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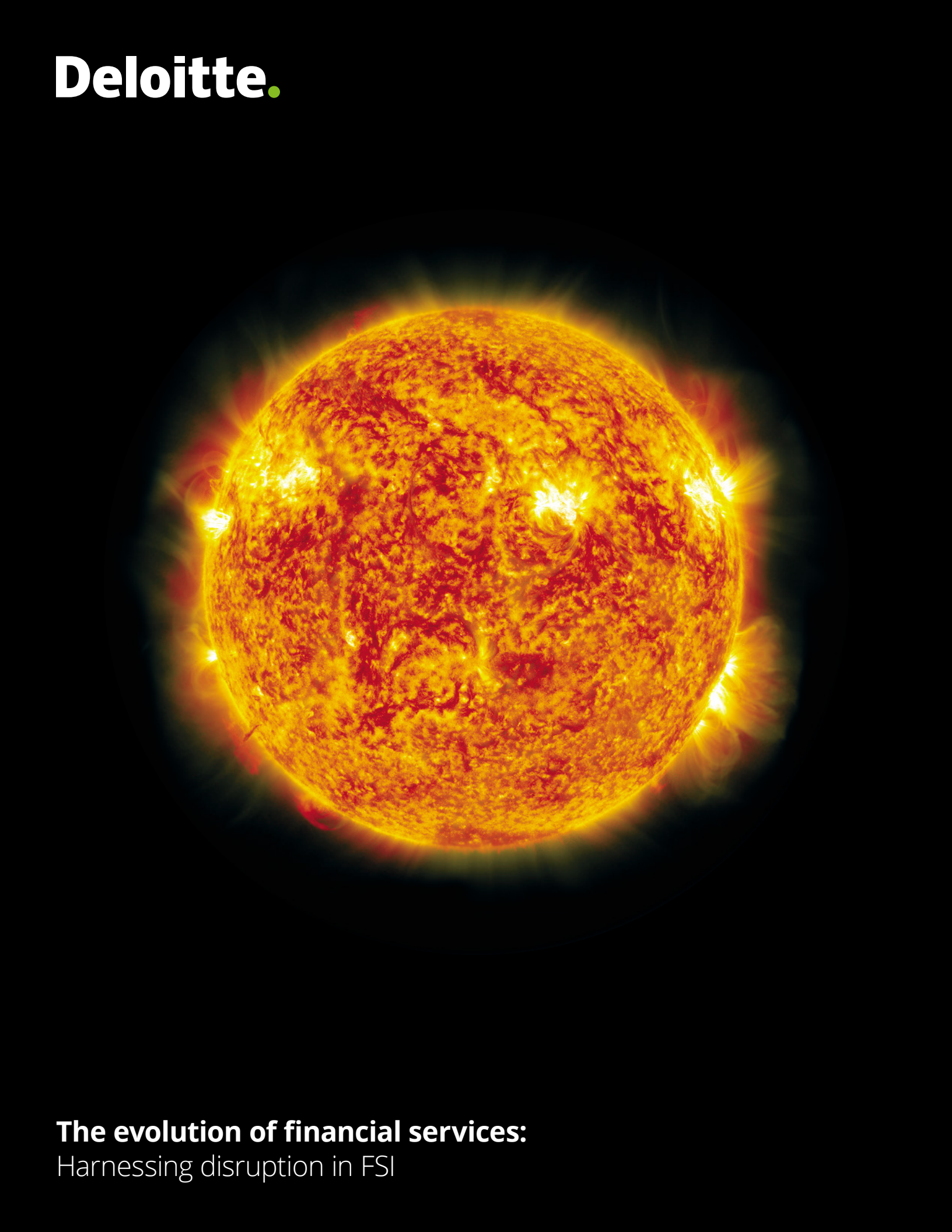

The evolution of financial services:
Harnessing disruption in FSI

Welcome

From shifting regulations to new entrants that disrupt traditional service models, the operating environment for insurers, banks, and other financial services firms has been in flux. Following the US elections in 2017, US financial service companies share prices outperformed the S&P 500, driven by shareholders' expectations that reduced regulations, lowered tax rates, and rising interest rates could boost profitability across the sector. Despite this optimism, challenges abound, and post-recession profitability remains muted in a rising but still low rate environment. Despite recent upticks, ROE in the US banking sector remains nearly 20% below its long-term average. And there are storm clouds on the horizon. We anticipate continued drastic changes that will affect business models to their core.

This series explores the forces at play. Innovative technology, dramatic shifts in the regulatory environment, globalization across sectors, and demanding expectations from customers and investors all create the potential for fundamental change. We hope this series will inspire and empower you to drive organic and inorganic growth and to protect the core of your business. In the coming pages, our perspectives aim to provide actionable guidance for strategic planning around the evolution of financial services and harnessing the growing forces of disruption in the space.

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Introduction

We stand at a particularly exciting juncture in financial services, as tremendous change ripples across the business world. Our practitioners have the opportunity to work with our clients on a daily basis to tackle their most important business challenges, including strategy, restructuring and M&A and see first-hand the tremendous challenges our financial services clients face. Over the last few months, I have had the pleasure of working with many of them in the production of this series.

I extend a hearty thank you to the authors of these articles for their efforts in sharing the insights drawn from their client experiences. We hope you find this series informative and useful.

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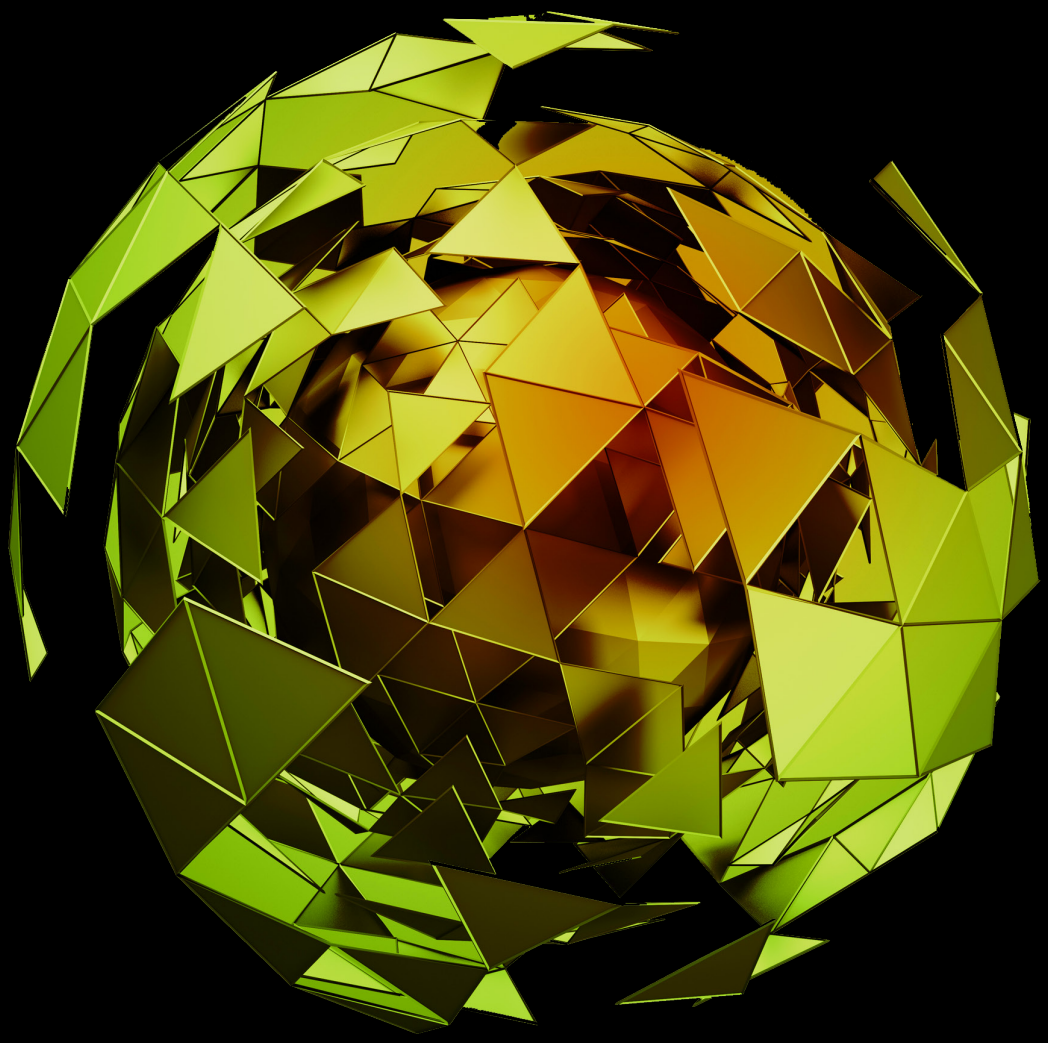

Five actions major financial institutions face

Banks, insurers, and asset managers are struggling to keep their balance as they tackle three major fronts at once—simplifying the business, complying with regulations and modernizing / differentiating themselves.

Over the last decade, regulatory expenditure has stifled spending on efficiency improvement and growth initiatives. The result is a downward spiral in which financial institutions are failing to invest in strategic capabilities on one hand, while increasing operational complexity on the other. The situation will likely become worse in the near future, as nimble fintech players increasingly disintermediate traditional financial service providers and their products, non-financial institutions start provisioning financial services and regulatory barriers are lowered, allowing competition in core areas from efficient startups.

Capitalizing on disruptive technologies themselves can help the big players gain back their advantage. Innovation that is causing turmoil can also be exploited by financial firms to lower the cost of transformative change and to fund rapid, iterative modernization. Some are taking "baby steps" in that direction today.

There are five things that financial services firms can do in order to harness disruption.

Attack the most unwieldy costs.
Real-time, digital and highly automated business models offer the opportunity for wholesale "vaporization" of high cost legacy infrastructures. In Deloitte's recent efforts, financial institutions surgically decimated highly inefficient business operations and earned savings of more than 50 to 60 percent by migrating processing to fintechs. There is significant potential to expand the scope and size of vaporization efforts, and this is a bandwagon not to be missed since valuable resources and budgets are freed up to pursue other efficiency improvement efforts.

Regulatory compliance costs in particular deserve a fresh look as candidates for selective vaporization. After almost a decade of unprecedented spending in response to the Dodd-Frank mandates and more, firms are saddled with point solutions that are hastily cobbled together and inefficient. Rethinking regulatory compliance in a business as usual context and re-architecting with agile, cloud and robotics may likely release much needed funds for modernization and growth.

Mutualize.
Financial institutions are individually running massive utilities, which are non-core to their businesses and could very easily be consolidated. Firms should up the ante around mutualizing capabilities and associated costs with other players. While the number of effective industry initiatives in developing common reference data and processing utilities is on the rise, there is massive untapped potential especially given cloud, analytics and blockchain technologies. Intelligent, real-time utilities could readily provide efficiency improvements of 15 to 20 percent (if not more), while providing a high level of customization for participants that was not attainable before.
Taking this to another level, a related concept rapidly taking shape in the marketplace "collaborating ecosystems," in which firms—even competitors—integrate capabilities towards industry macro-processes. Ecosystems provide opportunity for streamlining the supply chain, achieving transaction volumes at scale and broader reach, along with greater cost mutualization. Financial institutions need to web enable their capabilities in order to participate in this "API economy" as well as develop an ecosystem strategy to determine where and how to play.

Harness disruptors for the last mile.
Top-down enterprise transformation initiatives like business process reengineering, business process management, workflow and data analytics help focus on optimizing core business functions, but this leaves large gaps in coverage at end-points and in tactical processes. There are significant opportunities to improve efficiency that have been left on the table even with large enterprise investments.

For example, a large financial services firm reengineered and digitized its Private Wealth business processes that yielded several strategic benefits. However, due to high demand for enterprise digital resources, about 5% of the processes that involved legacy, paper-based trusts were de-scoped. With an estimated 20M+ of paper trust documents, these processes remained a huge invisible contributor to inefficiency.

There is a slew of mature digital technologies—automation, cognitive analytics, robotics, visualization—that can be rapidly deployed at the end-user level to provide a significant boost in productivity at end-points. Unlike end-user technologies of the past, these tools allow for centralized governance and eliminate the risk for what is commonly known as "Shadow IT." In the example above, a cognitive OCR analytics solution is being developed to vaporize the inefficiency associated with paper records.

Extend digital all the way.
Evolved client digital expectation is driving efforts around interactive electronic interactions with clients. Time and budget pressures often lead to the tactical trap of creating workarounds in the back-end to build client-facing portals. Building truly end-to-end digital capabilities through streamlining the supply chain, creating process transparency and self service capabilities in conjunction with digital client portals could provide huge cost efficiency and better customer responsiveness.

Manage the organizational transition.
Financial services firms are in the midst of a historic disruption driven by digital concepts that have already changed the landscape in retail and manufacturing industries. Getting to this future state will require disruptive reinvention, agility, and the need to run the financial services firm like a technology company. The building blocks will be the new workforce and a services-based, networked organization with distinct accountability.

Despite the great appetite for transformation, financial firms seem to have continued to opt for tactical measures over the past decade since the case for change normally appeared prohibitive. Digital innovation has changed this equation, and firms should seize the disruptive advantage for themselves.

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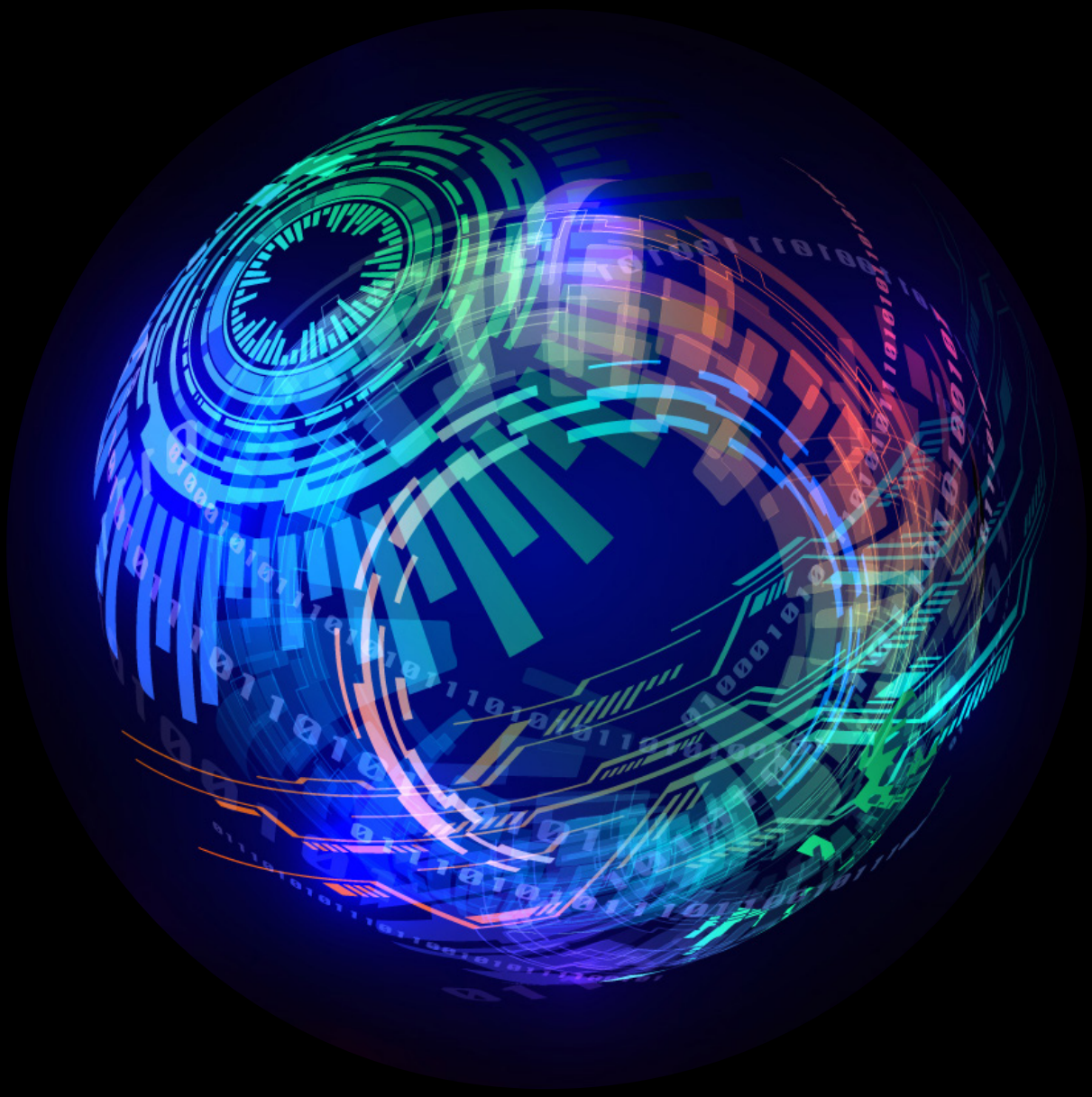

Building the bank of the future

To win over tomorrow's most demanding customers, some banks are transforming not only their inadequate IT environments, but also their fundamental value propositions.

Many banks find themselves in an untenable position today. Their reliance on outdated and overloaded legacy systems and architecture is compromising their ability to develop and sell appealing products and services to increasingly demanding, tech-savvy customers.

The challenge they face—to build a new, digital organization centered on the human experience—is substantial. Just 10 percent of business leaders polled during a recent Deloitte Dbrief webcast on the topic said their banks were in the state of "being digital," while another 22 percent said they were "becoming digital."

Adopting a more flexible, efficient, scalable, automated, and secure IT environment is a start. And banks have the new technology options for doing so. But IT restructuring is mere table stakes, necessary but not sufficient for the digital business transformation banks strive to undertake. The bank of the future will abandon its traditional focus on siloed products and services and completely refocus on the customer experience with a next-generation technology foundation.

Making the drastic shift necessary to deliver smarter, more transparent, seamless, and connected digital experiences requires a well-thought-out digital business strategy that addresses changing customer needs, a new, flexible architecture that enables the organization to respond to changing customer expectations rapidly, and an effective change management program to make it stick.

Banking on a new business strategy

Digital transformation is not just about technology. Organizations must first fundamentally rethink their business strategies. Form must follow function.

The digital banking transformation begins with IT and business leaders coming together to define the organization's strategic ambitions. They can find inspiration beyond their own organizations and outside of their industry, in emerging technologies and among competitors and innovative leaders in other industries.

Any bank's strategy will also be informed by the degree of change it can realistically achieve. For some organizations, that may mean simply digitizing what they do today. Others may want to create a new business division to attract a new customer segment. Still others will pursue the bold vision of creating an entirely new bank. There's no right or wrong goal. But it is critical that IT and business leaders clarify their organizations' strategic goals and align initiatives accordingly.

The new business strategy will directly link to the value proposition the bank wants to offer its customers, while supporting customers' expectations. This means thinking about human interactions, emotions, and encounters as part of a more holistic understanding of the customer experience. It's not enough to make transactions more seamless, transparent, and integrated; consumers are also looking to be surprised and delighted.

One population many banks may seek to reach through their transformations are millennials. This group, 80 million strong, spends $600 billion annually; by 2020, they will be spending $1.4 trillion. Their expectations aren't shaped by traditional banking experiences, and they are changing the expectations of other consumers.

Millennials expect every company with which they do business, including financial institutions, to provide the seamless experiences they have with Amazon or Uber. They're more comfortable than other generations with sharing personal information, if they receive some benefit or incentive in return. They demand intuitive, easy, and elegant digital experiences. They're not just looking for a bank—they're looking for support in navigating their lives.

Banks that win over millennials deliver customized services and unique experiences, create smart products that self-optimize around customer goals, offer services that anticipate future needs, and deliver higher levels of security and trust.

Around one-third of respondents (34 percent) to the Deloitte Dbrief poll have a very strong focus on the customer experience. Using methods rooted in design thinking, IT and business leaders can better understand shifting customer expectations. Focus groups and surveys only go so far; banking leaders eager to transform their organizations may want to get more sophisticated insights by taking a human-centered design approach—going out into the world to walk in their customers' shoes. Ethnographic research and in-home observations, for example, help uncover unmet needs and find answers to more nuanced questions such as: How does money flow through consumers' lives? Where does money go and how is it used? What problems outside the traditional banking experience can we help solve for our customers?

To build on research insights like these, CIOs can also implement new software to go beyond the basic customer data spit out by a CRM system. New segmentation tools, predictive analytics, and machine learning can help banks anticipate customer needs, get smarter about them over time, and drive decision-making.

Systems of engagement

Once banks have a digital business strategy and an understanding of the experiences they want to deliver, CIOs and their teams can build the technology platforms to underpin their transformation. The monolithic legacy systems currently in place make it difficult for banks to respond to shifting customer expectations.

The bank of the future will be built on a next-generation architecture that offers vastly greater capabilities for much lower cost. A core set of technical design principles will guide the development of this platform, including:

Flexible and nimble architecture. IT leaders can minimize duplication by componentizing common functions and improve responsiveness to new business demands by designing components so new functions can be added to the IT landscape without affecting the customer or the organization.

Efficient scalability to support high throughput. Architecture should scale easily by component. CIOs can ensure this by continually evaluating components against business enablers and architectural principles.

Automated and digitized processes. Simplifying an automation process reduces turnaround and delivery times, lowers delivery costs, and improves customer service delivery and consistency across channels.

Simpler and speedier development. IT leaders can employ Agile development to deliver capabilities incrementally by priority, reviewing and updating application architecture along the way to accommodate new capabilities. They can also leverage out-of-the box functionality and limit customization.

Highly secure systems. Banks remain cybercriminals' biggest target. IT leaders can limit their ability to hack and harvest data by segregating sensitive data and leveraging leading-class encryption technology.

Customercentric data. By building and leveraging a consistent version of customer data, IT leaders can enable their banks to deliver highly personalized service, real-time recommendations, and a holistic view of the financial value of a customer.

The goal is an integrated platform delivered as a service—at once data-rich and capital-light. Respondents to the Deloitte Dbrief poll cite such an integrated solution platform as the most important priority for digital banking transformation, followed by a superior user experience.

Not surprisingly, building that engagement platform will take time. CIOs can create a five- to 10- year vision to guide the digital bank as it makes the radical shift from selling individual products and services to connecting people and money in new ways.

Public cloud technologies will enable IT leaders to scale up and down and shift costs from fixed to variable. They can also take advantage of the latest best-of-breed financial technology solutions, aggregating those into an end-to-end system to deliver a differentiated customer experience. Interoperability will be key. A microservices approach and open API platform can enable banks to quickly and easily weave components in and out of the value chain. With intelligent analytics operating in the background, banks will be able to anticipate and adapt to changing needs, providing greater value over time.

The science of organizational transformation

Banks face many change management challenges as they evolve their strategies, systems, and processes. Chief among them, according to the Dbrief poll, are creating an effective vision and aligning everyone around it (17 percent); clarifying the effects so everyone understands the changes (17 percent); engaging and involving enough stakeholders to obtain sufficient input and broad support (13 percent); and preparing people with sufficient instructions, training, and leadership messages to drive adoption when systems go live (13 percent).

The problem with most change management programs is that they focus on adoption resistance at the time a new system is rolled out. Given the challenges associated with bank transformation, it might be better to begin at a much earlier point, aligning key executives and engaging the right individuals in the effort.

The good news is that change management itself is evolving from art to science. The challenge for banks is to bring their diverse stakeholders on board with the transformation journey.

It's a mistake to take a broad-brush approach to change management—appealing to everyone in the same way leaves many people behind. Instead, banks can take a page from other industries that have managed broad demographic groups effectively.

CIOs can take a leadership role by harnessing tools and data to guide the change management effort. By implementing adoption analytics, IT leaders can focus on continually assessing stakeholder perceptions and risks throughout the process, enabling targeted messaging and training based on that data. CIOs can even build adoption scorecards around key stakeholder requirements to assess organizational readiness to move forward.

Not all banks will remake themselves in the same mold. One bank of the future may not resemble another. But the banks that succeed at long-term transformation will be clear about the ambitions and experiences they're pursuing, invest in the engagement platforms required to deliver them, and employ ongoing, data-driven change management to ensure organization-wide adoption.

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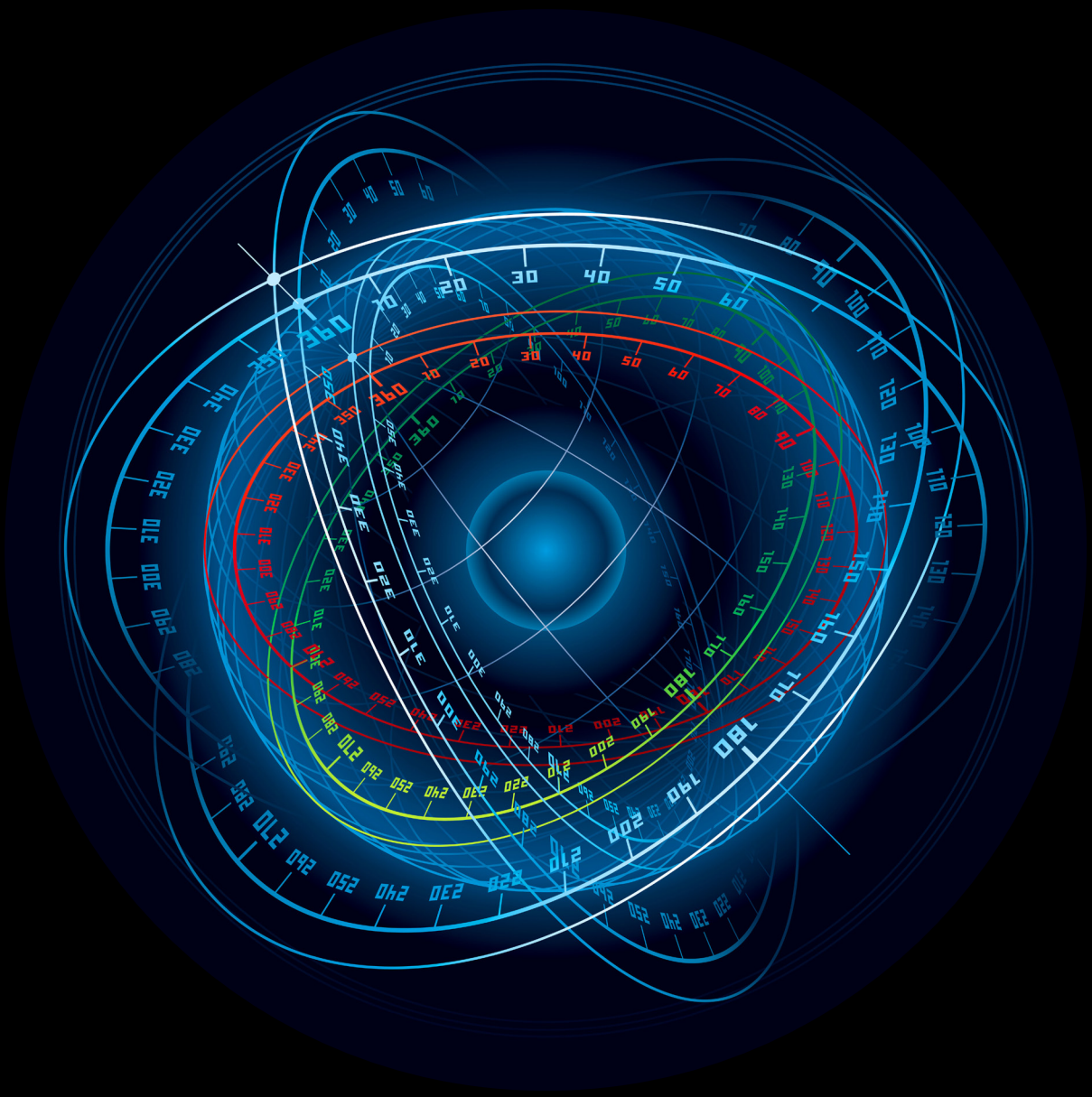


Transforming M&A capabilities for the unbundled ecosystem

The case for change

Rapid advances in technology and digital infrastructure are fundamentally reshaping the competitive landscape in financial services. As we enter an era of the Industrial Internet, where machines intelligently connect to software, to other machines and to humans, old models for past business success do not bode well for future success. We have already seen the beginning of industry unbundling and the bifurcation of players as either drivers of volume or of specialization, but not both. As unbundling continues, companies could be more agile, intelligent, and increasingly interconnected in a wider financial services ecosystem. Firms may be able to offer more while owning less, and relationships between coexisting competitors will likely generate a larger share of economic value as a result. To adapt to this new environment, large financial services providers should assess how they are organized and how they interact with incumbents and new entrants alike. Crucially, this has implications for how companies approach M&A. The traditional approach that focuses on acquiring companies to integrate their capabilities and customers will need to be augmented with a new approach that focuses on orchestrating ecosystems for value. This requires a rethink of M&A strategy and development of new capabilities to harness market disruption.

Forces of unbundling

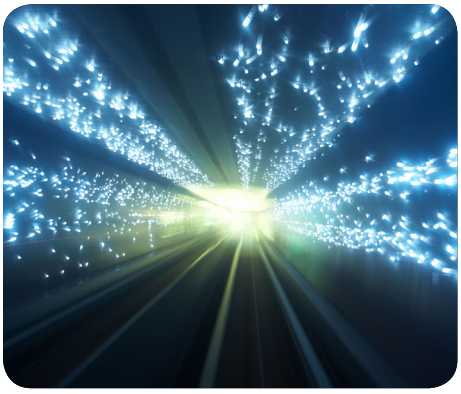
Similar to how earlier waves of the internet made communication and commerce faster and less costly, the Industrial Internet promises to make the exchange of value between financial firms both faster and more frictionless. Advances like blockchain and smart contracts are making it easier for firms to transfer money and other assets, to process and settle transactions and trades, and to share and verify records and data. The cost of doing business with other firms is decreasing, and it can become efficient to partner with other players than to keep many functions and processes in-house. Said differently, external transaction costs are becoming less than internal transaction costs—reversing the fundamental premise of why firms came into existence and why they cannot maintain infinite growth.

As transaction costs decrease, maintaining separate business units and functions to support an increasingly wide range of products and services can create diseconomies of scale. Firms should consider both the process and consequences of unbundling: choosing core areas and using the Industrial Internet to tap into services from leading players in other areas. The unbundling process is likely to simultaneously increase the concentration and fragmentation of entire industries. Concentration can deepen in utility-like, volume-based infrastructure businesses, where scale and scope remain important given fixed costs and regulatory burdens. Fragmentation can accelerate the development of businesses that are entirely focused on the customer, driven by data and analytics to truly understand customer need.

In an evolving competitive landscape, a larger share of value could be created by partnerships among coexisting competitors within the larger financial services ecosystem. Emerging players may rely on larger partners for infrastructure and platforms to support their businesses. In turn, incumbent players will likely rely on their nimbler, smaller entities for their ability to more quickly develop and deploy personalized or niche services. Given the continued unbundling of industry and the resultant reduction in overall ownership of the value chain, firms may be able to offer more services and create more vale through participating in a larger ecosystem. The emerging challenge for large firms is to develop an M&A strategy and capabilities that allow them to tap into this ecosystem to extract value efficiently and effectively.

Future proofing M&A

M&A is becoming more complex in this new environment. With increased partnerships and connectivity between larger, legacy competitors and smaller, specialized entrants, M&A is no longer just about acquiring a target, but orchestrating a number of transactions and partnerships all driving toward one outcome with embedded optionality. To realize value, firms should be prepared to build an ecosystem to nurture new partners and acquisitions. In the first order, firms need to grapple with a new set of M&A choices. In addition to the "traditional" M&A decisions of what to acquire and what to spin out, firms should consider what to orchestrate through partnerships or minority ownership stake investments. Looking across these strategic options, firms will need to consider at what stages of development to make a move and be prepared to pay much higher multiples for much less mature companies to get in front of the right opportunities. Given the increase in partnerships and investments, firms will also need to think about M&A on a longer time horizon as relationships with partners will need to be managed on an ongoing, business-as-usual basis.



Building bridges to execute

Executing in this M&A environment likely will require a new set of capabilities. Traditional capabilities—such as post-merger integration to fold acquisitions into the parent—may no longer be enough. Firms will need to develop a more sophisticated set of capabilities to orchestrate and participate in ecosystems. Financial institutions should develop the capabilities to identify new trends and players on a constant—rather than opportunistic—basis and be able to make decisions around acquisitions, investments, and partnerships quickly. These M&A capabilities should be integrated with internal-facing functions to give firms the ability to weigh decisions between organic investments or external moves. To support this enhanced and more sophisticated set of M&A capabilities, the diversity of the firm's DNA needs to be expanded. Beyond the traditional domain of corporate development, talent and perspectives from a wider range of backgrounds should be incorporated, including financial engineers, social scientists, and design thinkers to more fully understand the potential of partnerships. Beyond deal execution, firms should consider developing ongoing capabilities to optimize these new partnerships, including agile methods to implement projects and extract value.

Key takeaways

- The Industrial Internet is driving unbundling in financial services and leading many companies to be increasingly interconnected in a wider financial services ecosystem.
- M&A strategy is more complex in this environment. Many firms are no longer acquiring targets for a single purpose but orchestrating for value.
- Traditional M&A capabilities are becoming table stakes. To realize value firms should consider developing a more sophisticated set of capabilities and a more diverse team.

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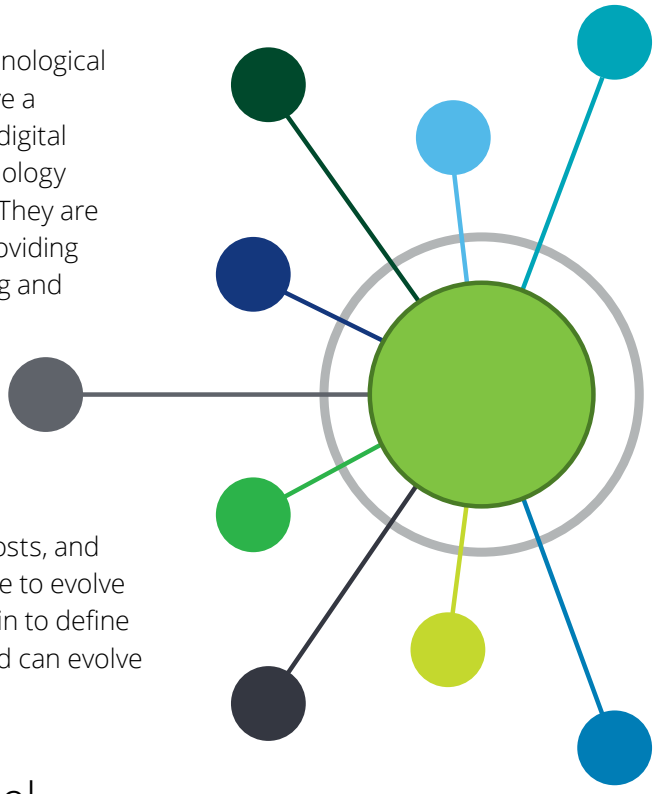
Digital ecosystem service delivery model

Digital ecosystem service delivery model

Enabled by a wave of increasingly rapid and disruptive technological innovation, digitally centric service delivery models can have a profound impact on the future of financial services. These digital service delivery models are not fundamentally about technology nor about simply digitizing existing products and services. They are about better enabling customers and banks to interact: providing a better business relationship and increased value. Defining and implementing a digital service delivery model provides an opportunity to redefine service delivery without being constrained by the processes developed 20 years ago that create the negative experiences customers encounter today. Defining digitally centric service delivery models can begin from scratch, and they can streamline manual processes to improve service, reduce costs, and increase customer value. Digital solutions will likely continue to evolve over the next decade, and financial institutions should begin to define a digitally centric vision that is focused on the customer and can evolve into a service model that will set future expectations.



Defining the service delivery model

Introducing a new digital service model should begin with a broad and sweeping vision, something such as "our customers, greater than 1 billion in total, will be fully enabled through digital self-service while our reduced operating costs will generate profit as the lost cost provider". This model should be defined and championed by the business unit—not by IT—and it should meet customers' needs—not the bank's. The vision should be rooted in a larger business strategy and be flexible to enough to support the rapidly evolving needs and desires of customers. The digital service delivery model cannot merely digitize existing processes—it should reimagine the way that services are delivered with the goal of improving experience and driving down cost.

One inherent challenge can be breaking down existing barriers of compartmentalized products and services and siloed functions to reimagine service delivery in entirely new ways. Today, many banks have set up their service delivery models around product siloes and their support capabilities, not with the customer as the central point.

To develop a digital service model, banks should consider adopting the customer's frame of mind to understand the pain points in the current delivery model and determine how to streamline delivery to better meet customer needs. For inspiration, banks can look to other sectors (e.g. Retail, High Tech, etc.) to emulate innovations. For instance, consider the way that payment capabilities are delivered to merchants. Banks provide merchants with specialized terminals to process transactions and payments. To reimagine this process, banks could look to the way that technology companies are offering application programming interfaces (APIs), providing a standardized method to enable application developers to access and embed functionality seamlessly into their app. Financial institutions could similarly enable payment processing through APIs to seamlessly offer payment functionality. This can support migrating away from expensive, proprietary hardware, enable quicker realization of value through partnerships, and provide access to valuable data that can be used to improve customer experience while delivering increased convenience for both consumers and merchants.

Setting goals and expectations

To realize the digital centric service delivery model, specific goals and expectations should be defined to quantify financial progress and measure customer satisfaction. Goals should be defined such that the bank can measure progress towards the transformation within reasonable timeframes, demonstrating value creation. No matter the specific goals, a roadmap and timeline to execution should be developed and used as the North Star for the program. The roadmap should focus on dynamic targets on a quarterly (or shorter) basis to track quantifiable value and allow for course correction in real time. Following these steps can allow banks to demystify the development of a digital service delivery model, helping to make the process transparent.

There is no one-size-fits-all strategy for a digital service delivery model. Each bank should define theirs based on the value they want to create and align it with their vision. Some banks may prioritize increasing operational efficiencies to lower cost through faster cycle times and greater productivity. Others may prioritize driving a differentiated customer experience and customer engagement model, which can drive increased revenue channels. In its most powerful form, however, a digital service model is able to deliver on multiple of these value levers at once: simultaneously lowering costs and increasing productivity while providing clients with an improved experience.

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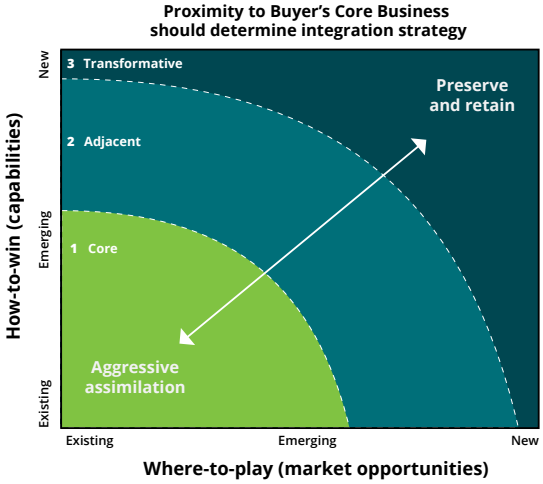
Fintech acquisitions:
Integrations are a different adventure

An interesting dilemma for those legacy financial institutions considering buying into Fintech; how to best structure the acquisition and integration of these companies in a way that enables their **growth**, while effectively managing their **inherent risks**?

In recent years, Financial Technology companies have emerged as an attractive growth alternative in an otherwise slow growth environment. The combination of native digital products, nimble operating model, and customer-oriented mindset has not only caught the eye of an early-adopter consumer base and a tech-savvy millennial workforce; but also attracted attention from Private Equity and established financial institutions looking for investments in high growth areas. The volume of acquisitions involving Fintech companies normalized in 2016, retreating from the record highs seen in 2015,[1] with total deal volume totalling $13.7B, down 66% YoY. This decrease was due primarily to greatly reduced number of transactions valued over $1B, which accounted for over 90% of deal flow in 2015 . Transaction volume in the space continues to be driven by volume below the $1B mark, as Fintech companies continue to receive attention from buyers both within financial services and as pure investment plays for private funds. This incredible growth is indicative of the attention these companies are receiving from buyers both within financial services and as pure investment plays for private funds. Which bring us to an interesting dilemma for those legacy financial institutions considering buying into Fintech; how to best structure the acquisition and integration of these companies in a way that enables their growth, while effectively managing their inherent risks?

1. Source: SNL Financial-M&A Market Data, http://www.snl.com
   Note: Total deal volume and number of transactions based on disclosed deal values.

Due to the disruptive and technology-forward nature of Fintechs, effectively integrating a Fintech start-up — or even a more established player—presents an entirely new set of potential challenges, even for the most M&A-savvy financial institution. These challenges, from clearly understanding what are actual products and capabilities versus 'vapor-ware', to preventing talent flight and maintaining growth trajectory despite operational friction, often result in many Fintech acquisitions failing to meet their stated objectives. But Fintechs are disrupting traditional financial services due to these differences and any FSI firm looking to harness this disruption should account for what makes these nimble new companies unique in their integration strategy.



Aggressive assimilation vs preserve and retain

Two primary strategies of harnessing innovative Fintech are emerging in the marketplace that reside at opposite ends of a sliding scale of integration. The first is a capability driven strategy wherein established FSI firms seek to acquire and integrate new products, channels, or capabilities into their existing business portfolio to fill a gap and/or prepare for a potential market shift. The second adheres more closely to a holding-company model where the acquiring institution builds a portfolio of Fintech companies that continue to stand on the strength of their respective business cases while leveraging the scope and scale provided under the umbrella of the parent company.

Either of these strategies represents a viable path for an organization seeking to harness the innovation potential of new Fintech companies. And while the factors that should be considered in order to achieve integration of a Fintech into a more traditional financial services firm are consistent in both, the focus of each will shift depending on the strategy the acquirer has chosen to pursue.

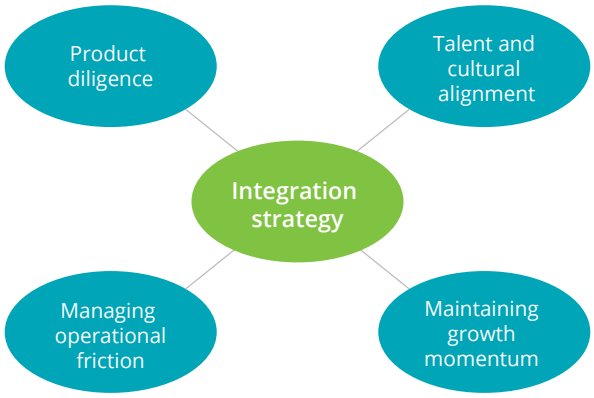
Mature Fintech companies are also turning to acquisition as strategy to drive growth; this piece, however, will focus on challenges facing traditional FSI organizations considering acquisitions as a path to acquiring new capabilities or building a Fintech portfolio.

Doubling down on due diligence

Despite their relatively small size, Fintech start-ups may be built on business models and technology platforms that are unfamiliar to legacy financial institutions. As such, they typically present a complexity that merits significant investment in appropriate due diligence of the target's financials, commercial business strategy, risk practices & regulatory compliance, operations, technology, and human resources.

An acquirer's approach to due diligence should be informed by a target's proximity to their core business. The space between a target's business model and the buyer's will have an outsized effect on the ease and success of a potential transaction and integration; the due diligence process should reflect this. While an acquirer may be comfortable managing the diligence process for a target in the same industry, it may prove necessary to enlist relevant subject matter advisors when evaluating Fintech targets.Furthermore, the target operating model envisioned for a potential Fintech acquisition should directly inform the due diligence process and inputs. A buyer should know which of the two operating models, a holding company model versus capability acquisition, best suits their overall Fintech strategy and structure their due diligence accordingly.

In our experiences advising clients in these types of transactions, we discovered a number of critical factors that can significantly enhance an organization's ability to protect the sources of value and to realize the full potential of their investments.



1. Product, product, product…

An in-depth understanding of their target's complete product lifecycle and where in that lifecycle products currently lie is paramount. This will not only allow acquirers to better assign a value to the products and commercial business practices they are seeking to integrate, but also more accurately forecast resources needed to support acquired products post-integration so that they do not "get lost in the crowd" in a much larger institution. This intelligence gathering should begin with a clear view into exactly what specific customer behavior or market niche a potential target is addressing. Product due diligence should be extended deep into a target's product roadmap or pipeline to gain visibility into what future functionalities, product enhancements, or blue-sky projects are "in-flight or planned" and what additional resources will be required to execute.

2. Engaging and retaining talent

Talent is often a primary value driver in a Fintech acquisition. Many employees of a target may have joined these companies because they believed they were signing up to reshape an industry and now they might be joining the very firms they were trying to disrupt through no decision of their own. Beyond this change in mission, buyers should also address potentially radical differences in office culture and work environment, compensation, and attitude toward rules, risk, and regulation. For a firm attempting to build out capabilities through acquisition, finding a way to maintain this culture post-integration is key to helping prevent the talent flight that can often follow these transactions.

Culture can encompass elements from talent acquisition and talent management, how roles and responsibilities are defined, to how compensation is structured and are likely to be vastly different in Fintechs versus traditional financial services companies. Special attention should be paid to the titles given to newly integrated employees to ensure they accurately communicate their new role and seniority to the greater parent organization. Even the physical space in which newly integrated employees are located should be considered a critical element to be accounted for both pre and post integration. These softer aspects of integration planning can be key factors in retaining the very talent that made a Fintech company an attractive target and acquirers should seek ways to adapt their organizational structure to enable said talent to integrate, grow, and influence the organization.

A high priority consideration for FSI firms integrating a start-up completely into the parent company, cultural alignment and integration should not be discounted by firms following the holding company model, especially if any newly acquired Fintech companies will be co-locating with the parent.

3. Operating model friction

This culture shock can also pose new challenges operationally. Fintechs and their employees may be accustomed to more freedom around their technology (e.g. Bring Your Own Device, use of public cloud storage, emphasis on remote working, open source code) than is customary in traditional financial institutions. Integrating these new employees into a more controlled environment, one heavily governed by regulation and security policies, can pose a serious roadblock to productivity. FSI firms may want to examine carving out a new technology policy specifically for acquired Fintech firms that accounts for these differences and allows for continued technological flexibility while adhering to any regulatory requirements and permits new employees to interact with the rest of the company.

Firms should also consider how governance models should be structured to allow an acquired Fintech to continue to be nimble in delivering products rather than trying to force fit an existing approach for development and release of new products. Many new Fintechs may use Agile or Lean methodologies that, while widely used and understood in the technology sector, may not mesh well with a traditional FSI firm's existing IT or Legal and Compliance functions. For those firms adding capabilities through acquisition, stakeholders on both sides of the transaction should be well briefed on expectations for engagement moving forward. Understanding how these two models differ and establishing a model for governance and interaction that addresses those differences while enabling the Fintech to continue innovating is critical to achieving value in such a transaction.

4. Ringfence revenue

In any transaction undertaken to drive growth it is important not to lose sight of what the major drivers of revenue are and assess whether they are not at risk. This is especially true in the case of a traditional financial institution seeking to expand its reach through an acquisition of a start-up. Early-stage companies are often single-minded in their drive for growth as a necessity and integration into a larger organization may dull that edge as time and resources are pulled to activities such as building compliance specs away from market-facing activities. Ringfencing revenue drivers can help the teams maintain their focus on revenue even as they integrate.

This continued focus on a Fintech's revenue trajectory is typically of greater importance to an FSI firm following the holding company strategy as each company acquired will likely have to prove ongoing value as a standalone business. For those institutions seeking to fold in new capabilities, the due diligence process should account for the shuttering of independent revenue streams as acquired teams are absorbed into the parent. Lastly, acquirers should be sure to understand any regulatory constraints or legal entity implications that may require the shutting down of any revenue streams prior to acquisition to ensure the chosen integration strategy, be it assimilation or preserve and retain, aligns with regulations.

Acquirer's dilemma—creating the right environment

For FSI companies looking to harness the disruptive power Fintech is introducing to the market, it is clear that the very factors that differentiate these acquisitions from traditional transactions are often what have allowed these Fintech companies to be successful thus far. Much of the success or failure of a legacy firm's M&A approach to Fintech acquisition hinges upon its appetite for enabling the operational transformation necessary to create an environment inside the firm where newly acquired and integrated Fintech companies can continue to innovate with as little friction as possible. Barring this, it may better to follow a holding company strategy and allow each acquired company to continue along its own path to growth.

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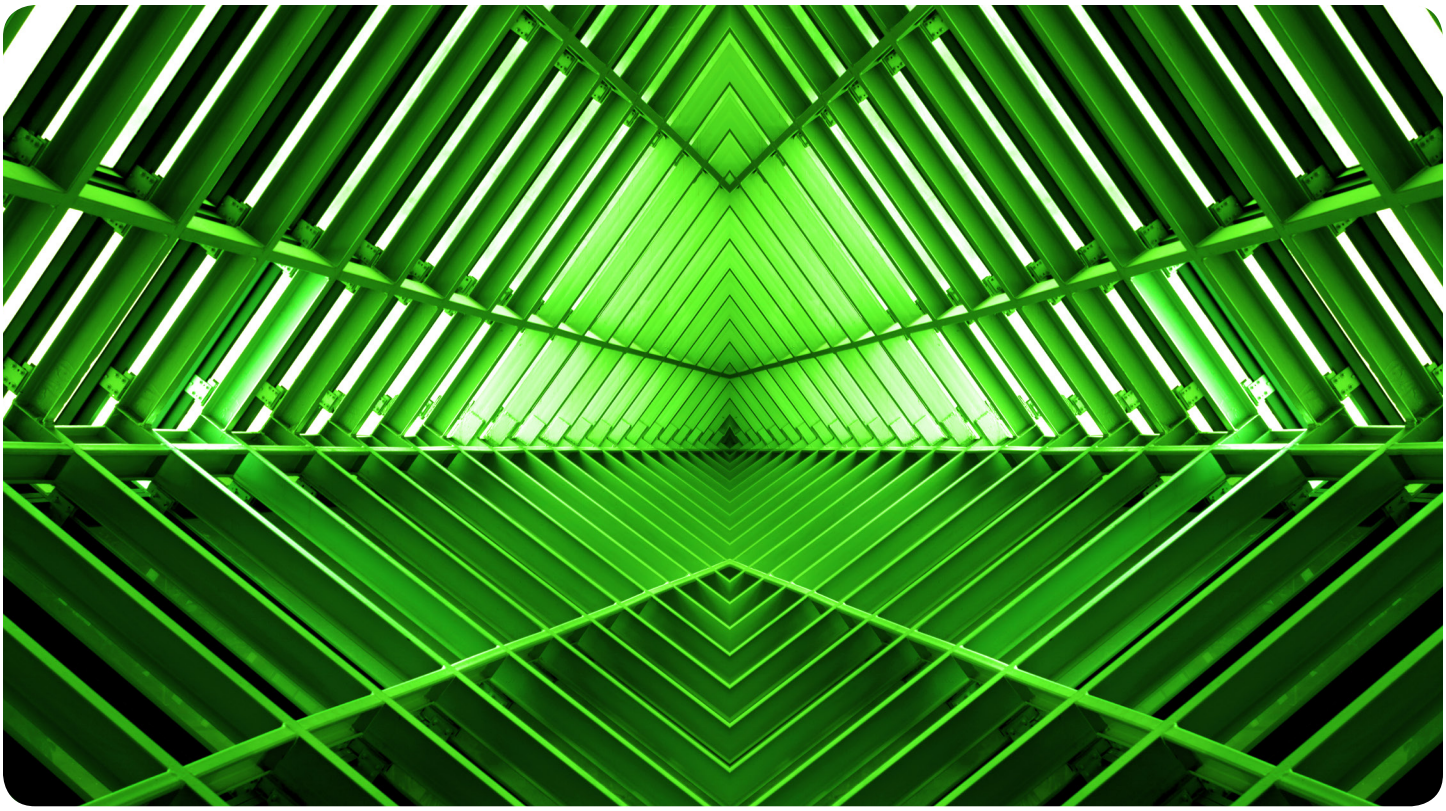
Real estate optimization



As the forces of technological disruption ripple across the modern financial services landscape, we have seen clients struggle to stay ahead of a variety of challenges, not the least of which is maintaining an efficient and functional real estate footprint. The ever-evolving procession of mergers, acquisitions, and divestitures, not to mention ongoing efforts to restructure operating models to reduce cost, has left many organizations with overly complex, inefficient, and geographically sub-optimal real estate portfolios.

Traditional financial services firms, like large commercial banks and insurance companies, are encumbered with significant ongoing expenses and capital costs with regards to owned and leased facilities required to support day-to-day operations. Headquarters or regional office properties will often span hundreds of thousands, if not millions, of square feet, contributing to an enormous cost base and high potential for suboptimal utilization. Comparably, the fin-tech firms that serve as the new competition are much more nimble and flexible.

We have seen financial services firms address the need to optimize real estate costs by deploying a number of different strategies. Below, we will discuss three major components that affect real estate strategy—real estate portfolio and space optimization, location strategy, and workplace strategy—and how financial services firms can optimize for each component.

Real estate portfolio and space optimization

A major complication to the challenges of this evolving landscape is the infrequency with which firms have the opportunity to make significant changes to the structure and composition of their real estate portfolios. Historically, many large financial services firms owned a headquarters location and large administrative office assets in key urban markets. Firms made financial and operational commitments through long-term leases in downtown office towers. These financial arrangements may have committed companies to particular premises for ten, fifteen, or twenty plus years. While incremental modifications could be made to other parts of the real estate portfolio, optimization of the largest, and often most expensive, assets might only be possible at key financial intervals.

Given this context, financial services firms should plan for and prepare in advance of these key intervals or events, so as to not miss an opportunity to modernize and optimize. An effective real estate portfolio and space optimization strategy should be carefully coordinated as a component of broader target operating model restructuring.

As an example, Deloitte was retained by a major financial services company to help determine its optimal workplace strategy and real estate footprint a full five years in advance of a significant headquarters lease expiration. This timeframe allowed for appropriate preparation, organizational alignment, pilot deployment, and change management launches in advance of the pending event. In addition, proper planning enabled this client to secure an overall portfolio operating expense cost reduction of more than 25%.

Another innovative strategy that organizations are leveraging in order to optimize their real estate portfolios is the use of various serviced office[1] concepts to meet a portion of the demand for office space. Some organizations pursue a service office strategy to reduce the number of small office locations (e.g.—perhaps any office space under 2,500 RSF) in their portfolios. Other organizations choose to leverage served office concepts, which can often serve as "incubator type spaces" that attract millennials, to house emerging business concepts that demand a more open, adaptable, and pay-as-you-go model. This approach allows organizations to reduce up-front capital expenditures and eliminate conventional mid- to long-term lease contracts. The flexibility to expand or contract your managed workplace as business needs demand can be of significant value to many corporations.

Most organizations start by pursuing more tactical opportunities, such as deployment of more efficient workspace standards over time, reducing vacant space by restacking and renovating, and disposing of pockets of poorly utilized space across the portfolio. Once these more tactical opportunities have been generally exhausted, organizations should turn to more transformative strategies and opportunities in order to substantively impact the cost profile of the real estate portfolio.

Location strategy

One of the more transformational strategies that can be leveraged involves relocating selected aspects of non-core operations from high-cost markets to lower cost geographies. As financial services firms have traditionally had a major presence in the central business districts of major financial centers, such as New York, London, and Hong Kong, the relocation of large support operations to second and third-tier markets can significantly reduce costs.

Some organizations have done this by moving support functions to the suburban areas of these major cities, but the most effective strategies involve both real estate cost and labor arbitrage by relocating to near-shore or off-shore locations that also have lower labor costs. Though there is often a legacy sentiment that these corporate support functions should be co-located with the rest of the business, the potential cost savings can be quite substantial and many lower cost labor markets have demonstrated the capacity to provide deep talent pools. In addition, an effective location strategy and site selection effort can identify and secure significant incentives (e.g.—job, training, tax, infrastructure, etc.) for the newly relocated operation.

Recently, one of our large financial services clients developed and deployed a new global business services strategy. This effort involved establishing a number of strategically placed shared services centers around the world. These service centers enabled the consolidation of many finance, human resource, and employee support processes in off-shore locations. This initiative reduced the real estate footprint in costly central business district locations and facilitated significant labor arbitrage as well. The organization anticipates that the labor savings will range from 40-60%, depending on the processes involved.

Workplace strategy

Another transformational strategy that has proven quite effective is the optimization of real estate demand based on the deployment of advanced workplace or mobility programs. While generational differences are a hallmark of the modern workforce with regards to mobility knowledge workers across the generational spectrum have already adjusted how, when, and where they work to align with increased levels of mobility. Now, companies should rethink the workplace and better enable employees with the latest technologies in order to catch-up with individual worker expectations.
Over the past 5-10 years, financial services firms have embraced the concept of advanced workplace and mobility strategies to varying degrees. Asset management and real estate firms have been slow to adopt these new workplace models, while insurers and many banks have implemented programs within portions of their organizations. Large banks made an early effort to deploy selected aspects of mobility, such as telecommuting for some employees, seat sharing or hoteling for other professionals, and even in some cases for core line of business personnel. Too often, however, these "pilots" were promoted as limited scope, opt-in accommodations, rather than enterprise-wide programs.

Today's employees have different outlooks about flexibility and mobility in the workplace, when they "need" to be in the office, and how they expect employers to embrace the need for flexibility. Workplace strategies that are not based on employee work styles (e.g., the definition of how a particular type of employee works and what type of workspace and technology enablement is required for the employee to work effectively), can create divisiveness, drive perceived levels of inequality, and foster the idea among certain employees that mobility is "not for me" within the organization.

The Deloitte Netherlands firm faced similar challenges with the recent development of the Netherlands headquarters in Amsterdam. As a multi-faceted firm with employees in diverse functional service areas, Deloitte Netherlands knew that a variety of work space types would be required to meet the needs of its workforce. The new offices at The Edge in Amsterdam's Zuidas business district include a variety of formal / informal meeting rooms, teaming spaces, individual open / closed work spaces, touchdown desks, sit / stand desks, and communal areas that each provide a home for different employee use cases. All of the workspaces at The Edge are available for reservation or use on-demand, but none of the workspaces are permanently assigned to any individual or group. This leveraged seating strategy allowed Deloitte Netherlands to reduce the office footprint by nearly 50%, while still accommodating all of the workplace needs of the growing Amsterdam team. This flexibility allows for the unique culture of Deloitte Netherlands' diverse teams to interact more effectively and efficiently within the workplace.

Organizations are also exploring opportunities to leverage evolving sensor technologies (e.g.—Internet of Things) to enhance the workplace experience by reducing operational friction and automating processes. In order to optimize the use of individual workspaces and conference rooms, occupancy sensors are used to track actual use and vacancy. If an individual does not check-in for a space reservation, the workspace or conference room can automatically be released back into open inventory for use by the broader office population. These workplace technology enhancements are helping companies more effectively optimize real estate demand down to the individual workspace.

In an increasingly competitive talent marketplace, simply offering accommodations is not a compelling solution. Reduced cost is an output, but the real benefit lies in supporting and enabling how your employees already engage with the workplace. By deploying advanced workplace and mobility strategies in a holistic and sustainable manner, financial services companies can leverage the talent recruitment and retention benefits, while making significant contributions to long-term cost reduction goals.

Ultimately, real estate portfolio optimization is an important strategic consideration for financial services firms worldwide, and it should be addressed on a regular basis as part of an integrated operating model and performance improvement strategy. With a holistic understanding of how employees work, savvy firms can provide an informed view of the demand for innovative workplace concepts across the portfolio.

Transformation does not occur overnight. When dealing with real estate, firms should also take into account the nature of the asset class and the typically extended timelines that are required to make substantive change. By planning ahead and putting the right foundational elements in place (e.g., real estate market opportunity tracking, serviced office concepts, workspace standards, mobility policies, work style delineation protocols, and workplace technologies), organizations can be ready to drive significant real estate portfolio optimization at those key financial intervals, some of which only present themselves once per decade.

1. A serviced office is an office or office building that is fully equipped and managed by a facility management company, which then rents individual offices or floors to other companies. Serviced offices, which are also referred to as managed offices, business centers, executive suites or executive centers, are often found in the business districts of large cities around the world.—From Wikipedia.

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Workforce of the future

A New York Post December 2016 cover story aptly titled "The End of Jobs"1 likely grabbed the attention of the workforce as technological advances get closer and closer to approximating human skills. The New York Times has stated that automation is a much more significant threat to employment than globalization and outsourcing overseas2. So is this it? Have we reached the technological singularity and rendered ourselves obsolete?

Well, not quite yet. Yes, it's true that we are living in a time of exponential growth and increasingly rapid technological innovation. And there are profound implications for structuring the workforce of the future. But the reality is far more nuanced—and promising—than the headlines would suggest.

Consider the parallels between today's technological landscape and the Industrial Revolution that began in the late 18th century. While many manual tasks of this earlier era were replaced with efficient machine alternatives, this did not simply eliminate jobs and leave workers idle. It also inspired creative innovation and spurred the growth of new industries. The displaced farmers and craftspeople supplied the workforce for factory assembly lines and countless textile factories. They became our coal miners, the builders of our growing cities and our railroads, and much later our call center agents. As recently as 1900, 41% of US workers were employed in agriculture. Now that figure is closer to 2% and food is in ever greater supply[3]. While our predecessors two centuries ago surely experienced angst and worry about their role in the dramatically changing world around them, the transformation they witnessed ultimately gave rise to new kinds of work that they could probably never have foreseen.

The same is true today. Yes, companies around the world, in a variety of industries, are using robots to do work that would have traditionally been done by humans. Take Amazon, which installed 30,000 Kiva Robots instead of warehouse workers, saving $22 million per warehouse[4]. Companies in Japan are already installing robots to assist with bank transactions, mobile phone sales, and hotel administration[5].

As you might expect, in general it is jobs that involve manual or repetitive tasks—including administrative, manufacturing, and construction work—which are at greatest risk for being replaced by automation. Where jobs demand predictability, routine, and the completion of tedious tasks, machines may be better suited than humans. Machines are tireless and do not collect an hourly salary.

1. Covert, James, Linda Massarella and Bruce Golding. "The End of Jobs: Amazon introduces next major job killer to face Americans." *New York Post* 05 Dec 2016.
2. Miller, Claire Cain. "The Long-Term Jobs Killer Is Not China. It's Automation." *The New York Times* 21 Dec 2016.
3. Dimitri, Carolyn, Anne Effland, and Neilson Conklin. "The 20th Century Transformation of U.S. Agriculture and Farm Policy." United States Department of Agriculture Economic Information Bulletin Number 3 (June 2005).
4. Bhattacharya, Ananya. "Amazon is just beginning to use robots in its warehouses and they're already making a huge difference." *qz.com*. Quartz, 17 June 2016
5. "Japanese bank deploying robots to deal with clients," *Taipei Times* 06 Feb 2015.6.

Returning commercial production to the United States has been a popular topic in recent political discourse. However, as author Martin Ford points out in *Rise of the Robots: Technology and the Threat of a Jobless Future*, many of these factory roles have been of automated and their return will result in no additional employment[6]. With cost effective and efficient electronic alternatives available, former factory workers are likely in no better position to keep their jobs if companies are based locally.

On the other hand, other job types complement the "rise of the machines" and their ranks are growing. Creative jobs and those that require sophisticated cognition are not going anywhere soon, and roles in UX, app design, and engineering that didn't exist 20 years ago are becoming increasingly important to drive the latest technological solutions. Business and finance, management, computing and math-related roles that can harness the power of computing but require human oversight, are seeing growth as well. While specific jobs may not return, new work will need to be done. As a 2013 Oxford study concluded, "as technology races ahead, low-skill workers will reallocate to tasks that are non-susceptible to computerization"—and will need to develop new creative and social skills to be up to the job[7].

These dramatic changes present an opportunity to rethink how we conceive of work itself. If resources are freed from basic tasks, where can we redeploy their skills and knowledge? How do we harness technology thoughtfully, rather than bemoaning the loss of jobs due to automation? When viewed through this lens, automation does not close doors, but rather opens up a world of possibilities for tomorrow's workforce.

To remain competitive, business leaders must better prepare for this ever-changing technological landscape. In 1965, Intel cofounder Gordon Moore observed that the number of transistors per square inch on integrated circuits had doubled every year since their invention. "Moore's Law" set a standard for the speed of technological development that remained steady from 1975 to 2012 and has only tapered off slightly since. Considering this exponential pace, it's almost remarkable that corporate structures have changed so relatively little overall.

For large corporations to integrate available technologies and leverage the changing workforce in order to meet the shifting challenges of the new environment, they need to innovate at the edge, identifying areas of the organization that require greater agility and disrupting them with new ways of working. It's also important to adopt a more collaborative mindset and consider realigning existing organizational structures—which are often outdated—into self-managed, networked teams.

We don't know exactly how business processes will need to be reengineered to accommodate intelligent automation, but we can assume that for now the mechanization will be largely limited to transactional steps. Meanwhile, the expertise-based work that remains to humans will likely require a lot of teamwork to accomplish. Companies that invest now in agile team structures will position employees to thrive in a world of dynamic engagement.

OK. You get it. Robots may not literally be stealing our jobs, but things are changing—a lot. If you position your organization to take advantage of the opportunities presented by the workforce of the future, when the robots come, you'll be ready.

6. Ford, Martin. *Rise of the Robots: Technology and the Threat of a Jobless Future*. Basic Books, 2015.

7. Frey, Carl Benedikt and Michael A. Osborne. "The Future of Employment: How Susceptible Are Jobs to Computerisation?" Oxford Martin Programme on the Impacts of Future Technology, 17 September 2013 (p. 45).

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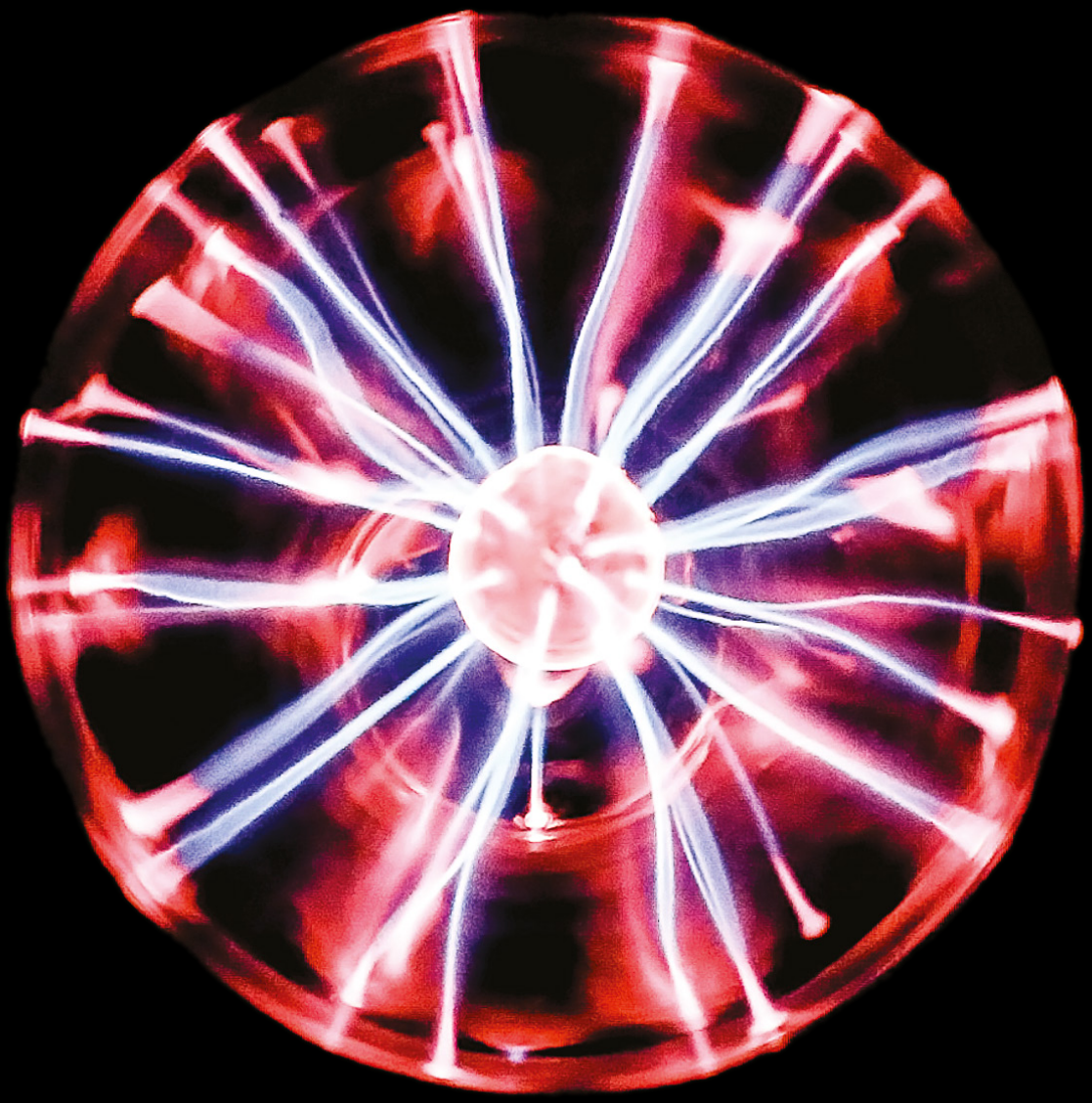
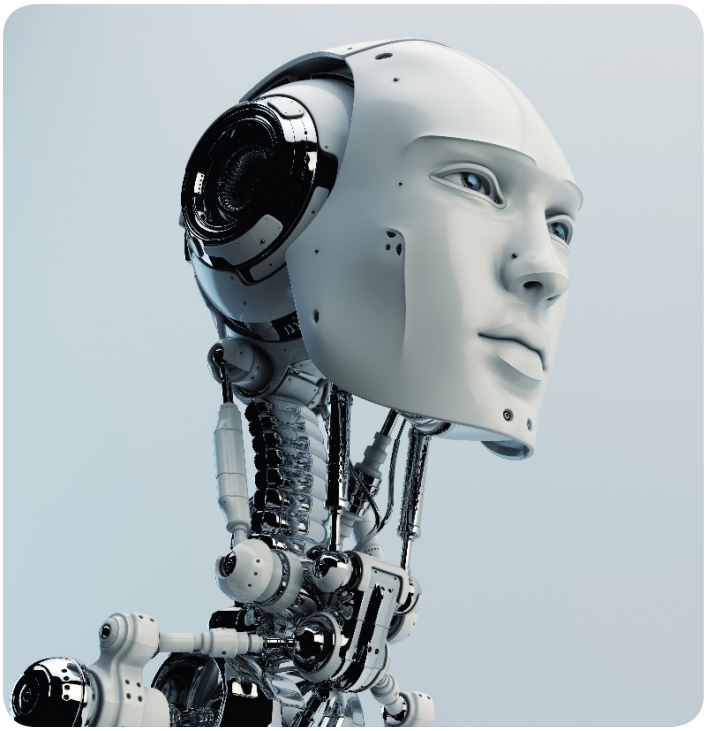


Talent engagement in a digital world

For the first time, three distinct generations of employees are overlapping in the workplace at the same time: longer lifespans and delayed retirement mean that Baby Boomers are working alongside Gen Xers and Millennials. The multi-generational workforce is a new phenomenon, but it's likely to become the new normal. In addition, the advent of the "gig economy", in which companies engage independent contractors for individual assignments (or "gigs"), expands the potential workforce exponentially. When planning for the work of the future, it's essential to factor in the needs of a diverse and changing workforce.

To start, organizations and leaders must consider the distinct goals, needs, and priorities of each generation. Baby Boomers tend to value formal structures and face-to-face interactions with colleagues, while Gen Xers count flexibility and independence as top priorities at work. For the youngest members of the workforce, Millennials, growth potential and meaning may be most important.[1] This diversity of values within a single organization poses new challenges for workforce planning.

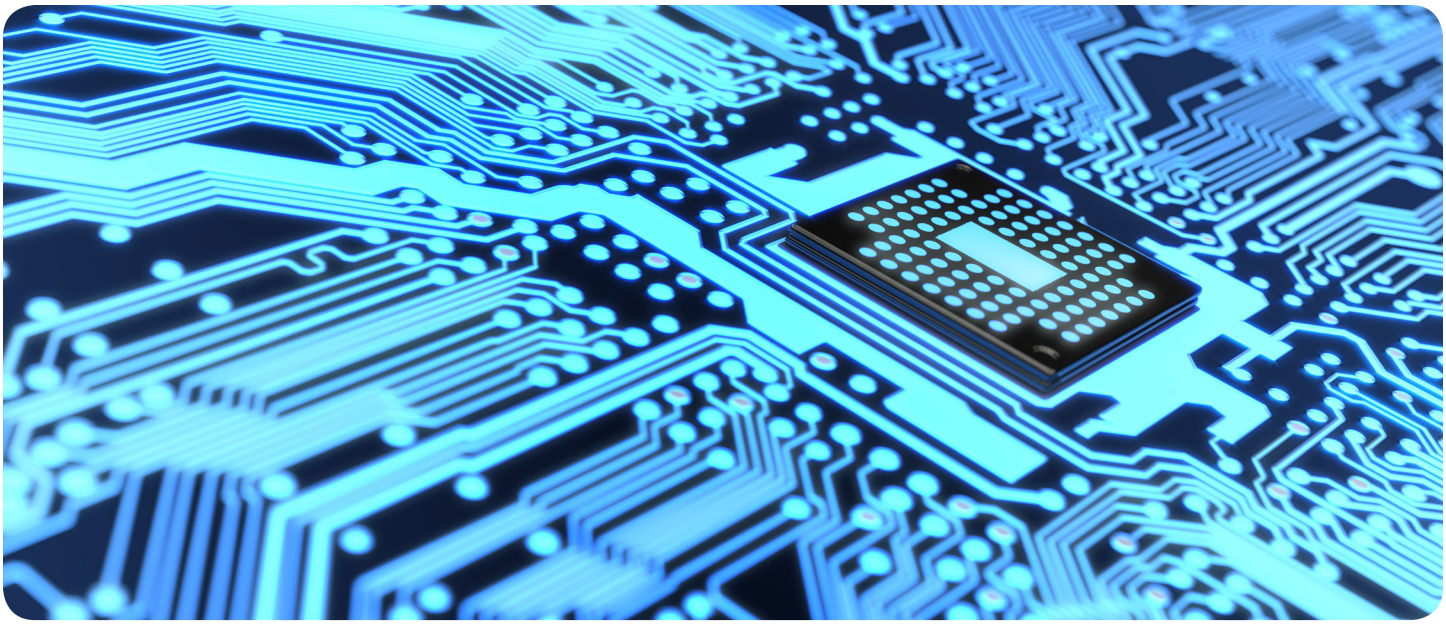
According to the 2017 Deloitte Millennial Survey, the workforce will continue to evolve as Baby Boomers retire and Millennials move up in the ranks.[2] By 2025, millennials will make up 75% of the workforce—and they think about their careers in a very different way than their Boomer and Gen X colleagues.[3] For many in this generation, the idea of building a lifelong career at one company is not a reality: over two thirds of millennials surveyed in 2017 expect to leave their current employer within the next five years.[4] Given that 28% of millennials indicate they are already in leadership positions, this represents a lot of senior talent poised to walk out the door.[5]



Millennials also want businesses to put employees first. In the 2016 Deloitte Millennial survey, respondents rated "employee satisfaction / loyalty / fair treatment" as the most important value for a business to achieve long-term success. Nearly two thirds of those surveyed say they judge business performance by the satisfaction of their colleagues.[6] Reflecting the impact of these changing priorities, many hiring managers say they struggle to find and keep qualified Millennials.

However, the changes won't stop with Millennials. Generation Z—today's teenagers, who will enter the workforce in the coming years—are coming up on their heels. These future workers are digital natives who have been raised with smart phones and social media as a part of their daily lives. Nearly half of them are connected for 10 hours a day or more.[7] They have a sense of being global and multicultural, and value social impact and curiosity over money when thinking about work. As this generation starts to reach employable age, the current pressure on traditional talent management models will only accelerate.

We must also consider the new and growing workforce outside of the traditional full-time employee. The advent of the technology-enabled gig economy and crowdsourcing models introduces compelling alternatives to a full-time, tie-wearing, cubicle-bound job. How can companies attract the next generation of top talent graduating from school and entering the workforce for short-term roles, without the incentives of traditional full-time jobs? Bottom-line metrics that may have been enough to attract top talent are no longer enough. Corporate brand identity, vision, and mission become increasingly important tools to galvanize the broader professional ecosystem. Indeed, 87% of millennials surveyed believe that "the success of a business should be measured in terms of more than just its financial performance" and businesses have the potential (or even imperative) to do good.[8]



The agile organization model, to which many companies are turning, can address some of these concerns. This flexible organizational structure extends the opportunity for more employees to work on fluid, network-based teams of their own devising to address compelling problems with innovative, "fail fast" approaches. Department-level funding models can be adjusted to support to these temporary work groups and annual talent management processes modified to track performance with a series of pulse checks and frequent feedback sessions.[9]

Additionally, as the workforce evolves, a renewed focus on organizational culture and employee engagement is one of the most powerful levers companies have to attract and retain top talent, whether inside or outside company walls. But before you start installing nap rooms and ping pong tables, it's important to realize that culture and engagement are about more than luring employees with trendy (and expensive) perks. The real power lies in defining and cultivating a distinct identity—one that can't be easily replicated outside your company—and making work meaningful and rewarding in ways that today's employees care about.

By fundamentally rethinking what they can offer workers, organizations can prepare themselves to leverage the diversity of skills and talents around the water cooler of the future and remain competitive in a rapidly changing landscape.

1. Bursch, Dan and Kip Kelly. "Managing the Multigenerational Workplace." UNC Executive Development, 2014.
2. As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.
3. Deloitte Millennial Survey 2016
4. Deloitte Millennial Survey 2017
5. Elance-oDesk. The 2015 Millennial Majority Workforce Study
6. Deloitte Millennial Survey 2016
7. Wikia. "Generation Z: A Look at the Technology and Media Habits of Today's Teens". 18 Mar 2013.
8. Deloitte Millennial Survey 2016
9. "Unlocking the Flexible Organization." Deloitte. 2016.

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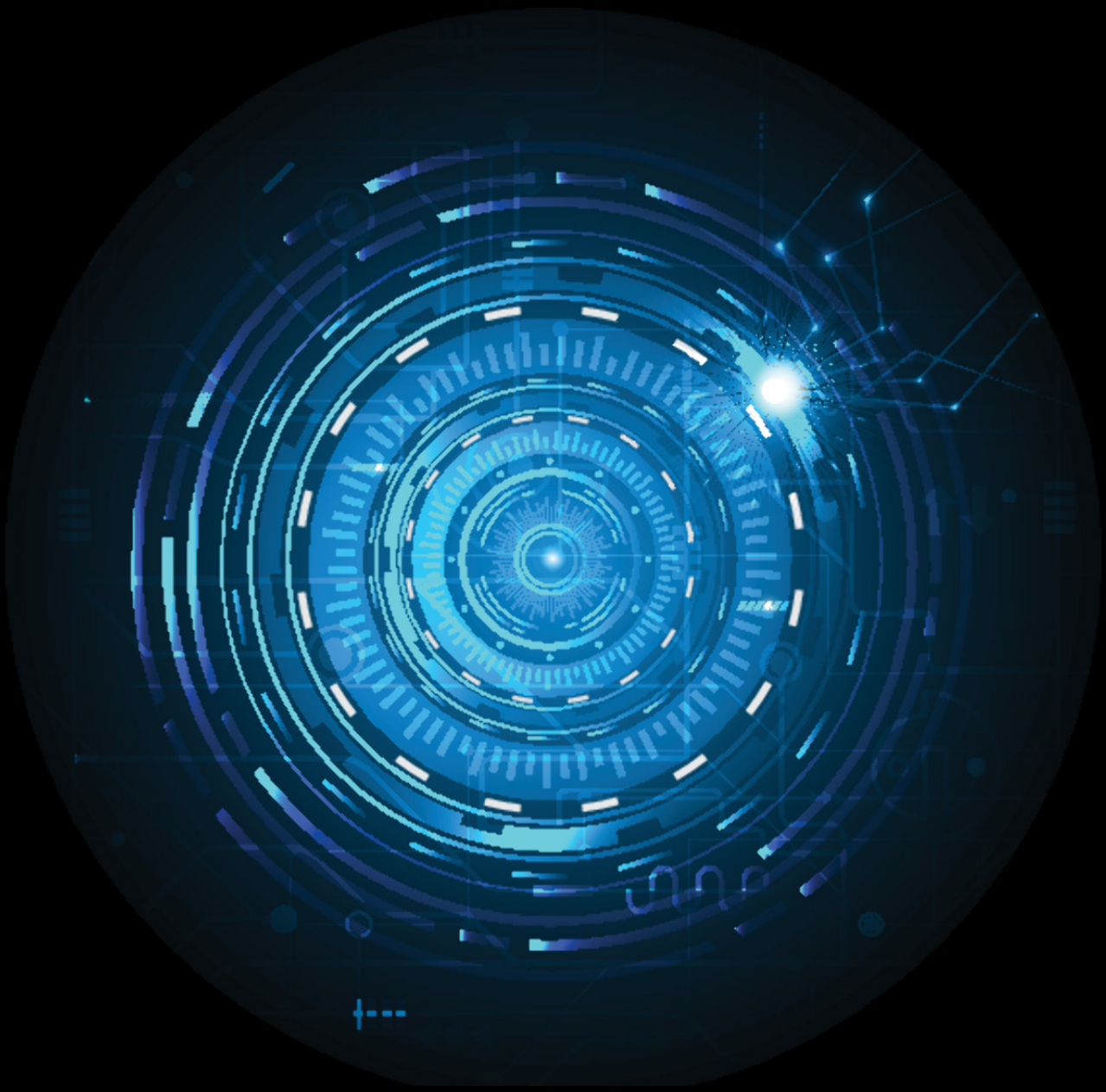

Start to win: Check your organization's health

As stakeholder expectations and customer demands increase, leaders are exposed to a greater need for action than ever before. But where to begin? The evolution shouldn't just take place at the top of the organization or in siloed execution teams. To help determine where organizations can add value, leaders should understand the full spectrum of possibilities across their entire organizations. By starting with a thorough assessment, a Health Check, of where they stand today, leaders can identify their greatest opportunities for growth and efficiency gains, and deploy resources accordingly.

Module 1: Operating model design for the digital ecosystem

Strategy can be a discouraging topic for leaders. While a clear and well-thought strategic plan can help focus future efforts, it is no secret that many organizations experience a high failure rate when implementing strategy.

Financial services firms can improve on this track record by making clear choices about their role in the collaborative marketplace ecosystem, and designing their operating models accordingly. To execute, firms should pay greater attention to the capabilities needed to successfully implement their strategy while staying flexible enough to be proactive and adaptable. In this phase of the Health Check, we assess:

1. What the organization desires to be for its customers, stakeholders and employees.
2. Where the organization has chosen to play and how this aligns with its strategic goals.
3. How the organization is positioning itself to win in the areas where it has engaged.
4. Which organizational capabilities the organization has to build or evolve to operate its day-to-day business as well as to grow, adapt, and seek competitive advantage in the marketplace.
5. The management structures that exist to support the four assessment areas above.

Activity	Description
Goals and aspirations	• What are visions and value propositions?
Where to play	• In examining your customer base and how you compete in the market, how would you describe your strategy? • Where do you play within collaborative marketplace ecosystems? • What products and services are offered through which experience channels?
How to Win	• What gives your organization the right to win in the areas where you have chosen to compete? • How can this position be further enhanced?
Digital Maturity	• In conducting the tailored digital capability assessment, we can evaluate your digital strategy, how you derive insights and ignites innovation and orchestrate change, how you create experiences and amplify your brands, how you deliver across platforms, and the state of your cyber risk readiness.

Module 2: End-to-end business process efficiency improvement

Given the challenges faced by financial institutions in a low growth environment, successful cost management has become table stakes for those who want to succeed. But it's not enough to just streamline your organization—it has become more important than ever to look at how your organization can change its operating model and realize even greater cost savings.

In assessing the health of an organization's cost management program, we assess:

1. How the company compares with its peer group through benchmarking and subject matter expert (SME) analysis.
2. Which steps the organization is taking beyond traditional streamlining to further reduce costs, from optimization of shared services to the use of robotics and big data.

Activity	Description
Evaluation of Cost Structure	• How does the organization's cost structure compare with that of its peers? • What opportunities exist to reduce costs through traditional streamlining activities like infrastructure rationalization, business process redesign, and a reduction in 3rd party spend?
Beyond Streamlining	• Have you looked toward footprint optimization through a cost lens? • Have you optimized the use of shared services, utilities, and outsourcing? • What steps have you taken to digitize assets and leverage these digital assets to drive big data and robotics cost savings? • Are you participating in new ecosystems and helping to create shared platforms which can further improve costs in the future?

Module 3: Harnessing the disruptors

In building digital capabilities, organizations can either invest in-house or turn to acquisitions and partnerships. Throughout this process, it is important to take a structured approach, looking at how adjacent technologies can build on a core offering and set the stage for taking on truly transformational initiatives. Undertaking acquisitions, especially in today's environment, adds another layer of complexity to the process. Breakage or weaknesses at any point of the lifecycle can lead to diminished ability to realize deal value.

In reviewing a company's growth plan, we focus on three areas:

1. The pathways for growth from core to transformational offerings that exist today.
2. Approaches for building out these capabilities, whether through acquisitions, partnerships, or in-house development.
3. The company's capability to realize value from its acquisitions, partnerships, and in-house development by achieving an assumed end/integrated state.

Activity	Description
Pathways for Growth	• What does your organization look like post-transformation (e.g., product offerings, distribution)? • Have you identified adjacent and transformation offerings that your organization would like to acquire in a future state? • Have you defined pathways to get your organization from its current offerings to future state offerings?
Approach for Growth	• Are there ideal acquisition targets that can help achieve portions of the pathway for growth? • What are your organization's strengths as it relates to growth? How have you historically grown?
Ability to Realize Value	• How might existing projects and initiatives be impacted by an integration of another asset? • Are there any major transformational initiatives that may impact a potential integration roadmap? • Are there critical subject matter expert constraints that could impact an integration? • How do existing skills and capabilities compare to those needed for a successful acquisition or large in-house initiative?

Module 4: Technology architecture redesign

Given the high risk of failure, many financial institutions maintain aging and inter-related legacy applications, with limited documentation on how systems are defined and interact with each other. In redesigning a financial institutions technology architecture, it can help to anchor the design in clearly defined business needs. By starting with an explicit strategy, requirements can be coherently articulated, with a new architecture and operating model designed hand in hand. In evaluating an organization's technology architecture, we consider:

1. How flexible and scalable the current architecture is to efficiently grow and adjust to changing customer needs.
2. What changes are required to this architecture given the bank's strategic approach.
3. How prepared the organization is to undergo a large and high stakes change effort.

Activity	Description
Current architecture	• What are the costs of maintaining and running legacy applications? • How challenging are current efforts to scale and modify systems? • What gaps exist in current systems from a regulatory perspective?
Changes Required	• What are the key priorities for the bank over the next five years? • What gaps exist in current systems, given priority areas (e.g., faster payments, individualized offers, etc.)?
Organizational Preparedness	• Have leaders been identified within the organization to support and guide this effort? • Does the organization have experience with large, transformational projects?

Module 5: Managing the talent transition

In order to succeed in a world fast becoming more connected, automated, and decentralized, financial institutions need to be able to adapt at a rapid pace. Successfully managing to these transitions requires firms to strategically attract, train, and retain their workforce during disruption. To assess how ready an organization is to manage to organizational transition, we consider the following dimensions:

1. How the organization positions itself to attract talented millennials and Generation Z.
2. What steps the organization has taken to prepare for a robotic future.

Activity	Description
Attracting Talent	• Does your organization cultivate a distinct identity that makes work meaningful and rewarding for employees? • Do you leverage talent models other than traditional full-time employment?
Automation Readiness	• Have you assessed which roles in your organization are ideal for automation? • For areas requiring greater agility and creativity, have you adopted a more collaborative mindset and approach?

Module 6: The new identity

Even a decade after the financial crisis, many bank brands continue to lag behind large consumer technology companies. Brand management for financial services has always been a difficult balancing act given the range of customers across retail (mass market, affluent, high net worth) and business (small business, commercial, and institutional investors) and their different needs in terms of products and service.

Disruption in financial services is making brand management increasingly difficult and important. Maintaining balance is becoming harder as mobile- and digital-first channels are becoming more important, customer expectations are becoming more distinct across generations and levels of wealth, and the market is being disrupted with niche, highly specialized providers and services. In order to build sustainable brand equity, financial institutions should focus on differentiated services and customer experience. While this may mean less control over how their customers engage with them, by leveraging detailed and close to real-time customer information, financial institutions can tailor offerings and experiences to individual customers. In assessing a financial institutions' brand, we consider the following dimensions:

1. How the brand is currently perceived and how this has changed over time.
2. How the organization manages its brand across multiple channels.

Activity	Description
Brand Identity	• Do you have a clearly articulated vision for what you want your brand to stand for? • Do client and employee experiences indicate that you are delivering on the promise of your brand? • Is your brand identity aligned with the customers that you want to serve and the organization you want to become?
Managing Multiple Channels and Disruption	• How does your brand extend into the digital channel? Do you need a line extension, brand extension, or a new brand altogether? • How is your brand positioned against new entrants—are niche entrants able to position themselves better with core customers?

Module 7: Governance and advanced market sensing

Given the rapid pace of change and the growth of financial service ecosystems, the ability to identify market trends and key players has become increasingly important. Having a structured governance for taking in new information to adjust strategy and approach can help companies succeed in the new normal. In evaluating a bank's approach to market sensing, we assess:

1. The tools and processes that exist within the bank to identify and evaluate market trends.
2. How key players are identified, evaluated, and engaged with to form broader financial service ecosystems.

Activity	Description
Market Sensing Tools	• How does your organization identify and evaluate market trends? • What governance exists within the organization around market sensing?
Identifying Key Players	• What is your organization's approach for evaluating potential partners and acquisition targets? • How does your organization engage with these potential partnersacquisition targets?

Module 8: Action roadmap

The output from the Health Check can then be used to develop an actionable roadmap for the organization. What are the areas where your organization was the weakest? What is the best approach for prioritizing any required changes within the organization?

Activity	Description
Areas for Improvement	• For which questions were you unhappy with your organization's answers? • Are there areas that are less developed which may require additional focus to improve?
Prioritization	• Of the areas for improvement identified, what is the appropriate order for addressing these issues? • What constraints does the organization have? • What are the areas with the greatest potential return for the organization?

In times of rapid change, it can be difficult to determine which step to take next. It is important to be able to assess what makes your company successful today and how to transform that into future success. It is not enough to copy what your peers are doing, as your organization's capabilities, strengths, and situation are unique. Your strategy's success depends on its proper alignment with your organization.

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