

Elements for success
Radical transformation
for growth



Foreword

Driven by difficult market conditions, concerns about complexity, and new regulations, many organisations in the financial services sectors are making tough strategic choices. As they prepare to meet these new requirements, one thing is clear: financial institutions must entirely rethink their traditional approaches to business.

As they work to adapt their strategies and revise their operating models, they must also innovate in unprecedented ways – by introducing ground-breaking products, leveraging their information assets in new ways, integrating risk management into the conduct of business, and pursuing strategic growth initiatives.

There is no single recipe for success, but by focusing on various aspects for growth and innovation, financial institutions will be ready to take advantage of business opportunities that they create. Only by embracing transformational change can financial institutions be well positioned for the future.

At Deloitte, we constantly keep our clients abreast of market developments to help them stay ahead of competition. I hope you will find this booklet informative as you harness the drivers of change to succeed in the financial markets.



Ho Kok Yong
Southeast Asia Leader
Financial Services Industry (FSI)





Drivers of change

“Financial institutions cannot view any change in isolation. No matter what their critical business issues are – growth, taxation or compliance – every single change will have ripple effects through the entire organisation. That is why a holistic view is so useful, and Deloitte is able to capitalise on our expertise across functions and geographies to give our clients that edge.”

Ho Kok Yong, SEA Industry Leader, FSI

As financial institutions continue to face complex economic, regulatory, and social environments, it is now more important than ever for senior executives to take a holistic view in understanding their organisation and positioning it for future profitability and growth.

The multitude of external forces that continue to change the industry and impact individual companies range from new regulatory requirements aimed at stabilising the financial system to the development of ongoing rules to counteract increasing levels of corruption or bribery. Together with the increasing cost of funding, changes in social and customer behaviour, and negative impacts on trust and reputation, just to name a few, the drivers of change will provide significant challenges to financial institutions in the future.

An examination of the drivers shaping the industry reveals that the future will require superior efficiency and operational excellence from all banks, while industry leadership will be attained by those institutions most adept at understanding the impacts and opportunities of regulatory reform, implementing flexible yet robust operating models, and finding new opportunities for growth and innovation.

Ultimately, to deliver these imperatives, institutions will have to focus on their core strengths – those activities

in which they excel – and partner with best-in-class specialists for everything else and in the process, achieve more by doing less.

By 2020, the combined implications of these trends will create an environment in which nothing less than sharp focus and excellence in day-to-day operations will be acceptable, and institutions will have to generate growth through continuous innovation or be left behind. Here are four key areas that are likely to support financial institutions in understanding and addressing current market issues that they and their organisations may be facing.

- **Regulation:** What can institutions do to get ahead of forthcoming regulatory changes?
- **Risk:** What do institutions need to do to maintain regulatory compliance and confidence, and achieve strategic goals while controlling costs?
- **Strategy:** What changes should institutions consider making to their business models to prevail in the new economic and regulatory environment?
- **Growth:** Where can institutions find new sources of revenue to offset any that they might lose in the wake of financial regulatory reform?
- **Innovation:** What improvements do institutions need to consider to manage their businesses more effectively, meet regulators' data demands, and better understand their customers?





Regulatory compliance

“Regulatory change will be the new normal for the financial services industry for the foreseeable future. To gain a competitive advantage, it is critical for financial institutions to look beyond compliance to understand how these developments will affect their product and business portfolios, and influence the fundamental design of their organisation.”

Giam Eileen, Partner, Risk & Regulatory, FSI

The pace and extent of global regulatory reforms within the financial markets have been unprecedented and financial institutions globally will face dramatic changes in the financial landscape. Financial institutions in Southeast Asia will be impacted not only by changes made within their home environment, but also the regulations currently contemplated by the regulators in the United States and the European Union which will have far-reaching impacts.

At the same time, regulation is the single largest driver of post-crisis bank profitability in the US and Europe, and is likely to have a significant impact on profitability in the Southeast Asia market too.

For instance, the amended Basel III definitions will have an impact on banks' capital ratios. The core of the Basel III framework comprises revised capital standards, revised capital definitions, systemic risk overlays, and a new international framework for liquidity risk. Regulators will expect banks to have more and stronger capital, as well as capital buffers to help them navigate periods of unusual economic stress.

The Foreign Account Tax Compliance Act (FATCA) is also expected to have a significant impact on almost all banks, brokers, and investment management firms that hold and trade U.S. investments on behalf of clients. Compliance will cost millions of dollars in the implementation of systems and operations to adhere to disclosure, reporting and withholding obligations – current account opening processes, transaction processing systems and 'know your customer procedures' will be affected.

Many financial institutions have already begun the task of aligning their businesses with these standards over a period spanning the next several years. As they begin developing their enterprise-wide compliance governance, processes, and technology capabilities to meet current compliance requirements, financial institutions should consider taking a pragmatic view of compliance. This means that they should balance what is practical from a cost perspective with what is ideal in the new regulatory landscape. Good governance will also allow banks to more swiftly and effectively respond to regulatory requests and actions. In the long run, these should help them achieve a sustainable and robust compliance programme.

Deloitte's value

Regulatory Compliance: Deloitte offers practical regulatory advisory services across the financial services spectrum customised to client's unique business needs. We have a proven approach and offer strong technical advice along with practical business knowledge. We also work closely with our global network to provide regulatory advisory services in a seamless manner across all geographic locations. From regulatory impact analysis, compliance process design and implementation, readiness reviews, to process optimisation to drive efficiencies and cost savings, Deloitte has the expertise and resources to ensure that you get it right from the start.

Risk & Governance: Deloitte provides consultative services to clients that are designed to create and protect value and enhance effective management of their regulatory and compliance risks on a sustained basis. We have the right expertise to help develop sustainable governance, compliance, and risk management programmes by helping organisations

identify, remediate, monitor, exploit and manage enterprise risks, in addition to coordinating the utilisation of people, process and technology to improve effectiveness and manage costs.

FATCA: Deloitte has created a global centre of excellence to assist clients in performing an impact analysis of FATCA on their organisations. We also work with clients to develop and execute a plan to achieve compliance, as well as help them on the technical issues, documentation, reporting and withholding pertaining to FATCA. Our global team can complement the client's project team with specialists, project managers, business analysts, communications specialists and testing managers who can consult on matters that arise, while our project advisors and subject matter experts can supplement client's project team with tax, operations, technology, testing and implementation insight and experience. We also work with clients to manage the remediation of the existing client base to meet the new AML/KYC requirements of the FATCA legislation.

“As tax regulations and changes mount and financial institutions seek to comply with the latest regulatory requirements, they must not lose sight of the critical impact that tax plays on the business as well as the strategic issues that arise.”

Michael Velten, Partner, Tax, FSI





Risk transformation

Following the global economic crisis, financial services companies have begun to scale down their organisations, both to comply with regulatory mandates and to become more efficient. In fact, many organisations are focusing on improving risk management and governance and deploying capital more efficiently in order to balance the regulators' expectations for higher levels of capital and shareholders' expectations for superior returns.

However, in the process, they have learned that piecemeal responses to regulatory changes and shareholder demands may not resolve the challenges they face in areas such as capital, costs, economic conditions, and risk management. There is a need for institutions to transform the way they respond to and manage risk, and do so in a way that enables a holistic view of risk and an integrated means of addressing risk-related business needs.

A holistic approach based on risk transformation can position organisations and management teams to address these complexities and to meet future expectations in a prudent, profitable manner. Risk transformation integrates risk management into the conduct of business. It also takes risk management to higher levels of excellence by driving practices throughout the organisation.

At the same time, organisations should consider bringing their data and analytics together to improve the quality of their financial intelligence while simultaneously reducing costs. They should assess their cross domain capabilities and subsequently develop an operating model that aligns strategy, people, process, technology and data capabilities. Faced with these harsh realities, firms need to focus on their data to ensure that they improve overall risk management and ultimately deliver the desired business outcomes.

Deloitte's value

Risk Transformation: Our risk transformation team works with clients to develop an integrated and aligned approach to the way risk is managed within organisations. We help clients protect and create value by providing end-to-end solutions to enhance their financial and operational risks that may result from changes in statutory reporting requirements, market volatility, changes in products and markets, emerging regulatory requirements, third-party relationships, and ongoing business operations.

Financial Crime: The Deloitte financial crime team comes from a variety of investigative, law enforcement, regulatory and technology backgrounds. We have significant experience in assisting financial institutions on financial crime matters including proactive assistance

around policy and governance, controls assessment, technology solutions and due diligence assignments. We also help clients to adopt an integrated approach to improve their financial crime intelligence by bringing their data and analytics together.

Business Performance Improvement: Our operations professionals bring deep functional and industry experience, knowledge and skills to help clients address their most complex problems. We help clients focus on core business issues to improve profitability and business productivity through standardised structures, processes, and controls for shared and outsourced services, as well as for business units and support functions. Most importantly, we work side-by-side with clients to execute the advice provided and help companies realise the benefits from our efforts long after our work is done.

“Risk transformation is not simply about making people ‘more aware’ of risks and more proficient at managing them. It is about ripping apart the fragmented enterprise and reassembling it into an integrated whole. In reassembling it, financial institutions must see that the business units not only comprehend all risks, but also have mechanisms for measuring, monitoring, reporting, and managing those risks. They must see that human resources, finance, accounting, IT, legal, and all other functions also have equivalent comprehension and mechanisms.”

Thio Tse Gan, Executive Director, Enterprise Risk Services, FSI

Growth strategy

Financial services companies need to grow and enhance profitability in an environment where regulatory reform is driving major transformation. Regulatory reforms will eventually result in almost all sorts of strategic and tactical changes, from the carving out of business lines (e.g. proprietary trading), changing the branch/subsidiary mix, building new digital distribution capabilities, to geographical or market segment expansion.

All of the above presents financial institutions with formidable challenges – not only do these institutions have to implement the increasingly onerous regulatory requirements, they also have to adapt their business models to deliver similar, if not increasing, returns to their stakeholders. Institutions will have to assess the long term viability of their business lines, assess portfolio of services they offer and seek opportunities to consolidate or grow and achieve competitive advantage.

As banks reassess their strategic priorities across geographic and political boundaries, business lines, and legal entities, there could be a round of further strategic consolidation and expansion as existing institutions race towards getting their value proposition right with long term growth and profitability in perspective. Getting the long term strategic direction right while keeping the regulatory changes in perspective will be a key factor for future success.

Beyond this, changes in social and consumer behavior are becoming increasingly significant. In particular, there is the inexorable rise of digital consumers, which has been further accelerated by the mobile and tablet revolution. While every market is different and will migrate online at a different pace, the next generation of consumers for the financial sector is likely to be more comfortable using the Internet, more demanding in terms of their ability to satisfy their financial services needs via a mobile device, and far more price-sensitive.

“Increasing globalisation and new investments in Southeast Asia, together with regional and local regulations, continue to put pressure on financial institutions. More than ever, companies need to reassess their strategic priorities and make choices. Success will depend on their ability to keep pace with the growth of emerging markets and to design new business models and partnerships to tackle relevant markets, key client segments and adapt their services.”

Yacine Mahieddine, SEA Leader, Consulting, FSI

Deloitte's value

Strategic Design: The strategy team at Deloitte supports clients in their strategic efforts to address market expansion, growth, innovation, customer and channel, pricing and profitability optimisation, as well as acquisition and post-merger integration. Our team has the experience, knowledge and skills to perform client strategy and transformation, customer experience transformation, and client solution planning and roll out. We also help clients understand the voice of customers to set the foundations for a successful customer experience programme.

Operational Transformation: The operations team within Deloitte fuses insightful thinking with disciplined execution to achieve breakthrough transformation and performance for support function (such as finance, risk and shared service centre) and specific business units in banking, insurance and investment management. We help companies to achieve superior performance by developing insights that help them realise tangible, significant, and enduring value. Our team has the experience, knowledge, and skills required to bridge that gap between vision and execution for client challenges across a variety of industries and countries. We leverage our deep financial, analytical, and industry knowledge to provide financial institutions with business solutions to improve stakeholder value and maximise performance.

Digital Transformation: From start to finish, Deloitte works with clients throughout their digital engagement. We help them evaluate where and how they can effectively deploy digital approaches, as well as create and execute a prioritised roadmap that targets high-impact, lower-risk areas first. By providing in-depth knowledge and insight, we guide clients through an incremental solution roll-out to reduce costs and mitigate risks as they move forward iteratively to meet their longer term digital initiatives.

Human Capital: Our human capital professionals are far more than just Human Resources (HR) consultants – they are broad-based business consultants who specialise in integrating people issues with business strategy. We have the depth and breadth to assist with large-scale change in ownership as well as singular programme designs. By developing new tools and methodologies, we strive to enhance your organisation's performance, productivity and profitability. Our human capital capabilities cover HR strategy, HR transformation, HR audit, organisation change management, organisational design, roles and responsibilities, incentives and compensation, employee communication, learning and development to create value for client businesses through people.





Optimised growth

The financial marketplace is more competitive than ever and with consumers and companies growing increasingly cautious about where their money gets invested, financial institutions are facing pricing and interest rate pressures to obtain new business and retain the clients they have. As banks rethink their business models, many will be looking for new opportunities for growth, as they are aware that revenues are likely to remain under significant pressure for the foreseeable future.

Driving growth in the face of revenue stalls and tight budgets will require CFOs to extend their responsibility and reach well beyond the optimisation of the financial institution's costs and efficiencies to fund investments. It has become increasingly important for financial institutions to aggressively reduce operating costs through strategic enterprise-wide initiatives such as "lean" process simplification and service model optimisation. There is also an increasing need for additional efficiency gains by aligning linked processes that often leverage the same data and even similar technologies.

With the ongoing business imperative of maximising shareholder value, financial institutions are looking for new ways to grow beyond their local borders. Market expansion can address an organisation's need to enter new markets, penetrate existing ones, or a combination of both. As banks look to grow, some may consider mergers and acquisitions. Spin-offs, carve-outs, and divestitures are also in demand as banks look to exit certain businesses or markets and deploy their capital elsewhere.

In the coming year, banks are also likely to experiment with several different strategies, including focusing on customer profitability by deploying more sophisticated analytics, looking for opportunities for cross-selling, relationship pricing, and bundled pricing to create more compelling customer experiences. Some banks are likely to partner with other nonbank companies as they try to differentiate their value propositions, while others might seek out new customer segments.

Deloitte's value

Financial Process Optimisation: Deloitte understands the importance of combining deep technology experience with practical financial business process optimisation. This integrated approach helps us optimise clients' financial processes by reviewing information systems and analysing current configurations in order to improve productivity and efficiency. In the process, we deliver greater value across clients' businesses, while balancing the need to do things quickly with the need to do them right.

Mergers & Acquisitions: Our M&A specialists have extensive experience working as independent advisors to clients, providing corporate strategies, and seeking out and executing the strategy that best meets the needs of their organisations and their various stakeholders. Our team can help clients grow profits by accessing new markets, assets, technologies, personnel, intellectual property and sources of finance. Whether you are

seeking to reassess your strategic options, grow your business through an acquisition or realise value through a sale or restructuring, Deloitte has the profound industry expertise with local knowledge to provide you with the proven, practical advice.

Programme Management: Given the breadth of impending changes and the need for truly transformational capabilities, it is important that key programmes within the financial institutions are effectively managed. Deloitte has a team of professionals with robust industry knowledge and experience of having managed large complex change programmes. We have significant expertise in running Project Management Offices for multi-workstream, multi-geography and multi-million dollar programmes. We help clients to achieve their key objectives for carrying out large scale projects and bring to them relevant skills and methodologies to ensure success.

“Financial services companies – in developed and developing markets alike – are faced with the ongoing business imperative of maximising shareholder value and are looking for new ways to grow beyond their local borders. Whether you are looking to enter into new markets, penetrate existing markets, or a combination of both, Deloitte is well-positioned to help you undertake the complex set of activities that need to be carefully orchestrated to achieve successful market expansion.”

Suresh Marimuthu, Executive Director, Financial Advisory Services, FSI



Digital & technology innovation

In this digital era, innovation is a key organisational capability. Innovation involves more than product development – it is thinking out of the box to build new structures, create new products and services, identify new business models, launch new offerings and, ultimately, establish a new position within the digital marketplace.

Current market volatility, heightened regulatory activity and increasing customer demands have also led to an increasing demand for innovative use of the technology systems to enable agility, transparency and efficiency. Enhanced data capabilities can help banks to better understand customer profitability, improve their risk management, manage their businesses more effectively and with greater capital efficiency, and respond to the growing number of regulatory requests.

There is widespread industry awareness that innovation in technology will not only help the financial institutions differentiate but also drive new product development. Clearly, investment in advanced technologies can also contribute significantly to optimising the return on a bank's innovation investment. Use of service oriented architectures, open standard applications, and enhanced global connectivity can all help speed the pace of innovation development and reduce the time to market.

As a result, banks are going beyond merely replacing platforms here or there. In some cases, they are rethinking how they deploy data throughout their organisation, recognising that the integrity of data is critical to effective management of risk, but also understanding that different parts of the organisation have different uses for the same data.

Deloitte's value

Analytics: Deloitte is widely recognised as a leader in the field of analytics. Our deep experience in the banking sector means that we know how to bring analytics capabilities to life in the uniquely challenging banking and securities environment. We combine industry knowledge, broad functional capabilities and technical know-how to help clients capture insights and create strategies for attracting, engaging and retaining profitable customers. By looking at businesses from the outside-in, we turn everyday information into useful and actionable insights to facilitate their decision-making. Additionally, we have developed a host of accelerators and frameworks to help banks get their analytics capabilities up and running faster than ever.

Technology Consulting: Our people take an intense focus working with clients in the banking and securities sector to solve their toughest challenges through

applied innovation – backed by worldwide resources, deep strategic alliances, and full-spectrum delivery across strategy, implementation, management and operations. From requirements to architecture, testing to deployment and beyond, we bring an integrated “whole company” perspective to every project.

Information and Technology Risk: Deloitte helps clients develop proactive and holistic technology strategies to control information and operational risk efficiently and within desired tolerances. We work with clients to transform, optimise and adapt their approach to risk management, while using innovation to identify, create and deliver value faster. More importantly, we draw on our deep expertise in financial services and full breadth of functional capabilities to help clients innovate and implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.

“Globalised competition, data overload, and more stringent risk and compliance requirements have put most businesses to the test. To lead in the marketplace, it is essential for financial institutions to weave analytics into their organisational fabric for strategic, competitive, and cost advantages. Deloitte can help clients position for success through our comprehensive approach to analytics – which is also fuelled by deep industry knowledge, broad functional experience, and an excellent understanding of technology.”

Tim Phillipps, Global Leader, Analytics, FSI





Transformation:
a critical element
for success



On the surface, the competitive landscape of the banking and securities sector will not look much different from what it does today. Mergers and acquisitions will likely have reduced the total number of institutions, and industry specialists and nonbanks will play a more prominent role. But most of today's players will still be vying to differentiate themselves in a crowded marketplace.

Traditional approaches to creating value through growth and efficiency will no longer be enough. Firstly, with the threat of customer mobility, the competitive landscape is witnessing new entrants that are offering a range of services that were once only available exclusively through major banks, insurers, and the like.

Arising from the new financial services landscape is an increase in consolidation and this is driving a rise in competition. With the increased competitive forces of change, the banking and securities sector is looking for strategic acquisitions and divestments, new geographies,

and new markets as a means of achieving growth. Advantages gained through these channels will be fleeting at best, while partnering and outsourcing will make efficiency a basic requirement for all.

In addition, banks and institutions are actively responding to the new pressures they face from regulators and evaluating considerations that will position them for the revised capital regime. They are approaching the shifting drivers of change by ensuring compliance flexibility, strengthening the alignment between business needs and the way risks are managed, leveraging technologies for innovation, and looking for growth opportunities in other areas.

Concerning everything from strategic questions about business models to capital allocation, management of regulatory relations, technology platforms required for data management, and, finally, to the quest for that most elusive of goals – revenue growth, these considerations will be critical as the industry continues to drive radical transformation for growth.

Our financial services expertise

Deloitte's financial services practice is a network of more than 30,000 practitioners around the world. The practice is organised in four sectors – banking & securities, insurance, investment management and real estate – to effectively serve the specific needs of the clients of the Deloitte member firms.

In Southeast Asia, our financial services team has vast experience in every segment of the financial industry. Through the combination of our local industry knowledge, strength of long established relationships with the major players in the marketplace, and the expertise of our global network of member firms, we have the exact combination of experience and expertise to deliver the value clients require.

Drawing upon a combination of the disciplines of audit, consulting, enterprise risk, financial advisory and tax services, we bring an unmatched range of capabilities in areas such as consumer/retail banking, commercial banking, wholesale banking, mortgage banking, securitisation, capital markets, insurance, and investment management.

Our seamless collaboration across our functional capability globally enables our financial services team to see more clearly and deeply to create greater value for clients. This 360-degree strategy gives clients a team with broad perspective on the internal and external dynamics of an issue.

Our practice serves clients globally through specialist networks in the following areas:

- Actuarial & Insurance Solutions
- Analytics
- Audit & Accounting Advisory
- Consulting: IT & Implementation
- Consulting: Strategy & Operations
- Corporate Finance
- Finance Transformation
- Forensic Investigations & Advisory
- Governance & Regulatory Compliance
- Human Capital Advisory
- Information & Technology Risk
- Internal Audit
- M&A Transaction Services
- Outsourcing
- Restructuring
- Risk & Capital Management
- Risk & Regulatory Advisory
- Securitisation
- Tax advisory & compliance
- Valuation Services



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