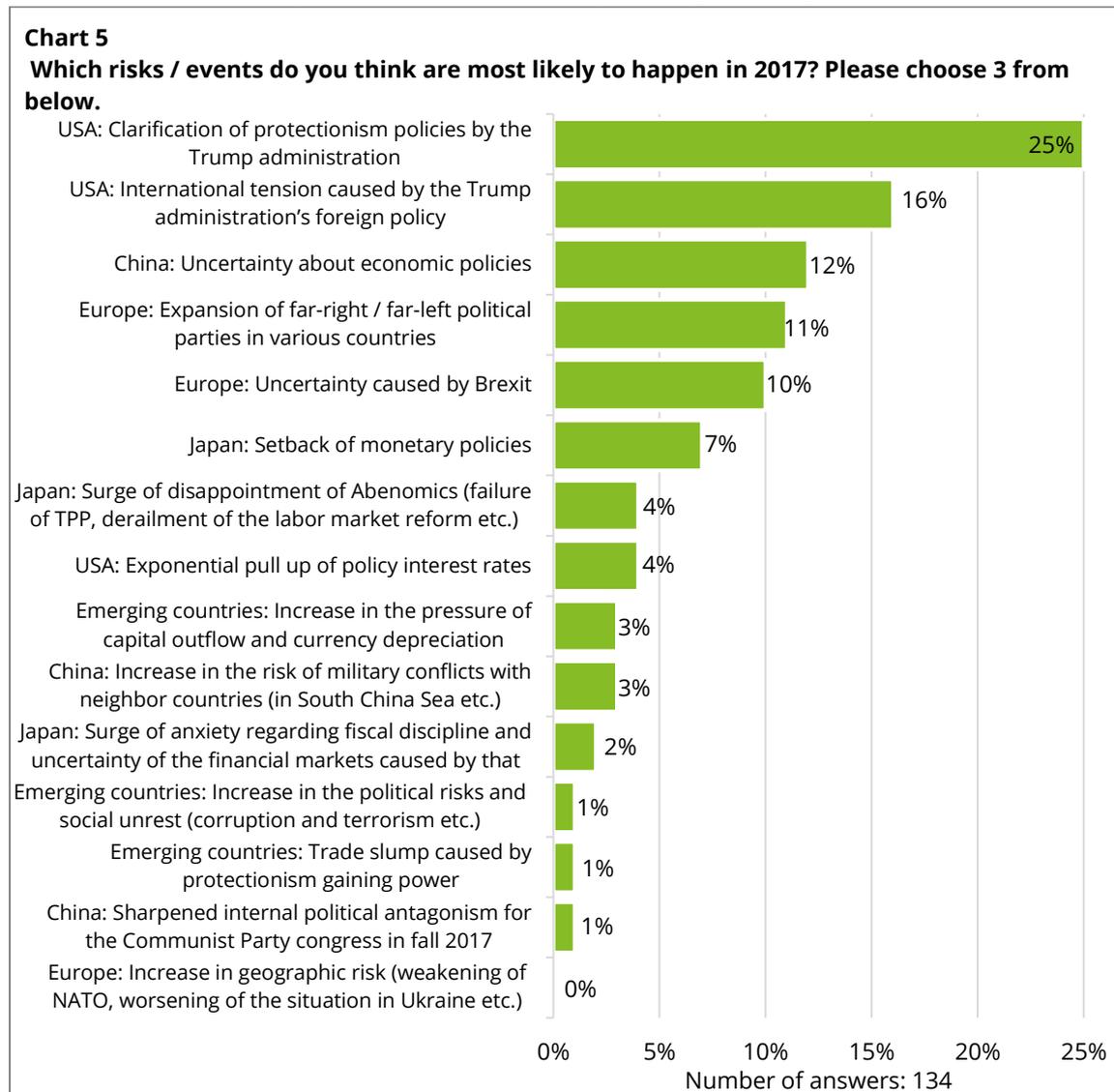


Chart 5 shows the most probable events in 2017 as perceived by CFOs. The answer which most of the CFOs chose was possible events related to the Trump administration. Specifically “Clarification of protectionism policies” and “International tension caused by the Trump administration’s foreign policy (against the Middle East, China etc.)”. It can also be seen that CFOs feel nervous about Trump’s trade policies and foreign policies.

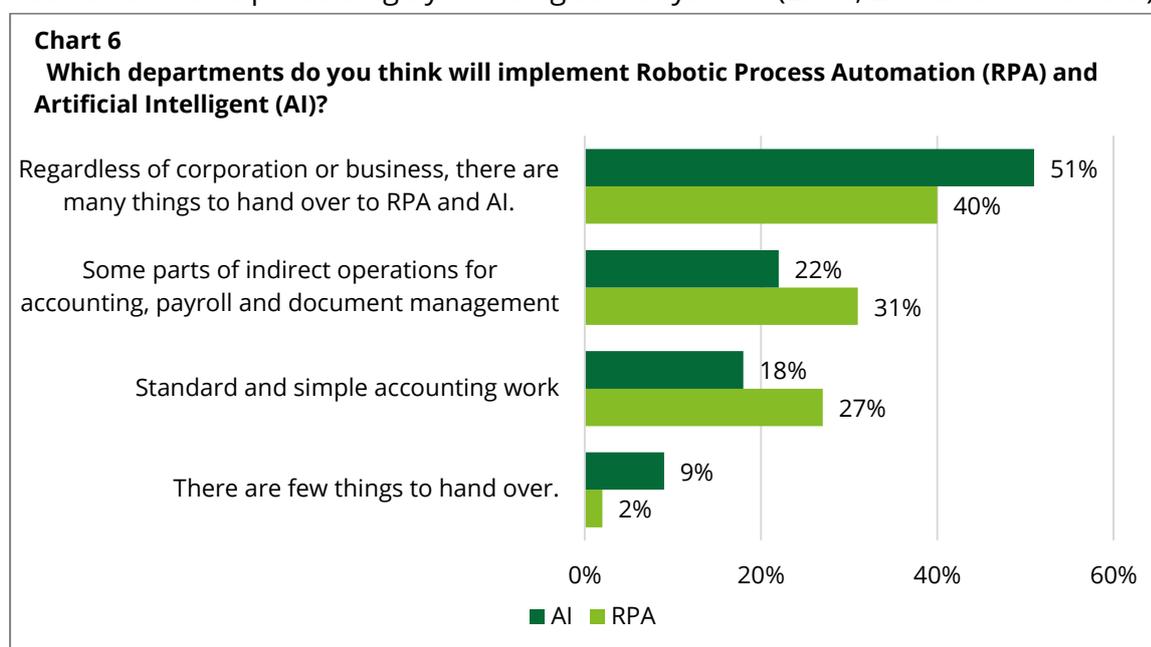
The second most popular answer is “Unvertainty about economic policies in China”. As mentioned above, there is both optimistic and pesimistic views regarding the Chinese economy. This might be cause the CFOs are worried about the results of the Chines macro economic policies. For Europe, “Expansion of far-right / far-left political parties in various countries” and “Uncertainty caused by Brexit” are seen as high risk events. In other words, it seems that CFOs recognize political risks in a broad sense. There are a number of important upcoming political events this year; i.e. the Dutch house of representatives election in March, the French presidential election in April, the German Federal Parliament election after summer, and a snap election might also happen in Italy. Under such circumstances, it is understandable that the CFOs react acutely to European political risks, but it is not very likely that some events beyond their expectation will happen under the current circumstances in Europe.

Although not many CFOs believe the events “Increase in the pressure of capital outflow and currency depreciation in Emergin countries” nor “Surge of anxiety regarding fiscal discipline and uncertainty of the financial markets caused by that in Japan” will happen, it should be still be kept in mind that these events could potentially have big impacts, if they would actually take place. Especialy when judging from the strengthening dollar and the rising pressure on some currencies of emerging countries to weaken, it can be assumed that continuing vigilance regarding risk seanarios from emerging countries is required.

The impact of Robotic Process Automation (RPA) and Artificial Intelligence (AI) on corporate affairs

€ Adopting robotic process automation and artificial intelligence

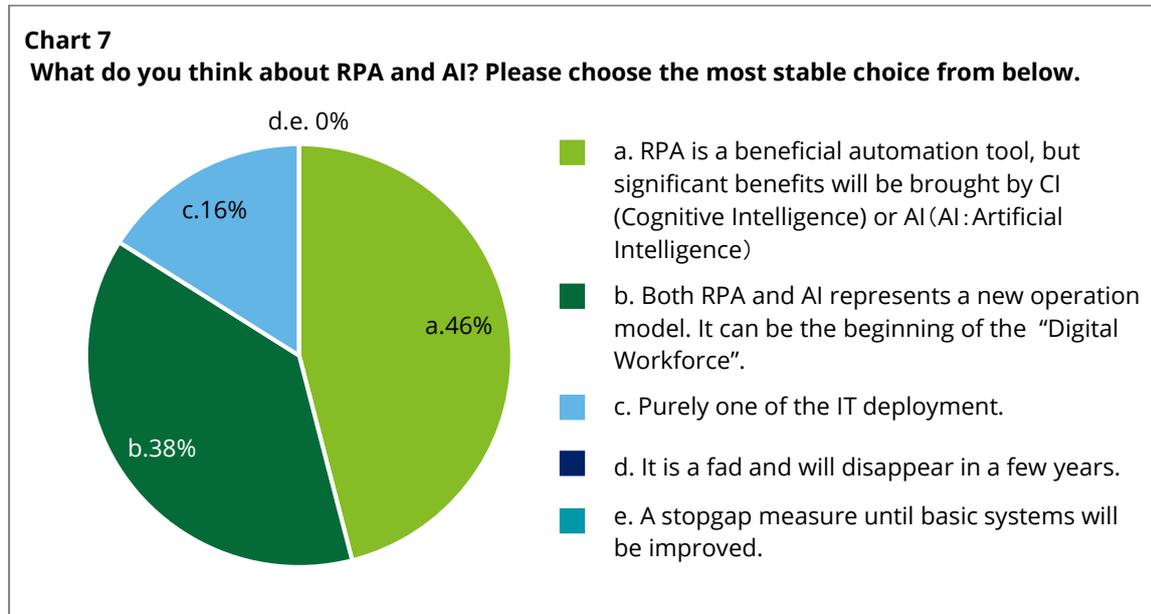
We conducted survey about the impact of robotic process automation (RPA) and artificial intelligence (AI) on corporate affairs. RPA, which is gathering increasing attention, is software solutions that can automate some regular rules based processes such as accounts processing by combing some systems (Excel, ERP and e-mails etc.).



As the first question, we asked which departments CFOs think can implement Robotic Process Automation (RPA) and Artificial Intelligent (AI). More than half of the CFOs answered “there are many things to hand over to AI”. For RPA about 30% of the CFOs answered “some parts of indirect operations for accounting, payroll and document management” and “standard and simple accounting work”. As “regardless of corporation or business, there are many things to hand over to RPA” gathered 40% of the responses, it can be seen that many CFOs expect this new technology to be adopted in a lot of areas. One CFO commented that “I expect robots to replace humans to resolve high labor cost.”

Recognition of RPA and AI

Secondly, we asked the CFOs about their thoughts on RPA and AI. Although the CFOs said that AI is easier to adopt than RPA in Chart 6, we can see some similarities between RPA and AI.

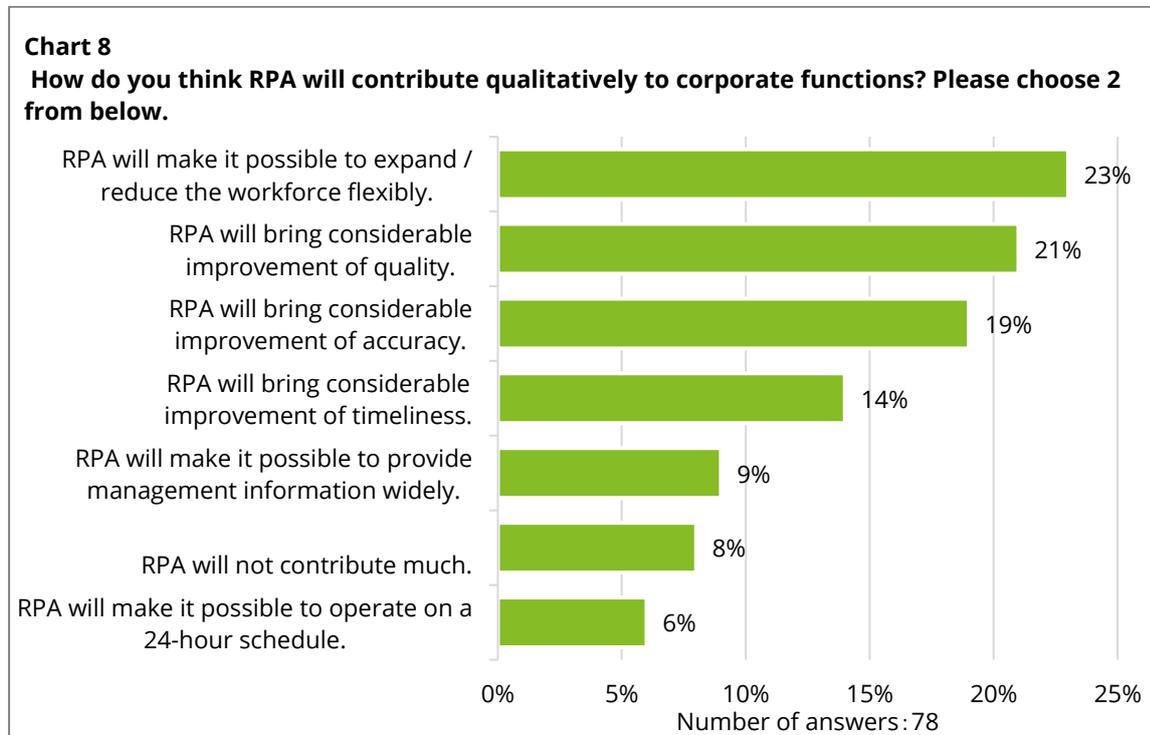


When discussing RPA or AI, it is often asked "what is the difference from previous IT systems?" and 16% of the CFOs answered "Purely one of the IT deployment." in the survey. It is notable that 38% of the CFOs choose "both RPA and AI represents a new operation model. It can be the beginning of the "Digital Workforce". Together with "RPA is a beneficial automation tool, but significant benefits will be brought by CI (Cognitive Intelligence) or AI" chosen by 46%, most of the CFOs recognize RPA is a new technology that will bring benefit to their business. "Digital Workforce" implies the possibility for the technology to be a substitution for humans and many CFOs have high expectation for it. Some CFO commented that they should train their employees to use AI and RPA effectively.



Automation of the business by RPA

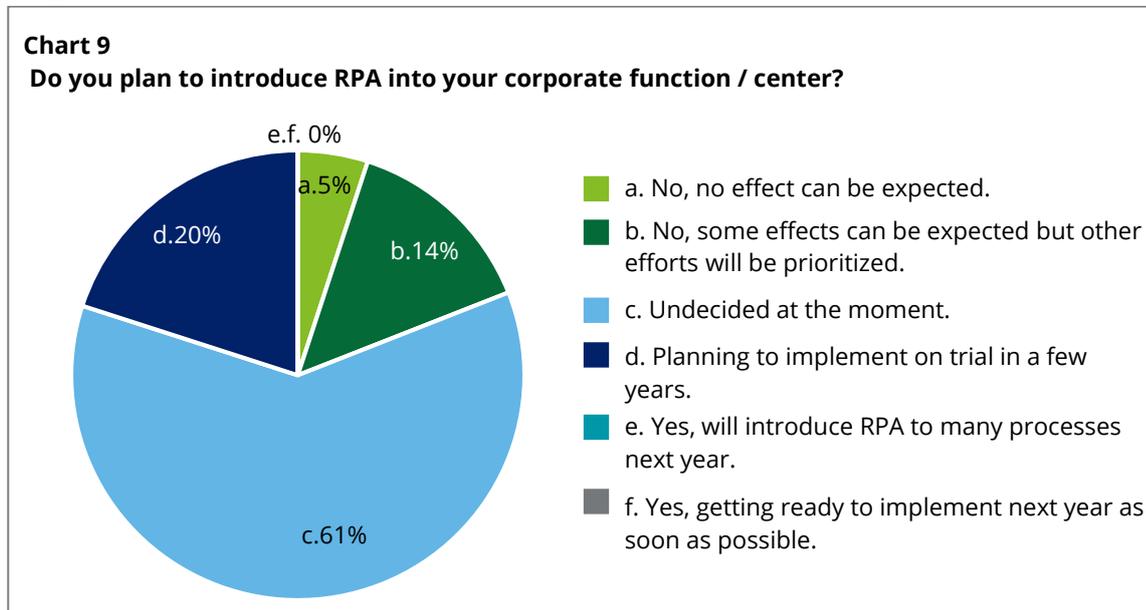
Chart 8 shows RPA's expected influence from the multiple answers question.



“RPA will not contribute so much” was only chosen by 8% of the CFOs, which means they expect that RPA will be used in various ways. Especially the answer about quality, “RPA will bring considerable improvement of accuracy / quality.”, got many answers. In an actual business setting, the quantitative advantage, “robots can work 24 hours”, tend to be expressed. However, when it is used widely, we can also see the qualitative advantage, “robots can do things right”. There was some comments that RPA and AI is expected to help resolving the long hours working problem. In other words, it may be the new solution for the working problem in the industry circles.

Developing RPA in the future

As the fourth question, we asked the CFOs whether they will introduce RPA into their corporate function or not.



“No, no effect can be expected.” was only chosen by 5% whereas most CFOs expect positive effects, though they have not yet decided whether to introduce it into their business or not. Seeing that 20% of CFOs are planning to implement RPA as a trial, it seems that the technology is spreading rapidly. Some CFOs gave positive comments such as “we will get some determination of the effect if we introduce it into financial function.” while cautious opinions such as “we do not standardize our jobs at all in order to introduce it” were also received. Considering similar surveys*¹ Deloitte has conducted globally, in which the answer “will introduce RPA to many processes in recent years.” increased dramatically from 13% in 2015 to 76% in 2016, it can also be said that the results of this survey should be watched for changes in the future.

*1 : Deloitte Insight. 2015. The robots are coming, Deloitte UK. 2016. The robots are here

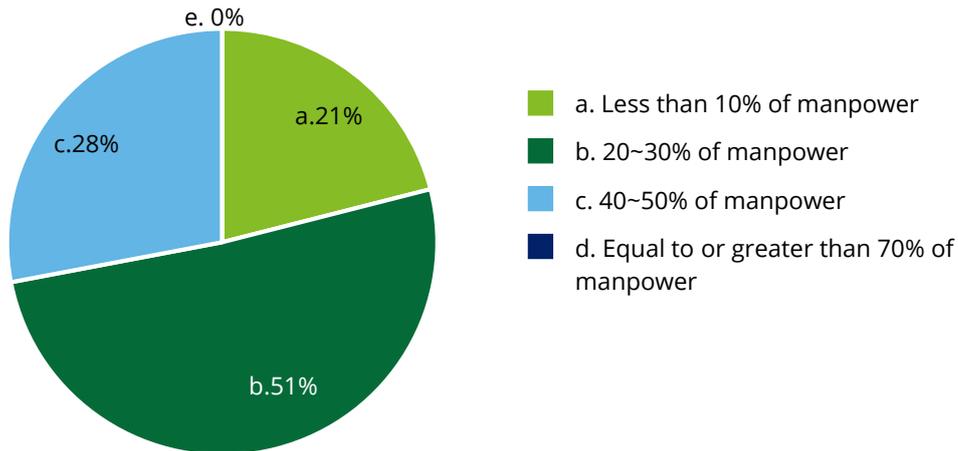


The future of accounting / the finance function

As the last question, we asked CFOs to what extent they think RPA will realize automatization if it is introduced into their finance function.

Chart 10

To what extent do you think RPA will realize automatization if it is introduced into your finance function?



More than half of the CFOs answered “20-30% of manpower” and 28% of them answered “40-50% of manpower”. In other words, they think many parts of the jobs in their finance functions can be replaced by robots. Although no one chose “equal to or greater than 70% of manpower”, another survey conducted by Deloitte among people working in a finance function, 90% answered that “some part or more than half of our jobs can be replaced by robots”. In any case, both CFOs and finance employees clearly recognize that some of their jobs can be automated by software robots.

What is the CFO Program?

Deloitte's Chief Financial Officer (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.

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