

FRONTIERS IN FINANCE

For decision makers in financial services

September 2010

Featuring:

US feature: Home of the brave

Returning confidence in US financial services

Risk management: Bang for your buck?

Assessing the costs and benefits of risk management

The new normal?

Evolving business models in banking



cutting through complexity™

Overcoming uncertainty

Finding clarity in financial services



Foreword

Since the last issue of *frontiers in finance* much has happened. The G20 have met and while there is progress, there are still more questions than answers. In the US, the Dodd-Frank bill has passed into statute, the biggest shake up in US financial regulation since Glass-Steagall. How it is ultimately operationalized still needs to be clarified and its influence on other regulators around the world is another unknown. We have seen some very healthy results from a number of large financial institutions as credit conditions improve. The issue for the industry is whether this is sustainable?

With all these questions as background, how do you steer your organization through such uncertainties? In this edition we look at a number of issues which may help you get greater insight into some of these challenges. Following the events of the last two years, we explore the evolution of business models in retail banking and investment management. The uncertainty over the best approach to standardized reporting standards is considered in 'An opportunity

or a burden?' and discusses the new prospects this can provide. Given the introduction of the Dodd-Frank Bill, we have a special feature on some key issues in US financial services, ranging from the regulatory reform bill itself, to a perspective on a greater client centric approach needed to succeed in the industry. As the world has been affected in a variety of ways by the crisis, our Series section looks at the perspective of some high growth markets: in Brazil we discuss the reasons for its positive outlook, while in India, we look at the rise of micro-insurance.

Many have argued that the financial crisis was allowed to happen by weak risk management structures, but more significantly, was driven by uncertainty. While it is impossible to see the future, through *frontiers in finance* we hope to give you insight to help you manage your path through some of the current uncertainty in financial services. What is certain is this will not go away, so having as informed a view as possible will be essential.

Alison Halsey



Alison Halsey
Editor, *frontiers in finance*
Partner, KPMG in the UK

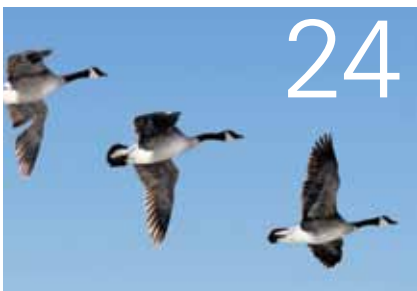
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fyi...

In an impossible world...

“The fast-changing world of regulation is leaving most financial institutions with significant uncertainty about the future. Planning now and getting the basics in place is essential.”

Giles Williams, leading KPMG’s Risk and Regulatory Center of Excellence for the Europe, Middle East and Africa (EMA) region

The broad principles of the proposed regulatory change are widely known, but the implications and implementation of these remain a moving target. To get a grasp on the future, many of our clients are already taking steps to position themselves to comply with new regulations. Some of these include:

- **A ‘renewed normal’** – Following the financial crisis, financial services are in a state of ‘new normal’, focusing on reducing spending, higher capital requirements etc; but what are the next steps you need to take to define

your business strategy and clarify your business model?

- **Customer centricity** – Ensuring you are meeting your customer’s needs is at the center of many current industry discussions. What products need to be developed? Do you have the capabilities to provide these? And how prepared is your business to comply with consumer protection legislation?
- **Getting the data right** – For every angle of regulatory change, the challenge of data management is key. This needs to be addressed early to give competitive advantage regarding business model measurement and complying with impending regulations.

On a strategic level, adapting to regulatory change may well demand change to business models, something we explore more on page 6.

However, being able to demonstrate to the regulators and other key



stakeholders that your business has the ability to address the major issues, will put your business a step ahead of the competition.

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The world’s leading bankers and investors will gather to discuss a number of key financial topics at the 2010 Institute of International Finance (IIF) Annual Membership Meeting, including the challenges of risk management, new bank capital and liquidity regulatory requirements. www.iif.com/events.

IFRS

IFRS Update Insurance Contracts

In July 2010, the IASB’s exposure draft ED/2010/8 Insurance Contracts (the ED) was published. The ED represents the first comprehensive IFRS accounting model for insurance contracts and is expected to have a significant impact on the financial reporting of insurers. The proposals may also significantly impact systems, data, tax reporting and control processes. Early assessment of accounting and actuarial resources and training requirements will be essential in order for insurers to be properly prepared for implementation.

Comments are due to the IASB by November 30, 2010.

For more information on the convergence of reporting standards, see the article on page 18.



An optimistic forecast?

Following amendments to economic forecasts, Japan looks set to deliver its strongest growth performance since 1991. The anticipated rise of real growth to 3 percent from 2.8 percent¹ for the current fiscal year is the second-fastest among G7 countries and follows the trend anticipated by the Bank of Japan.

However, despite this increase in optimism, Japan is expected to remain in deflation for 2010 and only a marginal rise in consumer prices over the next 18 months is unlikely to suffice slowing export growth. Subsequently, Japanese domestic demand looks to remain too weak to prevent a predicted decline in overall growth in 2011.

“While there are signs that recovery is slowly taking hold in Japan, a stronger Japanese Yen, increasing public debt, diminishing government fiscal stimulus and indications of global stagnation remain top of many business leaders’ minds.”

Kazuhiko Mikami, Associate Partner,
KPMG in Japan

Uncertainty over one of the largest of the world’s economies looks set to continue for some time yet.

1. ‘The Economist Intelligence Unit Country Forecast’,
www.eiu.com, August 2010.

Sources: ‘Bank of Japan raises growth forecast’, www.ft.com, July 15, 2010; ‘The Outlook for Financing Japan’s Public Debt’, IMF working paper, www.imf.org, January 2010.



Reform: revitalizing a nation?

Transformation of the Nigerian financial landscape is imminent as the Central Bank of Nigeria’s banking model continues to be implemented. To endorse stewardship and accountability, the enforcement of a maximum service length for senior management is the most recent of the reform milestones employed, with three new bank chief executives being appointed in July 2010.

The enactment of the banking reforms have been strongly supported by a number of global participators, demonstrated by the International Finance Corporation recently announcing a US\$100million investment in First Bank of Nigeria. However, whether implementation of the reforms can revitalize the economy following a stagnation of foreign exchange demand and sales, falling prices of crude oil and nationally restricted credit, will only become apparent over the coming months.

Sources: ‘IFC Invest in Guaranty Trust Bank to Demonstrate Confidence in Nigerian Banking Reforms’, www.finchannel.com, August 7, 2010; ‘CBN Reform – New CEOs Take Over at UBA, Zenith, Skye’, www.allafrica.com, August 1, 2010.



Are financial advisers hands tied?

The debate surrounding the banning of commission fees has increasingly threatened to divide global opinion. A ban on commission based on the adviser’s sale numbers are among measures set to be implemented in Australia from July 1, 2012. Similarly, as part of the Retail Distribution Review, the UK is employing a new policy where financial advisers must charge their customers directly for their services relating to pensions, annuities and unit trusts.

However, how have these commission fee restrictions worked in other jurisdictions? In August 2009, Indian regulators prevented mutual funds from charging upfront fees, resulting in a net outflow of almost US\$1.5billion, nearly 4 percent of all funds in stock mutual funds¹.

The consequences in India could increasingly have repercussions for wider global markets and diverging competitive advantage. However, it appears only time will tell if political pressure and greater international cohesion will result in these reforms being standardized globally, and across the different financial sectors.

1. ‘No Upfront Fees Mean No Sales for Indian Funds’,
www.online.wsj.com, February 25, 2010.

Sources: ‘FSA confirms GPP commission ban in final rules’,
www.moneymarketing.co.uk, June 25, 2010; ‘Financial advisers’
commission to be banned from 2012’, www.bbc.new.co.uk,
March 26, 2010; ‘RDR: FSA to ban commission for all GPP sales’,
www.ifaonline.co.uk, December 16, 2009.



Jeremy Anderson

When I first encountered the phrase “known unknowns and unknown unknowns”

I was skeptical of its wisdom. Like many others, I have had to revise my views in the last few years.

Leaders of financial services businesses are inundated with pressing and critical issues – from intrusive and changing regulation to raising capital and liquidity. Chief executives tell me they have never spent so much time in dialogue with policy makers and regulators to try and ensure that proposed changes are practical and workable. But, pressing as these issues are, the leadership teams who emerge best from the current confused environment will be those who can deal with these immediate and important issues and assimilate and manage future uncertainty – the “unknown unknowns”.

What-if scenarios have never had more variables:

- There are ‘defensive uncertainties’ – the outlook for the economy, how changes to capital and liquidity requirements will impact the organization, whether new consumer protection rules are a burden or a threat, will new entrants try to move the business model, how will other regulatory constraints impact our business and our structure, how do we manage the balance sheet when securitization markets remain tight?
- There are ‘internal uncertainties’ – how do we adjust our portfolio of businesses to the new normal, what is our risk appetite in different circumstances, do we need to change and simplify our business structure, how do we change our culture to re-balance risk, reward and customer service?

Managing uncertainty

Addressing the unknowns in financial services

- There are 'offensive uncertainties' – where will growth come from, should we enter new markets, what combination of products and geographies will optimize our future returns, what is the timing for any bold moves, can we be a game-changer in the industry?

In these circumstances one-dimensional tactical plans may be needed to execute against the immediate priorities, but the real challenge is to build a richer picture of the landscapes that could emerge as the fog of the current confusion clears – and work out how to respond.


Arguably the most effective CEOs have always focused on this, and to a large extent this has distinguished the 'great' from the 'good'. But in today's circumstances a more robust and structured framework is required:

- Intuition and experience alone may not be enough to work through the scenarios objectively
- External stakeholders increasingly see this as the responsibility of the whole board
- The firms that weathered the last crisis best were those that listened to – and acted on – insights from all the tentacles of their organization, internally and externally
- There is a need to create institutional capability to manage and harness uncertainty – it is too big an issue to leave to the usual trusted few.

Of course this is easier to write than to execute. But somehow executive teams and boards have to create the time and space to work the uncertainties in a systematic way – what must be assessed and evaluated, what combination of scenarios should we spend time on, what levers do we have to respond, when do we wait and see and when do we act, how can we turn threats into opportunities? It seems inevitable that the boardroom agenda will need to spend less time on 'what is happening' and more on 'what might happen...'

In less complex industries we have seen simulation tools used very effectively in the boardroom to help separate the critical focus areas from the rest of the environmental noise (and the advantage of the boardroom is that

it can bring more diversity of experience than the executive team alone). Such tools have been used for many years to train MBA students in the art of asset and liability management. Recently KPMG member firms have used such approaches very effectively with a major bank to help them evaluate the strategic options for reconfiguring a part of their business and work out how to maximize the value to themselves and the value to others if they disposed of some parts of it.



The real challenge is to build a richer picture of the landscapes that could emerge as the fog of the current confusion clears

But in general the nature of our industry, and the size and complexity of many organizations, means that such simulation tools are an unrealistic solution in the boardroom – they would be overly complex or worthlessly superficial.

The industry is yet to see best practice approaches emerge, so in the meantime perhaps we can learn from the challenges other industries face:

- The oil industry has to make major long-term investments in the face of a highly variable oil price, political volatility in areas where they operate, hostile physical environments, changing attitudes to the environment and sustainability, the uncertainty of exploring new fields. How do they create their scenarios and manage their uncertainties?
- Public health authorities need to decide how to articulate and simulate situations they may have to respond to – a major outbreak of a disease or a large scale disaster. Too much time spent on looking at theoretical and unrealistic scenarios is a waste of precious resource and senior management time. Too narrow an approach may threaten human life on a significant scale. How do they draw the appropriate boundaries for their planning so that they are realistically broad but sufficiently focused?

- Military war games have always sought to train people how to develop a feel for the battlefield and how to respond to changing and unexpected circumstances. Do we need to form teams from among our 'future leader' populations to enact possible scenarios against each other; one team creating the changing external environment and one team forming the response?
- KPMG member firms have used approaches from other industries, often applying the 'private equity lens' to help banks take a different perspective when evaluating their strategic opportunities and threats.

There is much to learn from how other industries and organizations have dealt with highly variable and complex situations. In the end there is unlikely to be a single silver bullet and the most sophisticated organizations will probably use a portfolio of different approaches to examine possible future scenarios from a range of angles and perspectives.

But what is clear is that the phrase 'what if...' will be heard in the boardroom much more frequently, and that those who best succeed in cutting through the complexity and managing the uncertainty will have a head start in being the winners of the future.

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The new normal?

Evolving business models in banking



David Sayer

In a fast-moving and continually evolving world, what does the 'new normal' for retail banking look like? Between May and July 2010, KPMG member firms interviewed senior representatives of major banks, industry regulators and financial technology companies around the world to understand how banks' business and operating models are evolving. From the recently published report¹, **David Sayer** discusses the valuable insight into the state of the retail banking market today, how strategic priorities are changing and what the landscape will look like several years down the road.

The financial crisis and its aftermath have administered a profound shock to the banking industry. Old certainties have been destroyed and old assumptions shown to have been fatally flawed. Many banks have not survived, or have survived only through government intervention of one kind or another. It has taken – and is taking – banks some time to work out how to respond to the new environment. For many in Europe and the US, survival was the only immediate priority. Now, the task is to review corporate strategy, business models and operating models, to optimize them in the light of new constraints.

A couple of key contrasts emerged from our survey. One is that banks in the developed world have been hit hardest by the crisis and are having to undertake more fundamental reconsiderations of their business models for the future. Banks in Latin America, Africa and Asia, on the other hand, are refining existing strategies to reflect the new external situation. The second contrast is that, as might be expected, those banks which have survived only through the injection of government support or outright nationalization have very different

priorities from those which have remained independent. The challenge to their business models has by definition been greater. But they are also having to respond to onerous and sometimes inconsistent government pressures. All parties hope to see an orderly return of these institutions to the private sector. But the process of achieving this is exposing severe contradictions in banks' objectives and behaviors.

Traumatic though the crisis was, it did not occur in a vacuum. Banks are constantly reviewing and revising their strategy in the light of new market conditions, new competition, changing customer expectations and the evolution of technology. When the crisis hit, they were at different stages in this process, and often pursuing different strategic directions. Some had recently completed major acquisitions. Others were pursuing aggressive cost reduction and rationalization. Any understanding of how banks are responding to the crisis has to take into account where they have come from as well as the direction they are now pursuing. While external factors such as the wave of new regulation approaching, or continued tightness in the capital markets, impact on all

players, their responses reflect their individual situations.

Regulation – of course – is a dominant theme. So too is the impact of a continuing dramatic shortage of capital and liquidity. In the developed economies of Europe and the US, particularly, there is a real sense of uncertainty and apprehension over what the future will bring. Retail banks are having to develop new business models which respond to this environment. For many, this involves slimming down the balance sheet, deleveraging and withdrawal from non-core operations. This is leading to a renewed concentration on improving capital and liquidity, a determined focus on the customer to restore trust and confidence and the development of improved operational models which

Banks are constantly reviewing and revising their strategy in the light of new market conditions, new competition, changing customer expectations and the evolution of technology

can both enhance marginal profitability and underpin new growth initiatives.

However, as a result of this focus on increasing capital, the cost of doing business is increasing. This is having an effect on a number of aspects in an operation. One of particular note is the need to optimize return on constrained capital.

Within Europe and the US, banks are responding by shifting their focus from growth and revenue to prudent balance sheet management. The presence of tighter regulation means they are reviewing business models to concentrate on core business activities that can remain profitable in the new environment, and on streamlining operating models and infrastructure to squeeze out greater efficiencies. They are facing a more constrained and circumscribed future.

Banks have responded to the crisis with sensible moves to consolidate their business. The need to hold more capital will mean that profitability in terms of return on capital will decline even as profit stabilizes. Those banks in public ownership have a greater incentive to shrink their balance sheets and dispose of non-core businesses voluntarily: this is likely to be the best way of avoiding compulsory dismemberment. Although

there was some divergence in the views of our survey respondents, it is likely that the process of writing off toxic assets has some way yet to run.

Away from the heart of the crisis, in Latin America, Africa and to some extent Asia, banks have a very different outlook². Global external factors mean their prospects are to some extent also constrained. But assuming economic growth in these regions continues, the prospects are good for business models that target operating efficiencies, organic growth, new products and markets and some judicious acquisitions.

Uncertainties remain, however, principally over the strength of global economic recovery and banking industry's role in the new financial environment. Across the major economies, banks are continuing to deleverage at a historically unprecedented rate. Despite government incentives and exhortations, this process will continue to drain credit from the global economy and act as a brake on growth.

A further uncertainty is when and how far the wholesale funding markets will loosen. Interbank lending remains anemic. Concerns over sovereign debt hang over the market. The two most important economic areas, the

US and the Eurozone, continue to produce inconsistent indicators and have yet to show decisive evidence of sustainable growth.

Banks in the West assume the future will be more constrained in terms of returns on capital and the liquidity margins will be weaker. In such an atmosphere of constraint and uncertainty business models are continually evolving. But banks are focusing on managing capital constraints, the demands of new regulation, the long haul back to stability, normality, and the prospect of a brighter future. Those banks located in Latin America and Asia see the world from a very different and brighter vantage point.

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1. *Evolving business models in banking*, KPMG International, September 2010.

2. See article 'Better than expected: Why emerging economies are doing so well' on page 42.



Anthony Cowell



Mikael Johnson

A new era

Transforming the alternative investment industry

Many leading institutional investors are increasingly turning to the alternative investment sector¹ to try to achieve better returns. **Anthony Cowell** and **Mikael Johnson** discuss the implications for fund managers and administrators and how these are reflected in the findings of recent research².

As many institutional investors, seemingly disillusioned with traditional equity markets, turn to the alternative investment industry in search of better performance and risk diversification, their demands for institutional grade controls, increased transparency, more liquidity and flexible product strategies are helping to drive fundamental changes.

One of the main underlying transformations is in the approach to the manager-investor relationship. In the past, managers focused mainly on performance, giving relatively low priority to communicating with investors or developing close client relationships. Now, many managers recognize the new breed of investor expects a closer relationship – in our recent research 70 percent of managers say that, after performance, client service is their top priority. These managers are keen to adopt what we have called ‘Attentive Anticipation’: building an organizational culture that anticipates clients’ needs and expectations and ignites innovation.

For their part institutional investors are demanding closer alignment between their interests and those of the managers. This means managers putting more of their own seed capital

into their funds, listening to clients rather than just pushing products on to them, and offering more transparency and liquidity, for example through different fund structures such as managed accounts and, in Europe, UCITS wrappers.

Alignment is also being sought through fee structures. Institutional investors do not regard the old '2 and 20' formula, by which the manager charged an annual fee equivalent to 2 percent of the fund's net asset value and 20 percent of the profit, as sustainable. Instead, institutional investors are seeking individually negotiated 'local' agreements – and managers are accepting their arguments.

The rise of the 'entrepreneurial-institutional' manager

Having started as a fragmented collection of niche boutiques, the alternative investments industry later developed multi-billion dollar 'super-boutiques' as investing institutions in their own right. Now, the industry is evolving further as managers respond to regulatory reform and upgrade their infrastructure, governance and controls to build business operations that are acceptable to institutional investors. In particular, they are seeking to improve their investment and operating capabilities to accommodate significant scale so they can attract capital from institutional investors and generate investment ideas to drive alpha.

As a result, a new breed of investment manager is emerging – the 'entrepreneurial-institutional' manager. 'Entrepreneurial-institutional' managers can be characterized by three key features. First, these managers offer clients multiple products, including alternative investment products and mainstream funds, as well as complementary services like financing, private placements, proprietary trading, restructuring and structured products. Second, their mission is focused on performance and the needs of their investors, rather than the further acquisition of investment capital. Third, their controls are institutional-grade, yet they maintain creative environments that enable the birth and growth of new ideas and 'superstar' individual managers. Because the 'entrepreneurial-institutional' managers offer product

diversity and focus on performance and investor needs as well as institutional grade controls, they are likely to attract a large proportion of institutional capital.

Administrators: meeting the infrastructure challenge

Administrators are increasingly playing a central role in the alternative investment industry by acting as the glue that holds investors and managers together. Administrators provide not only the day to day information and transaction processing managers need, they can also provide the additional services, such as financial reporting, net asset valuation and risk management support that enable the institutional investor to satisfy their due diligence requirements.

With the increasing involvement of institutional investors the information needs of investors, managers and regulators are set to grow exponentially; but, based on our research, many administrators say they are currently operating at or near full capacity. In

The information needs of investors, managers and regulators are set to grow exponentially

addition, a lack of investment in technology and other infrastructure in recent years – together with downsizing of personnel – means that the operations of many administrators are not readily scalable because their information systems and processes are dependent upon manual intervention or outdated systems.

Many administrators may find it difficult to accommodate the growth that is expected in demand for their services unless they invest in robust and flexible technology platforms that are capable of high-volume transaction processing and customized 'real-time' reporting. Many administrators may also have to re-hire, looking particularly for skills in front and middle-office services, as well as risk management, to accommodate the diversification of service demands placed on them by investment managers.

Given the need for significant capital investment in new technology platforms, increasing consolidation through mergers and acquisitions should be expected, as the larger administration businesses seek economies of scale to match their growth aspirations.

Increasing regulation is unwanted, but inevitable

These fundamental changes are happening against a backdrop of proposed government regulation of the alternative investments industry. The paradox is that according to our research the majority of investors do not want more regulation. Despite regulation being widely promoted by governments as a way to protect investors, many investors themselves oppose new regulation because they fear it will add costs, inhibit creativity and hinder competitive development globally. Institutional investors, who already have strong control frameworks, want transparency and liquidity so they can optimize the return on their investments. They are not convinced the proposed new regulations will add to investor protection.

Nevertheless, new regulation is coming and it will be part of a sea change in the alternative investment industry, as the rise of the institutional investor drives the transition from a product-centric to a client-centric culture. Many managers predict a buoyant future for the industry: but it comes with new challenges – enhanced governance, more transparency, more liquidity and, ultimately, more costs.

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1. Alternative investments cover a huge range of assets from commodities to wine. They are defined as alternatives to conventional investments, such as listed securities, cash and bank deposits.
2. *Transformation: The future of alternative investments*, KPMG International, July 2010.



'Bang for your buck'?

Assessing the costs and benefits of risk management

In recent years, the issue of risk management has risen high up the agenda of senior executives in financial services. The financial crisis has focused attention on what are taken to have been gross failures of risk and control systems in financial institutions, and is accelerating the move to risk-based regulation. But surprisingly little is actually known about the real costs and benefits of risk management, as **Rachael Phelan** and **Geoff Rush** explore.



Rachael Phelan



Geoff Rush

There is hardly a bank or insurance company which doesn't acknowledge the critical importance of effective risk management. Over the last few years, the risk function has attained a high profile, with well-staffed and highly-skilled risk management departments emerging, the appointment of chief risk officers reporting to executive team level, and consistent risk and control regimes being implemented across organizations. Yet some chief executives are asking awkward questions: How do the costs of our risk function compare with those of our competitors? Does it represent value for money? How can we quantify the financial benefits which flow from effective risk management, in terms of decreased impairment charges or fewer problem loans? Put simply: does investment in risk management pay off?

To provide some insight into this issue, KPMG in Australia is currently undertaking a study to determine the answers to these questions. Using a combination of questionnaires and in-depth interviews, we have begun a multi-stage study which attempts to shed light on what is a particularly tricky topic. As yet, our conclusions are only preliminary. But they are surprising and somewhat counter-intuitive.

First, some methodological challenges. It is difficult to quantify accurately each side of the equation: What does risk management cost? What are the benefits? To take costs first: Many organizations have a central risk management function whose fully-loaded cost can be estimated reasonably easily. However, these same organizations may also have risk management functions embedded within business units or subsidiaries; not to mention a much wider group

of managers who typically exercise some risk control functions as part of their day-to-day business activity. Apart from the challenges this poses to creating an overall model, it leads to our first important conclusion: *Many financial institutions actually don't know how much risk management is costing them.*

From our study so far, we can point to risk salary costs which range from less than 2.5 percent of the total payroll to 9.9 percent with an average of 5.0 percent (see **Figure 1**). In terms of resource allocation, credit risk (on average) accounts for 43 percent of total Risk FTEs (full-time equivalents).

Many financial institutions actually don't know how much risk management is costing them

A significant portion of Risk FTEs (26 percent) were not easily classified into traditional risk categories of Credit Risk, Operational Risk, Market Risk and Compliance (see **Figure 2**). Clearly, the numbers are significant. By discarding obvious outliers, and probing further

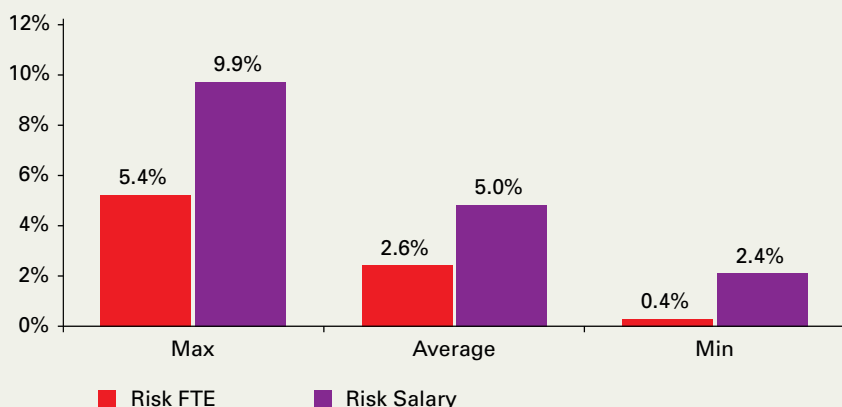
how different institutions have estimated their expenditures, we are beginning to get a view of the total costs of risk management.

The benefit side of the equation is if anything more slippery. Since the role of risk management is to prevent adverse impacts, we are in effect attempting to quantify the absence of something. For practical purposes, we made the assumption that the more effective the risk management function was, the lower would be the level of impairments and charges, reflecting problem loans and defaults, as a proportion of revenues. A further complication is that the relationship between risk management costs and the benefits arising might exhibit a time-lag. Once again, by eliminating outliers and probing in greater depth we have begun to quantify the apparent benefits.

Our initial hypothesis was that there should be a positive correlation between expenditure on risk management and the benefits it brings: for example, a higher investment in risk would result in lower impairment charges (i.e. the more you invest the less you lose). To test this hypothesis, we looked at the 'cost/benefit' relationship in two different ways. First we analyzed the relationship between loans per credit risk FTE and impairments per credit risk FTE. The idea being that by investing more significantly in credit risk management (i.e. by having a greater number of credit risk FTEs to manage a given loan portfolio size), financial institutions derive benefit in the form of lower impairments. As **Figure 3** illustrates, there does appear to be a positive correlation between higher credit FTE and lower impairment charges. However, this relationship was not particularly strong and the quality of both frontline and credit risk managers will obviously influence the quality of the portfolio far more than the number of credit FTE will. In following studies we hope to increase the sample size to test this relationship further.

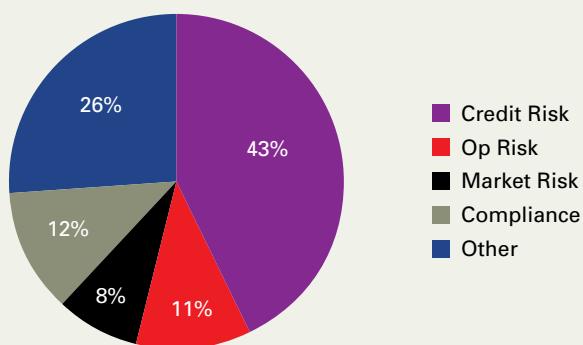
The second way we sought to test the relationship between investment in risk management and the benefits

Figure 1 Risk FTE/Total FTE and Risk Salaries/Total Salaries



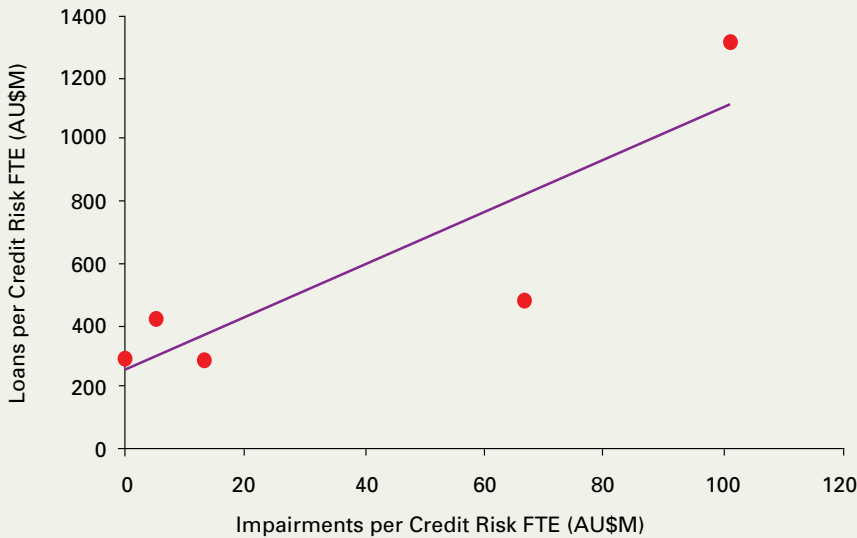
Source: KPMG in Australia, July 2010

Figure 2 Average Allocation of Risk FTEs by Risk Discipline



Source: KPMG in Australia, July 2010

Figure 3 Loans vs Impairments per Credit Risk FTE



Source: KPMG in Australia, July 2010

5%
 Risk salary costs range from less than 2.5 percent of the total payroll to 9.9 percent with an average of 5.0 percent

43%
 Credit risk (on average) accounts for 43 percent of total Risk FTEs

40%
 Fewer than 40 percent of risk processes are automated

it produces was to look at the quality of risk infrastructure (i.e. systems, processes, policies and procedures) and assess the value it creates. Specifically, we analyzed whether financial institutions with superior risk infrastructure were able to effectively manage risk with fewer FTEs than their peers. Focusing on credit and market risk management, what we found is that institutions that believe they have developed robust risk infrastructure also have fewer risk FTEs as a percent of total FTEs, and therefore appear to achieve benefits in the form of lower labor costs. It is worth noting however, that the relationship between robust risk infrastructure and lower risk labor costs is not as strong as we predicted. In particular we expected the slope of the graph to be quite steep (e.g. on a minus 45 degree angle). However, it was nearly flat with all banks included and only at a minus 23 degree angle when the data was restricted to that of major banks. In other words, institutions are not getting as much 'bang for their buck' when it comes to investing in risk infrastructure as we anticipated. While

the majority of institutions rated their risk infrastructure (e.g. limit monitoring systems, risk models, etc) as 'above



The relationship between robust risk infrastructure and lower risk labor costs is not as strong as predicted...

average', our research also indicates that fewer than 40 percent of risk processes are automated. This suggests that although the risk infrastructure in place may be considered adequate, it is not as efficient as it could be, and may warrant additional investment.

So far, this exercise raises more questions than answers. But the preliminary results are certainly surprising and, if they reflect an underlying truth, a little disturbing. In the next phase of the work we shall be extending the analysis to more institutions and repeating the analysis annually.

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At the core

Addressing greater international tax transparency

The new bank taxes many national governments are proposing in the wake of the financial crisis are receiving a high profile. But we hear less about the positive role of the banks in implementing withholding taxes and providing the information national tax authorities need to maximize revenue collection.

Ellen Rotenberg, Christopher Abbiss and **Victor Mendoza** examine the increasing pressures on banks as many governments agree new transparency rules.



Ellen Rotenberg



Christopher Abbiss



Victor Mendoza

For governments seeking to restore the state of their public finances, it is just as important to maximize the effective collection of existing taxes as it is to establish new ones. However, with globalization – the rise of the internet and the removal of exchange controls – the opportunities for cross-border tax evasion have grown considerably in the past decade.

As a result, the need for greater international transparency and exchange of information has been rising up the political agenda to become a top priority. Tax transparency featured prominently in the G20 summits in Washington, London, Pittsburgh and, most recently, Toronto, where the final communiqué stated:

“We are addressing non-cooperative jurisdictions based on comprehensive, consistent and transparent assessment with respect to tax havens...”

In addition to the exchanges of information inherent in bilateral double taxation agreements, the OECD developed a set of standards on transparency and the exchange of information that were endorsed by the G20 at their Berlin meeting in 2004. These standards have been implemented through hundreds of bilateral Tax Information Exchange Agreements signed between different jurisdictions, including jurisdictions originally identified by the OECD as non-compliant. Most of these agreements have been signed since 2008 and even previously uncooperative tax havens such as Andorra, Liechtenstein and Monaco have endorsed the standard and made substantial progress with its implementation. Meanwhile, in the East, Hong Kong, Singapore and the Philippines have enacted legislation

to allow international exchanges of information under bilateral double tax agreements.

In order to monitor progress and ensure full implementation of these agreements the Global Forum on Transparency and Exchange of Information for Tax Purposes was restructured and strengthened in the latter part of 2009. It is in the process of peer reviewing all of its 91 members, which include all the G20 and OECD countries. In addition, transparency is also being driven by the OECD's Financial Action Task Force, which is encouraging implementation of policies, at both national and international levels, to combat money laundering and terrorist financing.

Whereas the OECD standards are based on the exchange of information between governments upon request, some legislation requires such exchanges to be automatic. For example, the newly-enacted US Foreign Account Tax Compliance Act (FATCA) expands the existing Qualified Intermediary regime to require foreign financial and non-financial entities to automatically provide information about US people with foreign financial accounts to the US tax authorities.

Similarly, under the European Union Savings Tax Directive, which came into effect in mid-2005, most countries have agreed to report automatically interest on savings paid to the citizens of other member states to those states' tax authorities. The Savings Directive is currently being reviewed with the aim of both widening the scope of the investments to which it applies and looking beyond intermediary structures to identify ultimate 'beneficial owners'.

In parallel with these measures to ensure international transparency, the OECD's Committee on Fiscal Affairs (CFA) has been pushing for more open access to bank information for tax purposes. As long ago as 2000 it published a report that set out a model standard:

“All member countries should permit access to bank information, directly or indirectly, for all tax purposes so that tax authorities can fully discharge their revenue raising responsibilities and engage in effective exchange of treaty information with their treaty partners.”

The CFA has subsequently been closely monitoring the implementation of this standard, which, with announcements by Austria, Belgium, Luxembourg and Switzerland in 2009, is now endorsed by all OECD countries.

Importance of a strategic approach

The urgent drive for international tax transparency and access to bank information is inevitably placing considerable pressure on financial institutions. The demand that banks act as withholding agents and provide tax-related information about their customers potentially affects all aspects of their business model – from their terms and conditions and the documentation required in opening an account, through to customer relationship management, financial advice, product offerings, staff training, data storage and tax reporting.

At the same time, the civil, criminal and reputational risks they face have significantly increased.

In some countries, such as Spain, Australia and New Zealand, banks are already an integral part of the tax system. They automatically provide financial information to the tax authorities, who then prepare tax returns that they send to the taxpayer or match the information provided with that returned by the taxpayer. But this is exceptional. Many banks may have to implement major change programmes involving not only new guidelines and control frameworks for front and middle-office staff, but also risk assessments of products, services and existing customers. Ultimately, investment in systems and processes that ensure faultless compliance with the new information requirements may be needed.

These investments are far from trivial; for some banks, the cost of FATCA compliance has been estimated to run into tens of millions of dollars¹. Clearly, these costs need to be minimized, for example by restructuring operations so that reporting requirements are limited to just two legal entities, one banking and the other non-banking.

Adopting a strategic approach

Globally, the situation is complex. Pressure for tax transparency is – for the moment at least – considerably less in the Middle East, Asia and South America than it is in Europe and the US. So in order to set effective strategies and protect their customers and themselves, it is vital that banks move quickly to understand where the pressure points really lie and how they might turn their investment in compliance to competitive advantage.

Such an exercise should begin with an analysis of both their customers' tax positions and the different regulations that apply in the relevant jurisdictions, and move on to embrace a full study of the effect tax transparency will have on policies, processes, controls and systems at each step in the value chain. Only then can banks formulate a strategic approach to compliance that helps to ensure a clear allocation of responsibility between customers and themselves, reduces risks and costs, and offers customers a compelling value proposition.



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1. Comments on Foreign Account Tax Compliance Act (FATCA), Provisions incorporated in the Hiring Incentives to Restore Employment Act, Press release, ACA American Citizens Abroad, June 14, 2010.

In the world of retail financial services, many banks have established a strategic advantage through their extensive distribution channels and frequent transactional contact they have with many of their customers. However, are they taking full advantage of this? In light of the significant regulatory changes, are banks in danger of losing sight of the fundamental drivers for success? **Martin Blake** and **Dave Gooding** review.

Extending



Martin Blake



Dave Gooding

and clarify the fiduciary responsibility of the adviser. Up-front commissions have already been virtually eliminated in some markets, such as India and Australia. Whereas in others, like the UK, they are firmly promoted by the regulators. Indeed, in some jurisdictions, all forms of commission, including initial and trail, are being reviewed by regulators. In addition, many regulators are keen to improve the standard and consistency of advice delivered to consumers. In some countries, the full extent of the changes is still being worked through and their full impact remains unclear. However it is apparent that many advisory business models will have to change, some significantly.

Banks need to find ways to revitalize and leverage their cross-selling capabilities

Which brings us to the banks. With most of their processing and administration activity moved out to shared service centers, the branch network has largely become a vehicle for sales and frontline customer service. When you add the telephone banking and internet access footprint into the mix, then banks have an enormous strategic advantage.

However, a combination of uncompetitive products, inadequately skilled staff, poor quality or inaccessible

customer data, inaccurate targeting and misaligned incentives and rewards, has hindered many efforts to increase the share of customers' wallets. In spite of the rise of internet banking, many banks have recognized the importance of the physical footprint and are openly committed to retaining their branches. To maximize their return on this substantial investment in real estate and people, they need to find ways to revitalize and leverage their cross-selling capabilities.

Managing the customer life cycle

Younger account holders may want basic protection for student loans or credit cards, while those in their mid-twenties onwards could benefit from mortgage protection. Once children come along, life insurance becomes a consideration, and as individuals accumulate more wealth, they'll probably be interested in pensions and other equity-linked investments. Later in life, customers may want to release cash, and could also be receptive to such services as inheritance tax planning and will writing. Banks have known this for many years and have used this understanding to develop a broad range of propositions for their customers. However, their success at cross-selling these propositions to customers has at best been patchy.

Finding and keeping the right customers

Customers buying multiple products from one provider are often among the most loyal and profitable. While many institutions place great emphasis on

The last few years have not been easy for retail banks. While the Australian market has fared better than many of its European counterparts, there has still been a degree of challenge posed by the increased cost of funding and rising rates of bad debt. With much of the manufacture and distribution of wealth management and insurance products ultimately coming from banks, greater competition and the impact of the global financial crisis on asset values has resulted in margins being squeezed across these sectors. Consumer confidence in banks and wealth managers has taken a series of hard knocks.

As if the tightening of credit models wasn't enough to contend with, new regulation threatens to affect business models around the cross-sales of insurance and investment products. The traditional model of commission-based sales will have to change as regulators seek to introduce real transparency into the cost of the advice delivered as part of the sales process,



your reach

Effectively utilizing the retail banking distribution network

new sales, retention of the right customers is usually a more significant driver of sustainable profitability. In order to improve retention rates, banks need to incorporate retention metrics into their balanced scorecards, as well as continually monitoring product suitability and performance to ensure that their propositions are broad and competitive enough to meet the changing needs of customers as they progress through different life stages.

Eye on the ball

In today's tougher regulatory environment, banks will need to look long and hard at the propositions they offer and the business models they operate in order to deliver them. While the future detail of regulation remains somewhat unclear, the direction is not. Regulatory action is making simplicity and transparency the new mantras of product design and pricing. As banks look carefully at what they offer to their customers and how the offer is presented to them, it would be easy to forget some of the basic success factors that lie behind successful cross-selling. It is our firm belief that while a fundamental review of propositions and delivery models is inevitable, it will be important that banks do not lose sight of the critical success factors that have been learned over the last 20 years.

Consistent execution against the fundamentals

KPMG firms' work with many different banks in a variety of different markets

has enabled us to identify some critical success factors:

1. *The quality of sales staff:* Underpinned by a clear and consistent end-to-end sales process and supported by first class training and product knowledge.
2. *Effective lead generation and management:* From customer insight and targeting through to lead routing and tracking, including closed loop feedback.
3. *Products that are relevant and suitable for customers:* Competitive, affordable, transparently priced and offering demonstrable value for money in the eyes of the seller and the buyer.
4. *Recognition that customers often begin and end purchases in different channels:* Integration of the end-to-end process across channels and elimination of counter-productive channel conflicts.
5. *Visible and sustained senior management commitment:* Encouragement, support and recognition of great performance in these key areas.
6. *Incentives and rewards that are aligned to these critical success factors:* Encourages the right behaviors and actions, as well as rewarding achievement of the desired outcomes.

Our firms' experience is that those banks who consistently and effectively execute all these factors are more likely to be rewarded with greater levels of

higher quality sales, underpinned by increased employee and customer advocacy. These are the foundations of sustained growth and superior stakeholder returns.

At the beginning of this article, and in the face of significant regulatory change, we posed the question, "Are banks in danger of losing sight of the critical success factors in effective selling?" Our answer is a qualified "No." Many banks know what the key drivers of successful selling are; their challenge in this respect is not strategy, but rather consistent and effective execution of all the elements. Even in the face of significant regulatory change and the potential emergence of new business models, we contend that effective execution against these success factors will continue to be a major determinant of success.

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In the mix...

The international convergence of accounting standards



Financial services companies are facing major changes as accounting standards boards strive to converge IFRS and US GAAP, and regulatory reform is imposed following the economic crisis. **Gary Reader**, **Mary Trussell** and **Mark Vaessen** argue that convergence offers an opportunity to engage in a wider finance transformation that can deliver significant business benefits. But there is no time to lose.



Gary Reader



Mary Trussell



Mark Vaessen

At their latest summit in Toronto at the end of June, the G20 leaders once again called for a single set of global accounting standards as a step towards stronger financial markets.

This followed the publication on June 2, 2010 by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), of a modified strategy for convergence of IFRS and US GAAP that recognizes the challenges involved – and in particular, the time it takes to involve all stakeholders in developing common principles.

The IASB and FASB remain committed to a target date of mid-2011 for completion of their major convergence projects, but recognize the need for flexibility in overall timescales. The US Securities and Exchange Commission (SEC) has previously announced it will consider whether and how to incorporate IFRS into the US financial system.

So convergence is very much on the political agenda: and it is driving important changes to accounting standards – radical in the case of US GAAP but also significant for IFRS. In addition, many of the accounting areas subject to the most significant change – such as financial instruments, leases, insurance contracts, revenue recognition, consolidation, and disclosure of special purpose entities – directly affect banking and insurance.

Whatever point a company starts from – IFRS, US GAAP or national standards – the global financial services sector is facing a surge of accounting change over the next five years. For global insurers, the change is even more momentous because the industry will for the first time ever be working to an international standard. And all this is happening at the same time as financial services regulators respond to concerns stemming from the global economic crisis and a number of financial scandals. On its own, the scale of the accounting changes would be challenge enough; but they are coming on top of major new regulatory frameworks like Solvency II and the US Dodd-Frank Wall Street Reform and Consumer Protection Act, which the Senate approved in mid-July.

Benefits beyond compliance

The compliance projects that will be necessary will be costly, in terms of both capital and human resources. But astute companies will take the opportunity to turn these costs into an investment in financial change aimed at delivering sustainable business benefits.

For some, the implementation of new global accounting standards will be a catalyst for a variety of cost saving and efficiency improvements related to the finance function, including shared services, outsourcing, co-sourcing, offshoring and automation. There are obvious attractions to having automated

accounting systems running standard financial processes and providing standard outputs – not least a step change in the accuracy and speed of reporting. This can have a major impact on a business's ability to forecast and communicate its results with confidence.

Such changes open up an opportunity for the finance function to expand its

Astute companies will turn these costs into an investment in financial change

strategic role. Rather than generating the numbers, more of its resources can be devoted to adding value through more incisive analysis of key performance indicators.

Several major economies, including the European Union and Australia went through a major accounting change when they required many of their companies to use IFRS from 2005; and as a result a number of very significant finance change projects were completed in the financial services sector. Many of the issues now facing companies are similar in nature to those encountered when adopting IFRS for the first time in 2005. But even though IFRS may itself be more familiar, financial institutions still have to address the sheer volume of changes to standards, to analyze what

they mean for the company and to communicate the implications clearly and in a timely way to investors.

Consequently there are lessons to be learned from the 2005 experience,

Companies need to move quickly to understand the nature of all the proposed new standards

where those companies that regarded the accounting change purely as a matter of compliance saw the size of their finance functions significantly increase. Some of these companies have subsequently embarked on transformation initiatives – including shared services and system improvements – that might have had more impact and less cost if they had been planned for as part of the initial conversion effort.

The real challenge

So the real challenge financial services companies now face is to formulate and implement an integrated change program that facilitates compliance with new accounting rules, reaps the benefits of standardization in terms of cost reductions and efficiency gains, and is flexible enough to cope with a situation that is dynamic, complex and evolving rapidly. Because, even as they seek convergence, on some specific issues the IASB and FASB are currently taking decisions that move them further apart.

In order to formulate winning strategies, financial services organizations should move quickly to understand the nature of all the proposed new standards and, in particular, to assess the potential impact each of them may have on their business. Will the new rules on leases pose a major problem? What effect will the proposed new accounting for financial instrument models have?

The sheer volume of change will also have to be carefully planned. Those companies that try to manage

around the issues may suffer not only increased costs but also higher risks of non-compliant reporting. Far better to invest now in carefully planned and integrated change projects that seek to address both compliance and business benefits – for example, by aligning regulatory and accounting functions and combining management systems with external reporting.

If anything, the recent financial crisis only served to confirm the need for better planning and control. KPMG research undertaken in the early stages of the credit crisis¹ showed that 83 percent of companies surveyed



expected to improve planning, budgeting and forecasting over the next two years. We believe this reflected the frustration with the workarounds and patches companies were forced to employ to avoid 'flying blind' as the financial crisis unfolded.

But time is short and companies should start early. If an implementation date of 2013 is reasonable for 'converged' US GAAP and IFRS, companies will need to conduct a dry run in 2012. This means having plans laid and systems in place in 2011. To be ready, research and project planning should be happening now.

Engagement with the issue now is also vital because the IASB and FASB are publishing a series of Exposure Drafts presenting proposed new accounting rules for comment. It is important financial services companies consider these drafts carefully, for two obvious reasons. First, these drafts are

an essential input to project planning and the identification of potential impacts on their business. Second, it is in their interests to respond on issues of concern and influence the eventual outcome of the accounting changes. The IASB and FASB have recognized the importance of industry involvement if they are to achieve the best possible accounting standards, and deliberately slowed down the rate of publication of Exposure Drafts to give companies time to give high quality comments.

The time to act is now

The whole issue of compliance with these accounting changes becomes easier to address if it is seen as a catalyst for wider finance change. History – not least the European experience of the 2005 IFRS conversion – tells us that addressing change late costs money. Better to start early, understand the challenges and opportunities, identify the technology platforms, processes and organizational structures that will deliver both compliance and business benefit – and reap the eventual reward.

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1. *Being the best: Thriving not just surviving – Insights from leading finance functions*, KPMG International, June 2009.

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The United States was at the epicenter of the financial crisis, and continues to remain in the spotlight as the financial services industry recovers. One only needs to consider recent regulatory developments, or shifting business strategies, to appreciate the continuing evolution of the industry.

Despite the increasing focus on recovery and growth, uncertainty and fragility continue to prevail within the financial sector. The unprecedented scale and scope of recent regulatory changes, as well as the ongoing transformation of the industry, will require careful and proactive management by industry players. And while the far-reaching implications of recent regulations are to be determined, what we do know is that these changes, combined with other global economic trends, create a broad range of challenges and opportunities across the financial services landscape. To be successful, companies must embrace the inevitable convergence of performance, technology, finance, risk, and regulation, and also work to restore consumer trust and confidence.

With this as background, I am delighted to introduce a focus on financial services in the US. The following articles examine a number of issues and provide perspectives on both the challenges ahead and considerations in addressing many of these issues.

While the future remains uncertain on many fronts in financial services, I hope the following feature demonstrates the cautious optimism we now feel returning.



Leading the way...

Profound implications of US regulatory reform

The new 'Dodd-Frank Act'¹ enacted in July 2010 represents arguably the most dramatic change in financial reform and consumer protection since the Glass-Steagall Act of 1933. An enormous amount of work is still required to translate the new legislation into practical application. Given the paramount influence of the US financial sector on the global economy, and the likelihood of the new law influencing the development of regulatory themes in other jurisdictions, **Linda Gallagher** and **Jim Low** discuss how critically important the implications of this new framework will be for financial institutions – and their customers – everywhere.



Linda Gallagher



Jim Low





Following de-regulation of the US financial markets in 1999 and the subsequent liberalization, the Dodd-Frank Act represents a dramatic shift back towards an earlier era of regulation whose signatures included the rules of the Glass-Steagall Act implemented almost 80 years ago. In the attempt to address what are believed to be the underlying causes of the global financial crisis, and to help ensure that they cannot occur again, the Dodd-Frank Act sets a framework for more regulation and attempts to bring unregulated pockets of the market into the regulatory regime, which will ultimately control much more tightly how financial services firms carry out their business.

In June 2009, the US Administration released recommendations for reform in its White Paper, *Financial Regulatory Reform – A New Foundation: Rebuilding Financial Supervision and Regulation*. Those recommendations were designed to meet five key objectives:

- promote robust supervision and regulation of financial firms;
- establish comprehensive supervision of financial markets;
- protect consumers and investors from financial abuse;
- provide the federal government with tools to manage a financial crisis; and
- raise international regulatory standards and improve international cooperation.

The Dodd-Frank Act incorporated many of these recommendations, with the implications having not only short and long-term effects, but also global ramifications. In more than 2,000 pages

of detailed text, the key provisions include:

- creating a new Financial Services Oversight Council (FSOC) to identify and address emerging systemic risks, including identifying those financial companies that are systemically risky and subjecting them to consolidated oversight and heightened standards for risk-based capital requirements, liquidity requirements, leverage limits, credit exposures and the development of resolution plans (ie. Living Wills)², among other things;
- increasing the supervisory role of the Federal Reserve Board (Fed) to include all companies that are deemed systemically risky by the FSOC, placing limitations on the Fed's authority to support large individual firms in distress, and creating a new process, shared by the Fed, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission and the Department of the Treasury, to liquidate failed financial firms other than insured depository institutions in an orderly manner;
- creating an independent Bureau of Consumer Financial Protection (CFPB) to oversee consumer financial regulations for all providers of financial services products, as well as to enforce compliance with those rules by large insured depository institutions and all non-bank providers;
- streamlining federal bank supervision;
- implementing comprehensive regulation of all over-the-counter derivatives;

- harmonizing the supervision and regulation authorities of the Securities and Exchange Commission and the Commodities Futures Trading Commission;
- requiring the registration of advisers to private pools of capital and the reporting of certain information on those funds;
- providing shareholders with a say on pay and corporate affairs;
- increasing transparency and accountability for credit rating agencies; and
- establishing a Federal Insurance Office within Treasury.

New capital standards will have implications for global competitiveness and costs

In addition, the final law incorporates other provisions that will alter the industry landscape significantly. These include, among others, limitations on bank proprietary trading and investments in hedge funds and private equity funds (commonly referred to as the 'Volcker Rule'), limitations on bank swaps activities (known as the 'Lincoln Amendment' or 'push out' provision) and a stricter application of risk-based capital requirements for bank holding companies (the 'Collins Amendment').

The rulemaking process is expected to be lengthy and complex. For instance, with respect to capital requirements,

the Dodd-Frank Act seeks to apply higher capital requirements to insured depository institutions, bank and thrift holding companies and systemically important non-bank financial companies. Specific regulations will have to address a variety of provisions, including the Collins Amendment, capital requirements to address systemic risk and countercyclicality, and capital requirements to support separate subsidiaries conducting derivatives activities. Eventually the capital requirements will also have to be consistent with the evolving Basel III capital standards expected to be established in November 2010, when the G20 meets in Seoul. New capital standards in the US are likely to impact all types of financial institutions, from the largest financial conglomerates to community banks, and will have implications for global competitiveness and costs as other nations deal with their own capital requirements.

Financial institutions and non-bank financial companies considered to be systemically important will be subject to tighter supervision and potentially subject to higher capital and other requirements. They will also be subject to annual stress-testing by the Fed to measure the strength of their capital. 'Systemically risky' is not specifically defined in the Dodd-Frank Act but rather would be determined based on a variety of factors including the nature, size, scope, scale, concentration, interconnectedness or mix of a company's activities, or because material financial distress in the company could pose a threat to the financial stability of the US. The challenge for regulatory agencies and financial institutions will be to establish parameters and mechanisms to consistently measure these attributes.

One of the guiding principles that drove financial reform is the expectation of stronger risk management by financial institutions, which entails more regulation for currently regulated institutions (e.g. bank and thrift holding companies) and transformation for those that historically have not experienced the same level

of regulatory supervision. Entities that have not previously had to comply with consolidated supervision may be considerably affected and may be placed at a disadvantage because of the new regulatory supervisory requirements.

A significant portion of the new law is aimed at protecting consumers and investors. The establishment of the CFPB consolidates rulemaking authority and most of the enforcement within this Bureau for consumer protection rules and regulations. In addition, the Dodd-Frank Act attempts to regulate financial

Implications for existing customer protection regulations and the impact on current products and pricing are far-reaching

products by many non-banking entities, many of which were historically unregulated. The implications for existing consumer protection regulations and the impact on current products, features and pricing are far-reaching.

Changes to consumer regulations made expressly by the Dodd-Frank Act could entail significant modifications to policies, procedures, operations and systems. Amongst other implications: business strategies will need to be re-evaluated to capitalize on revenue streams with the greatest potential and to compensate for the expected decrease in fee revenue from both deposit and lending products; technology and systems will need to be reassessed and enhanced to comply with revisions to data capture/reporting and disclosure requirements; credit policies and underwriting standards and processes will need to be reassessed; fraud detection and prevention capabilities will need enhancements; and the burden on current resources will be multiplied.

Much of the details of how the Dodd-Frank Act will be implemented are left to federal regulators to develop

over the coming months – and it will be the details which will be important. Many aspects of the law were highly contentious and fiercely debated in the House of Representatives and the Senate. Over the months ahead, there will doubtless be intense debate, advocacy and reaction throughout the promulgation of the several hundred rules and regulations necessary to implement the new laws, and the uncertainty around this will inevitably continue for some time.

The rest of the financial services world should pay close attention to this process. The underlying themes of the Dodd-Frank Act closely parallel the thinking of governments and regulators in other major financial centers such as the UK and the European Union. In a globalized financial world, how implementation pans out in the US will have a much wider impact globally. While the US is leading the way, regulators and financial institutions throughout the world will have to respond.

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Over the coming months as regulatory developments continue to take shape around the world, keep up to date with KPMG's insights through www.kpmg.com and *frontiers in finance*.

1. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the 'Dodd-Frank Act').
2. Living Will refers to the requirement of recovery and resolution plans to be developed for the event of a bank's wind-down. See article 'Planning for the future: Time to make a living will', *frontiers in finance: Rising optimism*, KPMG International, March 2010.



Carl Carande



Brian Stephens



Jitendra Sharma

Handle with care

An uncertain recovery

Economists, treasury officials and politicians across the developed world have quite divergent views on the course of the recovery. Some emphasize signs of growth and strengthening fundamentals. Others point pessimistically to continued weakness in real economies and rising unemployment. From our perspective, working in close interaction with clients in the US financial services industry, the signals are very mixed and the near term outlook is very unclear. So as **Carl Carande**, **Brian Stephens** and **Jitendra Sharma** discuss, we may not be set for sustained recovery.

Over the last few months, KPMG in the US has spent a lot of time talking in depth with clients in the financial services industry, gauging their assessment of how far the recovery has progressed and how solid it is. In turn, these clients are in daily contact with the wider market, dealing with commercial and industrial concerns, such as restructuring their business plans, seeking financing or on occasion sliding into insolvency. Their consensus is that we have a long way to go before we can confidently forecast a sustained recovery. There is a lot of uncertainty; the economy is still very fragile. Since the US economy is such a significant influence on the global economy as a whole, this sobering perspective is important for everyone.

As is widely recognized, many of the primary causes of the global financial crisis had their roots in the US domestic real estate market. Lowered home mortgage underwriting standards resulted in loans to borrowers who could not afford their repayments, creating serious risks, very often unrecognized and under-priced. When those loans were packaged and sold throughout global financial markets the risks, far from being diluted, became at the same time magnified and extremely difficult to track.

The crisis spread from domestic real estate into commercial real estate, financial services and subsequently into the real economies of the US and more developed economies. We are all living with the aftermath.

The US housing market remains the best leading indicator of economic

stability and consumer confidence in the US. Hence sustained recovery can only follow a stabilized domestic residential sector. However the indicators so far, are still patchy. We have a very nervous and volatile housing market. Signs of stability returning to pricing and volumes flicker for a month or two and then subside. And while consumer confidence more generally remains fragile, the prospects of a sound and stable market in the near term look slight, especially coupled with the continued high levels of unemployment and underemployment.

The overhang of defaults, repossessions and excess supply will eventually clear. The construction sector is severely depressed but the number of buyers is slowly increasing. Underlying demographic factors, such as population growth and family

formation, do place a floor under demand, although its level fluctuates according to other factors such as unemployment, interest rates and underwriting standards. Eventually demand will match or outpace supply. Until then, the market will remain weak.

While a reasonable case might be made that the residential market is bumping along the bottom, the position of commercial real estate is less clear, and perhaps represents the greater uncertainty souring the market. The cycle through recession to recovery seems to have further to go. Until the wider economy stabilizes, the demand for office, warehouse and industrial space will continue to be weak and volatile.

Everyone in business faces challenges. Most companies nevertheless get on with the process of providing customers with goods and services, controlling costs and investing for the future. But when meeting the challenges become all-absorbing, companies shut down on hiring, investment and expansion. It will take some time before business confidence returns to a level where the commercial real estate sector stabilizes. While banks continue to de-leverage and restrict lending activity, companies will be constrained in growing their way out of the crisis.

The strength of the financial services sector is clearly heavily influenced by individual and commercial demand for finance. As long as that remains patchy, banks in the US will struggle. Beyond this, they are also facing major uncertainties on a number of other fronts. The recent US financial reform legislation contains a host of new provisions. While much of the detail remains to be written in the form of regulation, the impact to revenue and cost of compliance is likely to be

significant. The Basel III capital process is due to conclude at the G20 summit in November 2010, but beyond the fact that most banks will almost certainly have to hold more capital, it is unclear what the precise implications will be. The securitization market, which remains depressed, limits the availability of stable, secure funding sources. The faltering convergence of accounting standards between IASB and FASB perpetuates doubt over key issues, such as how financial instruments should be accounted for.

There is no doubt that the US banking sector is much better capitalized than it was a year ago, and more stable, largely thanks to government intervention but also to the beginnings of normalized markets and an advantageous yield curve environment. But the banks are trapped in a cycle where they can't and won't lend to any but the most bankable prospects. They are still extremely risk averse. This means that companies and consumers who before the crisis qualified as middle-of-the-road acceptable prospects are being starved of finance. Until broad based lending returns, we are likely to see continued high unemployment and patchy recovery.

These are some of the challenges which face the developed world. No one country can afford to step too far out of line in taking fiscal action to boost confidence in the real economy. It is to be hoped that coordinated international action, which we are to some extent already seeing through the G20, will eventually underpin a sustainable recovery. But in the meantime, the economy should be handled with care.

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FRAGILE

Changing composition

New entrants and consolidation in the US banking market

A wave of change is expected in the North American retail banking market, but what this will look like, and when it will materialize is unclear. Increasingly cash-rich institutions looking for investment, and experienced senior executive teams searching for opportunities, are likely to drive a further phase of consolidation in the sector over the next few years. However, **Anthony Anzevino** and **Miguel Sagarna** believe that those who succeed will be those who understand that business-as-usual won't be good enough.



Anthony Anzevino



Miguel Sagarna

The US retail banking sector has experienced consolidation over the last 20 years. In 1990, the Federal Deposit Insurance Corporation (FDIC) recorded over 15,000 active commercial banks and savings institutions. By the first quarter of 2010, that figure had dropped to under 8,000¹. One of the main drivers of continuing consolidation in the last 18 to 24 months is the failure of institutions, which is currently running at a rate of four to five per week²: the FDIC recorded 140 failures during 2009, and 85 in the first half of 2010 alone (to put the scale of this in context the FDIC 'problem list' currently includes 750 banks). These failures reflect growing pressures on banks, especially in the wake of the financial crisis, to constrain costs, increase efficiency and meet the costs of regulatory compliance. Against this background, the large overhang of bad loans

depressing balance sheet values is a significant factor that drives many institutions into insolvency.

However, as we shall see, the fact that the US still has thousands of active commercial banks and savings institutions tells us something important about how the players in the new landscape will need to manage the resulting businesses.

Continuing consolidation

These issues in the market indicate that the consolidation trend will continue, and may accelerate, over the next few years. The financial crisis has brought major challenges for some smaller banks and savings institutions. Many are struggling to remain solvent. Their business models are seriously challenged with consumer lending severely curtailed and the threat of severe losses arising from their bread-and-butter business, commercial real estate lending. Regulatory reform means they face the prospect of serious additional financial and operational burdens, not the least of which are significant reductions in fee revenue from the curtailment of courtesy overdraft fees and the impact of the Durbin amendment on debit card interchange fees. These impairments are reflected in valuations: banks were typically acquired at three to four times book value at the peak of the market. Now institutions are commonly being traded at below book value.

In the new constrained financial environment, we believe that economies of scale are going to be increasingly important, allowing institutions to squeeze efficiency savings from combining back offices, effectively utilizing technology and infrastructure, and more profitable marketing. Small, struggling banks and savings companies will likely find it more difficult to compete. This situation may create tremendous opportunity in the market for acquisition and consolidation.

New entrants

The largest US banks, including J.P. Morgan, Goldman Sachs and Morgan Stanley, are playing a minor role in the consolidation process. This is possibly due to the way large banks are currently perceived and the public scrutiny they

are facing. It could also be that regulators in the US may not look sympathetically at further domestic expansion through acquisition. That paves the road for regional banks to potentially lead the next bank M&A wave. In addition, based on what we are seeing, a significant number of new entrants are preparing to exploit the emerging opportunities in the market.

One of the most important groups of these players is private equity pools. An increasing number of these are being founded³. They are well-capitalized and often being led by highly-experienced banking executives in senior management roles. Realizing the scale of the opportunity in the market, they are actively seeking opportunities to acquire struggling banks and merge them to create new, stronger institutions. Over the last few months, perhaps 15 to 20 of these consortia have emerged, backed by institutional financial investors, setting out to create new banking combinations with the critical mass to succeed.

The influx of private equity into the sector, although somewhat curtailed by the regulators, may well save a number of troubled institutions. Many small banks, realizing the weakness of their balance sheets and fearful of more stringent requirements for regulatory capital, are looking to recapitalize before they get too close to insolvency. Private equity investors are being invited to inject fresh capital in return for influence over restructuring and new business models.

Foreign banks, especially those based in Europe, see the situation in the US banking sector as offering potential for new entry or for expansion by further acquisition⁴. A number that had previously invested at the top of the market are now looking to reinvest at lower price points, diluting the overall impact on their balance sheets.

However, there is also considerable caution being shown. There is a lot of uncertainty in the market. The precise impacts of regulatory reform, Basel III, new capital requirements and the like are hard to forecast. The pace and resilience of economic recovery in the US is likely to be patchy. In addition, the US authorities are applying strict criteria to the approvals process,

discouraging acquisitions by private equity and by domestic banks and foreign institutions in which they deem to have residual problems of their own. Nevertheless, there already appears to be much greater confidence in the market than there was a year ago. As uncertainty diminishes further, foreign banks are likely to become another major force driving consolidation.

Can they do better?

Successfully taking advantage of consolidation opportunities requires striking the right deal and then managing the new institutions effectively. Many of the private equity pools, in particular, are well-placed in this respect. Their senior executives are mostly experienced proven operators in the industry, carrying credibility with regulators, and generally able to attract large amounts of funding. Some of these funds have attracted over US\$1 billion of capital and if they are successful, they will no doubt be able to tap the capital markets for more. However, in a sector with some 8,000 institutions, there is not enough top-quality senior executive talent to go round. Therefore the combination of top-flight management and strong balance sheets provide these new groups a strong platform for success.

However, business-as-usual will not be enough. The fact that the US market still sustains nearly 8,000 banks and savings institutions illustrates the high

value which their customers place on community banking and strong local relationships. These characteristics have come under increasing strain in recent decades, to the general dissatisfaction of consumers. We believe the key to success for the new owners in the sector will be to drive economies of scale and efficiency while at the same time strengthening customer service, local responsiveness and trust in their brands. A new, simpler, back-to-basics style of banking will need to emerge, which is grounded in real change, not simply glossy marketing.

Rapid consolidation, new entrants, new business models, a new style of banking: the coming decade is going to see major change indeed.

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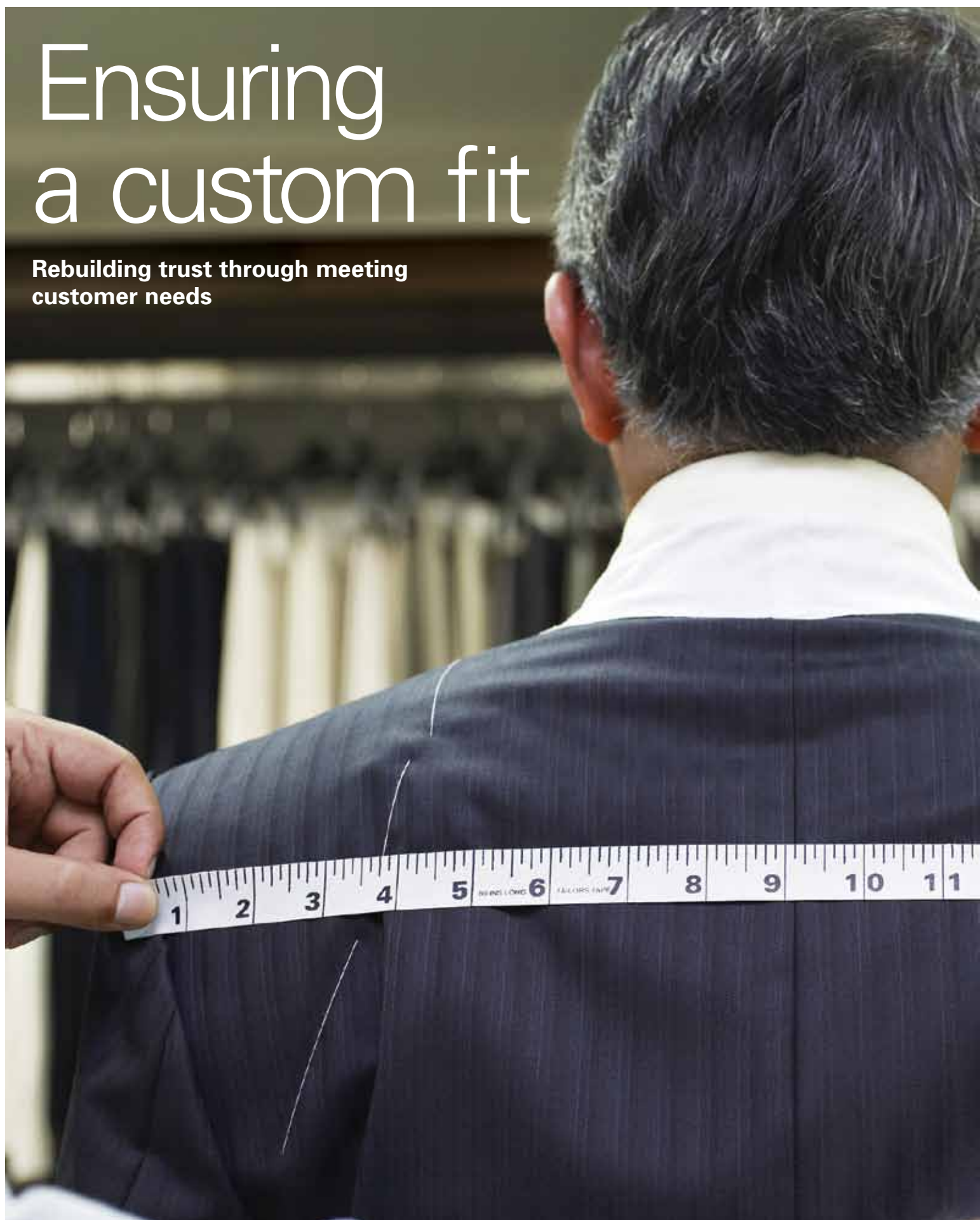
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Ensuring a custom fit

**Rebuilding trust through meeting
customer needs**



Putting the focus back on the customer is at the core of many financial services organizations strategic discussions currently, as highlighted in the previous issue of *frontiers in finance*¹. But what exactly does that mean, and how do these organizations need to change to ensure they are meeting their customer's needs? Customer segmentation and rebuilding trust are key themes that need to be addressed. **Scott Marcello** and **James Suglia** discuss the deep connection between them.



Scott Marcello



James Suglia

In an increasingly competitive world, financial services providers face significant challenges in growing their revenues while constraining costs. In the wake of the financial crisis, the barriers to improved performance are great: margins are under pressure, interest rates remain at historically low levels, balance sheets need to be rebuilt. If they are to succeed, companies need to do more than simply control costs and increase efficiency. They have to become smarter at identifying customer needs and providing products and services that meet these needs. At the same time, they have to invest in educating their customers and, to this end, offer better advice and guidance to intermediaries and other distributors.

Segmentation

Many investors suffered during the financial crisis, recording significant declines in personal wealth. Declining returns have put particular pressure on those who are looking for investment income. Many customers and potential customers have real needs that are not currently being best met by the financial services industry. As a result, customer segmentation techniques are becoming increasingly sophisticated.

In particular, demographic changes are driving the emergence of distinct customer segments with contrary objectives. Baby boomers are reaching

1. 'It's all about me: Putting the focus back on the customer,' *frontiers in finance*, KPMG International, June 2010.

retirement, and are looking to convert accumulated wealth into secure income. The new generation entering the workforce is aspiring to become the next wealth-accumulators, but in the meantime they have pressing needs for accommodation and capital goods. In between, 'Generation X' is worrying about how long they will have to work, and whether they will be able to afford the long retirement and comfortable lifestyle that they once took for granted would be available to them.

relationships most deeply may gain a significant competitive advantage.

However, sustained performance needs to address more than maximizing short-term revenues and profitability and treating the customer simply as an opportunity for profits. Customer segmentation, targeted marketing and profitable sales have to be reconciled with the need to treat customers fairly and ensure they receive proper protection, both from their own instincts and from the fallibility of the institution.

these customers. In the investment management sector, customers are looking for greater transparency over issues such as fees, compensation and remuneration.

Consumer appetite for participation in capital markets has not disappeared. People still need to save for major purchases or invest for their retirement. Despite the recession, funds are still available, and customers still need a home for them. In an era of sustained low returns, the demand for profitable investment products is in some ways greater than ever. However, the crisis has left people feeling bruised, and they are also looking for reassurance and protection. Having suffered losses, they want to be protected against further downside risk. This has manifested itself in the increased interest in products such as exchange-traded funds and others that provide a measure of life-cycle protection.

The insurance industry may be in a unique position to satisfy these needs. After a period of severe caution, when many companies realized they had been under-pricing or overexposed to market risk and reduced their sales of equity-based products, signs of recovery are emerging. With improved risk assessment, concentrated management attention, and the advantage of understanding costs, revenues and profits carefully segmented by customer group, companies can lay the foundation for success. In the pursuit of growth in revenues and profits, the value of more detailed and accurate data is particularly high. So too are the right tools, systems and processes to ensure that data is not only accurate, but is effectively utilized, stays accurate and is protected. 'One version of the truth' – a single reference set of customer, financial and product data – becomes very important.

With improved risk assessment, concentrated management attention and the advantage of understanding costs, revenues and profits carefully segmented by customer group, companies can lay the foundation for success.

Sophisticated customer segmentation technology can help identify relevant customer groups, help institutions understand the specifics of what customers within each group are demanding and provide insight to new products and services that customers will value. This helps to enable different tools and channels of communication reaching specific segments in the most effective manner. Better segmentation also allows an institution to address deeper questions about products, profitability and costs. Which product lines are the most profitable? How can we identify the target markets for which these products offer the greatest value and service them at least cost? Which customer segments buying which products generate the greatest revenue with the least internal cost? Where can we standardize the process of product delivery to increase profitability? How do risks tally with the profitability of different customer segments and products? The companies that understand these and other relevant

In a financial environment where consumer protection is becoming much more important, and regulators are targeting these areas more closely, financial services companies have both a responsibility for, and a long-term interest in, fair practices.

Treating customers fairly

In many parts of the developed world, consumers have lost trust and confidence in financial services. In personal terms, they see the returns they expected and the safety they came to expect disappear, as the value of their investments have declined. They are naturally apprehensive. In the broader context, they see 'greedy bankers' and 'reckless speculators' as the cause of a crisis that has undermined economies across the world, imposed huge costs on governments and taxpayers, and left everyone poorer. The competitive challenge is for those very institutions to regain their customer's trust and confidence, by customizing their products to fit the changing needs of



Rebuilding trust

Ensuring that a foundation built on trust provides the basis for sustainable profitability requires a new relationship with customers. Restoring trust and confidence is a serious challenge, in which traditional product design and marketing may not be enough. Products will have to be redesigned to focus more directly on the real needs of different customer groups in the new economic environment. Treating customers fairly means providing what they want and need, not concentrating on selling particular products because they are more profitable or carry greater commission. Products sold indiscriminately to maximize returns will not meet the new requirements of transparency and openness that are necessary to rebuild the relationship with customers.

In particular, a sustained program of customer education will be required. This potentially leads to significantly higher costs and communication challenges. In some sense, the lessons of the crisis are already clear to consumers: they know they are poorer than they thought, and will have to work longer and harder to finance their retirements. But it also has to be explained that the systemic misunderstanding and under-pricing of risk before the crisis meant that

customers benefited from artificially high returns and low costs. These days are not likely to return soon. Customers need a better understanding of investment risk, and need explanations in plain language. Better education of intermediaries and distributors is a key step. Customers have to be convinced that lower returns and

It is not simply a matter of better marketing and promotion. It's about giving clear, accurate and relevant information to customers, appropriate to their specific situations.

higher charges are appropriate, not simply a reflection of profiteering by providers. This is going to be a tough message to be communicated by precisely those institutions perceived to have gotten it wrong in the past.

A tailored approach

It is not simply a matter of better marketing and promotion. It's about giving clear, accurate and relevant information to customers, appropriate to their specific situations. It's also

about giving customers the insights and tools to allow them to test assumptions and projections, and understand the trade-off between risk, protection and returns. Identifying customer groups who are prepared to pay the economic price for a given degree of protection brings us back to the importance of effective customer segmentation.

As companies seek growth in revenues and profits, it seems that the customer – their needs, perspectives, and long-term satisfaction – is likely to be back as a central focus for many financial institutions. In this pursuit, many institutions are likely to recognize that a deep understanding of their customers, treating them fairly, educating them and regaining their trust and confidence are inseparable goals.

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Integrated layers

Embedding strategic risk management at every level

Risk and risk management are themes whose time has come. The recent financial crisis revealed with terrible clarity the consequences which can follow from misunderstanding and mis-pricing risk. As the financial services world struggles to recover, an effective risk management strategy and practical implementation is now more crucial than ever. Following the actual and perceived failures of the past **John Ivanoski** and **Matthew Smyth** recap the critical requirements.



John Ivanoski



Matthew Smyth



Over the last decade or two, the profile of risk management has steadily increased, and it is now a key focus of attention for chief executives and boards. This process has been given added impetus by the trend towards risk-based regulation. Following the financial crisis, many regulators will not only be assessing the risk profile of banks, insurers, investment managers and the individual products they sell; they will also be evaluating the effectiveness of institutions' own risk management policies and procedures. As companies re-evaluate their business models, portfolios and operating procedures in the wake of the crisis, it is time to work systematically through the bases of risk management.

At the heart of effective risk management is knowing the level of risk being run, and comparing that with the ideal level of risk and the returns sought. Risk and return are fundamentally connected. Financial performance in excess of the risk-free rate of return is the price of risk. Any business strategy has to balance the desired return against the degree of risk it is prepared to accept. A core component of risk management strategy is therefore the risk appetite of a company.

Individual banks, insurers and investment managers should work through the implications of this for themselves, individually, and ensure that their shareholders (whose capital is being risked) are fully behind the decision. This requires effectively utilizing clear and open communication channels within the organization, as well as a significant degree of external transparency with ratings agencies, regulators and shareholder groups.

Company A may be more comfortable with being conservative, targeting relatively modest returns but running a

At the heart of effective risk management is knowing the level of risk being run, and comparing that with the ideal level of risk and the returns sought.

very small risk of major loss. Company B may be more adventurous, seeking higher returns but recognizing the greater likelihood of significant loss over a specific time period. Such decisions have to be quantified if they are to form the basis of risk management strategy: risk appetite is expressed as a willingness to accept defined levels of risk (in dollars, percentages or other financial metrics) over a specific time frame for an acceptable range of returns. Without such quantification, it is impossible to decide whether a company is running acceptable or unacceptable risks, or whether it is achieving the right level of return. It is a given that the methods of quantification must be understood, clearly communicated and verified for technical accuracy and quality, no small job in itself.

Governance, risk management and compliance arrangements (GRC) are attracting increasing attention; chief risk officers are now being appointed with a seat at the top table. Some companies are succeeding in articulating their risk appetite in a way which allows focused risk management at various levels of granularity. However, only leading companies appear to have the appetite and tolerance defined to the degree required for effective enterprise-wide risk management.

Only when a specific enterprise-wide corporate risk policy and strategy is in place can the wider business benefits

of risk management be developed. Portfolios can be constructed, products developed, specific geographic or customer segments targeted, which have the desired risk profile, and from which particular returns can be sought. The GRC framework can then monitor and control business activities to ensure that the necessary balance is maintained.

Two operational requirements follow. The first is the need for accurate data about the individual and aggregate amount of risk being accepted, alongside correspondingly segmented data on returns achieved. The second is the need for constant dialogue between risk professionals and operational management, mediated at the highest level, to ensure that the whole system works effectively.

Without systematic attention to the fundamentals of risk management, some financial institutions may only be paying lip-service to the concept; at worst, they may be misleading themselves as to the real risks they run. Despite a number of risk management program successes within financial service companies, today, it is clear that getting the fundamentals right will provide the advantage.

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Taking a leap of faith

Rebuilding a bank to maximize its value

At a time when the environment in which financial institutions operate is changing dramatically, many banks should consider radically transforming how they do business. An ethos of adding value to the customer¹ needs to be embedded throughout the organizational structure and demonstrated in every discussion and action. A focus on adding value to the customer is not confined to a department, but is about everything the bank does, as **Richard McCarthy** explains.

Many banks currently face a challenging and uncertain business environment. Given significant changes in the regulatory, economic and customer landscape, they are being forced to rethink the business models they have used in the past to generate high performance. But reacting to the regulatory challenges and economic conditions is no substitute for a strategy to rebuild their bank. Banks need a new vision that can give them a clear sense of direction and a greater degree of control.

In considering strategies for this changing landscape, the need to focus closely on customers is becoming more important than ever. Those banks that are most likely to achieve long term success – including compliance with new regulatory regimes and winning public and political opinion – are actively developing and implementing a strategy that simplifies, streamlines and focuses their operations on one pre-eminent driver – adding value to their customers and clients.

The concept of customer-centricity is well-established in many other industries,

such as automotives, consumer goods and telecommunications. Many automotive manufacturers have entrenched the philosophy of quality, reliability and safety at the heart of their operations, and subsequently customers have been satisfied to pay for a premium service. The challenge is how banks can implement this within their different business environment?

In practice, a back to basics approach starts with drawing up a matrix of what the customer's needs are, and the possible values and risks for the customer, as well as for the bank, by geography, customer segment and product. Only with a detailed understanding of where exactly the value and risks are generated can a bank take decisions on its scope, location and operational design. In particular, this knowledge enables the future structure to be determined not by a reaction to new regulation or recovery and resolution planning, but rather by the strategic necessity to create a simpler organization and legal entity structure that is very clear about how it is looking to maximize value for the customer, is easier –



Richard McCarthy

and cheaper – to run, and is more transparent to regulators.

Having a clear customer-focused vision and operational framework can also make it easier for banks to meet some of the tougher challenges they are facing. For example, in the EU state-aid mandated disposals, business leaders sometimes focus on the valuation and operational separation of the business and assets to be sold. Perhaps more important is: Who will be the customers of the business being retained and how and with what products will they be serviced?

In retail banking, some profit opportunities have disappeared or are becoming increasingly contentious. For example, there is pressure on fee structures and constraints on credit card lending are tightening. To maintain profitability, retail banks have to reconsider their products and channel

effectiveness to ensure they can deliver demonstrable value to customers². This means forming individual relationships, understanding each customer's financial position and targeting products and services appropriately.

The need for client centricity is just as important for corporate and investment banking. As investment banks look at geographies, markets and clients all the signs point to the emerging economies – Singapore, China, India and Indonesia. But these are precisely those countries whose governments are most prescriptive and controlling. They have a clear view on how they want to manage different industries as part of their economic growth plans and they set the regulatory environment accordingly. They understand the role of the markets as a conduit for investment and recognize the necessity for more complex financial products such as derivatives. But they will expect banks to concentrate on helping deliver their macro-economic goals. Banks will need to be seen to add value externally, to their clients, to domestic industries and to national economies. To develop a strategy that copes with this new world, banks will have to understand not only the needs of customers, but also national regulatory environments

and government fiscal and industrial policies. The good news is that many governments and regulators in emerging markets understand the importance of strong capital markets – a sure opportunity for banks to show how they can add value to customers in these regions.

A customer-centric business approach is inherently complex, and fundamental changes in IT architecture may well be required as banks adopt modern techniques such as multidimensional customer segmentation. But the change goes beyond the use of new tools. To be successful, an approach to add value to clients has to saturate every aspect of the organization – from marketing, to products and processes, and, perhaps most importantly, the attitudes of staff.

The shift in corporate culture from maximizing revenue from customers and clients to maximizing value for customers is therefore a major one. Becoming a streamlined, customer-centric organization will affect every aspect of a bank's culture and operations, and should be deeply embedded throughout the corporate governance structure across the entire entity. Such an organization will not only find it inherently easier to comply with new regulation, it will also find its competitive position and reputation enhanced. In addition, by viewing their products, service levels and corporate behavior through the eyes of the customer, banks may also be able to create more positive perceptions of the balance between the value they provide and the rewards they receive. Despite the economic uncertainties, banks should take a leap of faith; to reorganize their business structures and capitalize on the opportunities of maximizing customer value.

Are you maximizing value?

Questions to ask your business...

- Are you concentrating on maximizing value *to* the customer rather than *from* the customer?
- Do you have a simple operating structure that enables you to have a single view of your customer's banking needs?
- Do you have a clear understanding of your target customers and their requirements, and does this integrate a compelling value-add for customers in emerging markets or are you following the crowd?
- Do you truly understand the profitability of your business by product, customer and geography, and where you make high returns is it linked to the customer value you have generated?
- How will you ensure that risks of your products and the associated price structures are transparent?
- To what extent are you working with other industry participants, governments and regulators to set up new industry structures, such as exchanges or mortgage funding vehicles?
- Are you tinkering with your operating structure to satisfy regulator challenge or are you thinking it from the ground up?
- When exiting non-core businesses are you focusing enough on the retained entity strategy rather than just the disposal in isolation?
- Are you utilizing successful models from other industries regarding optimizing costs and brand management?

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1. Hereafter collectively referring to customers, clients and product end-users.

2. See article 'Extending your reach: Effectiveness of distribution channels in retail banking' on page 16.

Defining the goal posts

Challenges in CEE Insurance

After a decade of strong growth, tough market conditions and new capital and regulatory requirements, such as Solvency II, are forcing insurers in the region to turn their attention to their internal processes. **Roger Gascoigne** and **Gábor Hanák** comment on the results of a recent KPMG survey¹ which reveals significant variation in companies' readiness for the new regime.

The insurance markets of Central and Eastern Europe² witnessed 10 years of exceptional growth, particularly after the accession of 10 CEE countries to the European Union in 2004 and 2007. Growing economic prosperity and strong Foreign Direct Investment (FDI) attracted many leading global and European insurance groups who have gradually consolidated their control over the markets in the region. Today, only two significant locally-controlled regional players remain, PZU of Poland and Triglav of Slovenia. International insurance groups have introduced higher standards of risk management and combined best practices from their home markets with the innovation and flexibility needed to be successful in emerging markets.

Insurers themselves largely avoided any significant direct impact from the global financial crisis, due to conservative investment policies and prudent underwriting criteria. Nevertheless, the indirect consequences of the global economic crisis, with the property, manufacturing and services sectors particularly badly hit, threw most of the markets into decline in 2009. Even Poland, the only EU country to record GDP growth in 2009, suffered as life premiums dropped dramatically (22 percent³ in local currency). The Baltic states, Hungary and Romania were also badly hit, while elsewhere markets were, at best, flat. Due to currency volatility particularly affecting local currencies measured in dollars, premiums dropped significantly across the region.

Like insurers everywhere, CEE regulators and companies are coming to terms with additional, and more

stringent, capital and regulatory requirements, principally around Solvency II. With 10 out of 27 EU members, the CEE countries potentially hold significant influence on the legislative process, although a number of smaller countries have been unable to play a full role due to resource constraints.

In general, CEE insurers have responded positively to the requirements of Solvency II, often initiating projects independently of group or regulatory pressure. A recent survey of 88 CEE insurers carried out by KPMG in CEE indicates that insurance companies expect many positive strategic impacts and value creation opportunities in relation to Solvency II. These are particularly through improved management information for day-to-day and strategic decisions, as well as in relation to capital management. Nevertheless, some 44 percent have not yet begun the process (largely smaller entities waiting for models and methodologies to be developed elsewhere in the group) and, of those who have, the emphasis has been on Pillar I (over 60 percent of those who have begun the process). Concerns are frequently raised in relation to internal modelling capacity, quality and collation of data and resources. Overall, it seems that Solvency II is still seen predominantly as a 'technical' exercise, focused on actuarial modelling and boards are not yet playing the significant role in the process of Solvency II implementation as envisaged by the European regulator.

The findings of this survey indicate that firms not involved in previous QIS exercises or waiting for group support in implementation may not see the real



Roger Gascoigne



Gábor Hanák

challenges of Solvency II, and may be underestimating the extent of necessary work. To meet the 2012 deadline, the pace of Solvency II implementation will need to quicken for all entities – a 'wait and see' approach is no longer a sensible option.

As in football, in Solvency II the rules may be universal but the pitches, the players and the referees can be very different. Solvency II presents a number of specific challenges to both insurers and regulators across CEE, over and above those faced in more developed markets. While some countries in the region are well-advanced, others lack resources, historical data and, potentially, regulatory experience.

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1. Solvency II readiness survey in Central and Eastern Europe, KPMG in CEE, July 2010.

2. The CEE is generally defined as the post-socialist economies of Europe, excluding Russia and the CIS.

3. www.knf.gov.pl

From managing growth during the pre-crisis era, the Russian insurance market has turned sharply to managing value and efficiency. Consolidation, pricing and risk management are the new priorities, as **Adrian Quinton** explains.



Adrian Quinton

A brighter future

Opportunities in an evolving market

Within the Russian insurance market there are a number of active global insurers, and although there are some 700 insurance companies, the sector is dominated by 20–30 large players¹.

There are foreign-owned multinationals which have global expertise and reach, and privately-owned companies which have wealthy owners and strong balance sheets, in addition to a number of state-influenced companies that are seeking to widen market penetration and improve efficiency. Other mid-tier insurers find it very difficult to compete on costs, network infrastructure and marketing sophistication. The life insurance industry remains very small, making up a mere 5 percent² of the market, and certain non-life classes remain to be further developed and penetrated.

Although the overall insurance market grew at approaching 30 percent a year up to 2008³, the financial crisis hit the country hard in the middle of that year, and the insurance sector suffered accordingly. Premium volumes now are not expected to return to their 2008 level until 2011 at the earliest.

In a shrinking market, smaller insurers unable to capitalize on economies of scale face a tough struggle. As the Russian market matures, we are likely to see the emergence of an elite number of large, profitable insurers and a clutch of niche players or bancassurers focusing on segmented services.

Against this background it is not surprising that consolidation in the market is expected to intensify in Russia over the medium term. There is also a significant drive for more cost efficient operations, with many companies putting cost optimization and operational efficiency at the top of their strategic agenda.

One element particularly worth noting is the desire for integrated systems that operate cross country, reducing manual intervention and non-automated procedures. The underpinning of these systems should assist the accuracy of pricing and underwriting, which is currently an industry focus as pricing competition continues to intensify in the difficult economic climate.

Improvements in operational efficiency is a key challenge within the new environment. The influx of foreign owned multi-nationals has brought with it a number of leading practices. Improving the risk management framework to effectively address fraud, forex impacts and risk based capital requirements has recently become a higher priority for a majority of players.

Regarding merger activities, it is expected that a rebound will take place towards late 2010, especially from the global players who have yet to obtain a footprint in the local market.

While regulation to do with risk review is not high on the agenda in Russia, general regulatory advancements continue. An increase in minimum charter capital requirements

is set to come into force on January 1, 2012, pronounced by the Federal Insurance Supervision Service (FISS).

In a drive to enhance consumer protection, the FISS is also tightening the law regarding bankruptcies of insurance companies and enforcing strict regulatory action in the event of non-compliance.

The consolidation within the domestic market, coupled with the strive for increasing operational efficiency and the effectiveness of risk management, will likely determine how successful the Russian players will be at retaining positions both at home and in the wider CIS and neighboring regions.

Although the remainder of 2010 will not be easy in terms of premium volume recovery, the ongoing restructuring of the market should bring new prospects and pave the way for newer and better development of the insurance sector in Russia.

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1. *Insurance in Russia in 2010: Re-emerging potential*, KPMG in Russia, July 2010.
2. *ibid*
3. 'Russian Insurance Booms', *frontiers in finance*, KPMG International, September 2007.

Better than expected

Why developing economies are doing so well

As headlines continue to discuss the impact of the global financial crisis, relatively little attention has appeared to be paid to some of the emerging economies. While individual circumstances are obviously different, there are many lessons to be learned from these strongly performing nations. **Ricardo Anhesini** discusses why some of the emerging markets, particularly Brazil, are leading the way out of the global financial crisis, and the opportunities this presents.



Ricardo Anhesini

How are banks globally, evolving their strategies for the future? One of the striking features to be highlighted in a recent KPMG International survey of senior financial services executives¹ has been the deep contrast between how banks in the developed and developing worlds have been affected by the financial crisis, and the way they are responding to it. As discussed in 'A new normal?' on page 6, many banks in the US and Western Europe are focusing on defining new business models to match the new financial landscape; the challenge to develop new products and geographical markets, and preparing to react to the impending wave of regulation. By contrast, in developing economies bankers are

concentrating on continued growth in domestic markets, increasing profitability and serving their customer base more effectively. It is very much more like business-as-usual.

An important associated factor is that trust in banks in the developing world remains strong. There is little sense of the profound collapse in confidence in the banking sector experienced in the major economies, or of the public and political anger over issues such as lending policies or remuneration. Bankers in Brazil are still seen as vital and trusted sources of finance by corporations and individuals alike. A look at the experience of the emerging markets, and Brazil's banking sector particularly, can help illuminate this contrast.

To provide some contextual background, Brazil is the tenth largest

Figure 1 Comparison of GCI 2009 and 2008 for BRIC countries

Country	GDP US\$ trillion	GCI 2008–09	GCI 2009–10	Change in rank
Brazil	1,91	64	56	+8
China	2,99	30	29	+1
India	1,25	50	49	+1
Russian Federation	1,23	51	63	-12

Source: World Economic Forum, 2010; www.asiafinest.com, 2010.

economy in the world in terms of nominal GDP, ahead of its BRIC counterparts Russia and India, although significantly smaller than China. After recovering from an economic crisis in the early years of this century, Brazil has been growing rapidly, supported by a diversified economy, including strong industrial, manufacturing and export sectors, and abundant natural resources. In their most recent Global Competitiveness Report (see [Figure 1](#))², the World Economic Forum point out the remarkable rise in Brazil's performance compared with the other BRIC countries, and note that it is "perceived by the experts as the country that will likely see its competitiveness most favorably affected by the crisis".

Brazil's banking sector is dominated by four major institutions (Banco de Brasil, Itaú Unibanco, Bradesco and Santander Brasil). Collectively, these 'Big 4' banks have followed very different general strategies from their counterparts in Europe or the US, by remaining strongly focused on domestic markets. Although each has international interests (and Santander Brasil is a subsidiary of the Santander group), growth and market development has tended to proceed by organic growth and acquisitions within Brazil, accelerating consolidation of the banking sector. They have generally limited their balance sheets to Brazilian assets, partly because of constraints imposed by local regulators, and as a result none of them built up significant exposure to complex derivatives or structured products such as US sub-prime mortgages.

The nature of the economic experience in these emerging markets underpins this contrast with banks in the developed world. Since Brazil's economy has been growing rapidly

there has been significant capacity for the growth of financial services, and space in the domestic market for investment in profitable lending. Interest rates have remained comparatively high, and a combination of these factors meant that many Brazilian banks escaped the pressure felt by their international counterparts to exploit more and more complex products and unquantifiable risk in the search for returns.

As a result, the 'Big 4' Brazilian banks have performed solidly throughout the crisis, recording profits, paying good dividends and continuing to grow. Far from experiencing liquidity crises, free cash has continued to accumulate. Confidence and trust in the banking sector has remained high, and the banks are now able to capitalize on this positive experience. As the economy continues to grow, they are expanding their client bases, and maintaining investment in the historic roots of their success.

By contrast, over the last two years many Western banks have had to concentrate on rebuilding their balance sheets, restoring profitability and radically re-assessing their risk management and control systems. This has, to a significant extent, been at the expense of customer service and innovation – a failing which they are now trying to rectify. Brazilian banks, however, have been able to pursue more balanced and sustainable strategies. They have built on their strengths to develop a sounder balance between stakeholder values and shareholder value, combining social responsibility with profitable business. This broader sense of the responsibilities of financial institutions creates a virtuous circle, further strengthening confidence and trust.

Senior banking executives in Brazil regard the current moves to strengthen

financial regulation with equanimity. They will obviously have to respond to increases in capital requirements, but in general do not expect there to be a dramatic impact. They are similarly conscious about competitive pressures from outside, however at a lower degree. Despite a number of global financial institutions entering the Brazilian market during the 1990s, many of these are currently dealing with their own problems, and are not currently perceived as a high competitive threat. On the contrary, based on their strong domestic position, the Brazilian banks are developing strategies for international expansion themselves. In the Latin American region, Banco de Brasil has acquired Banco Patagonia in Argentina. Further afield, as leading Brazilian companies such as Petrobras expand internationally, Brazilian banks are establishing new subsidiaries to serve them.

There are sobering lessons here for leaders of banks in the developed world, as they struggle to recover from the crisis. As in other developing countries, the Brazilian banking sector has benefited from rapid domestic growth. This apart, its success has been built on traditional banking principles: a focus on the core domestic business, sound management and avoidance of excessive risk, supported by a philosophy of socially responsible banking. As one chief executive commented, "This is not a matter of going back to basics, because we've always stuck to the basics"³.

Consequently, the 'Big 4' Brazilian banks look to be an increasing presence on the world financial stage in the years to come.

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1. *Evolving business models in banking*, KPMG International, September 2010.

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3. *Evolving business models in banking*, KPMG International, September 2010.



Protecting the seeds of growth

The rise of micro-insurance

By utilizing mobile technology and innovative new distribution channels, insurance providers are offering valuable protection to remote rural communities. As **Egidio Zarrella** and **Harry Hughes** explain, this gives greater financial stability to farmers in developing countries, helping them take the vital first steps to improve their economic status.

**Egidio Zarrella****Harry Hughes**

Hundreds of millions of farmers in the developing world live in daily fear of crop failure, natural disaster, loss of livestock, or death of the main breadwinner. Any one of these incidents could deprive a family of its income, beginning a spiral of decline that may last for several generations.

The emergence of micro-loans has presented an olive branch for many of the world's rural poor, helping them take the first steps towards an improved lifestyle. However, it only takes one typhoon, flood or drought to wipe out their ability to repay, and send them into the clutches of unscrupulous local money lenders. Without adequate financial protection, their entire livelihood remains under constant threat.

Attempts to sell insurance to farmers have been met with limited success. Many are illiterate, with little understanding of the basic concept of cover for life, property, contents and livestock. Paying upfront for such an intangible benefit is a leap of faith few have been prepared to take.

Insurance providers have also struggled to come up with a sound commercial model for this market. Traditional sales channels, such as agents, have proved ineffective in reaching a highly dispersed and isolated audience. The poor communications infrastructure also hinders insurers' efforts to find a safe, reliable way to

capture data, receive payments and handle claims.

Fraudulent claims are rife, but with most farms in remote locations, it's not economically viable for claims handlers to travel to a site to verify whether a cow has really died or a grain storage hut has burned down. Consequently many insurers either delay payments or refuse claims altogether, further eroding trust within the communities. Other providers have chosen to exit the sector, unable to make a profit in the face of such pressure. All of this has deterred reinsurers from investing in the developing economies, depriving the sector of much needed financing and slowing down the rate of market growth.

Bridging the distribution gap

Micro-insurance is a branch of the wider micro-finance phenomenon that aims to transform life in poorer rural communities. Rather than offering standard insurance products, providers across the developing world are introducing more relevant packages that may combine family and livestock

Paying upfront for an intangible service such as insurance is a leap of faith few have been prepared to take

(for life cover), as well as health, home, buildings and tractor insurance.

They're also finding increasingly innovative ways to reach customers, cross-selling through a wide range of channels such as mobile hospitals, family planning clinics, tea plantations, supermarkets, pharmacies and post offices. In Nicaragua, it's not unusual for taxi passengers to be offered health, life or home insurance by the driver, while in China, utility companies and meter readers are a prime source of insurance distribution, along with post offices.

Mobile technology is playing an important role in this expansion, covering 'the last mile' to connect providers with the rural community. Sellers are using mobile phones for signing up customers, taking payments and settling claims, which removes cash from the process to reduce fraud risks. There's also been a highly creative response to the excessive insurance fraud experienced within the sector. For example, electronic tags on farm animals enables swift remote settlement of claims and removes fraudulent moral hazards, paving the way for insurance capacity and cover. Similarly by viewing satellite pictures of properties, they can assess the real level of damage to property after a fire, flood or earthquake.

All this requires the cooperation of local regulators, financial institutions and telecommunications operators.

As the world's entrepreneurial poor seek to improve their lot, the availability of affordable insurance has the potential to give them much needed stability

By making life cover compulsory for any loan, the financial services authorities can significantly reduce the risk of lending money, which should stimulate more players to enter the sector. Combining lending and cover in one package also creates a basis for further cross-selling of products such as health, property, livestock and vehicle or equipment cover.

Knowledge is power

Having started out initially as a charitable exercise, micro-insurance has grown rapidly in the past two to three years, with the help of funding from reinsurers, banks and venture capital funds. The latter treat this sector like any other, placing preferred candidates on the Boards of providers, with expectations of a profitable exit after a number of years.

With fraud declining, and renewal rates rising, reinsurers are gaining more confidence in the market. In addition, with greater availability of reliable data on weather conditions and other variables affecting claims, insurers are able to evaluate risk more accurately, giving further comfort to investors. The establishment of meteorological indices can also benefit the farmers. Rather than wait for a claim, some providers are choosing to pay out an agreed amount automatically, should weather conditions such as wind or rain exceed a certain limit. This ensures that the farmers receive some money when they need it most, creating greater trust and loyalty, which should stimulate future sales.

Progress varies from region to region, with India and the Philippines currently the most developed markets for micro-insurance. China is making

considerable advances, thanks in part to a lack of bureaucracy, which allows regulatory changes to be pushed through quickly. In Brazil, sellers are making use of channels such as supermarkets and social networking websites. Growth has however been slower in Africa, despite the rise of regulated funeral insurance, and the urgent need for crop insurance as protection against drought largely continues.

As the world's entrepreneurial poor seek to improve their lot, the availability of affordable insurance has the potential to give them much needed stability, leaving them less prone to environmental disasters. Success is also dependent upon the financial literacy of the rural population. The Indian government is promoting the convergence of literacy with healthcare and financial inclusion, and micro-insurance addresses these issues, with providers working with local authorities to help educate the rural population and their families. The major global financial players are likely to become more and more interested in this sector, as it can accelerate the growth of a new middle class, thus creating a bigger market for traditional financial products.

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David Piesse, Chairman, Asia Pacific Operations, Unirisx, discusses a pioneering approach to selling insurance products in a developing country with **Egidio Zarrella** and **Harry Hughes**.

When government-run mobile medical units roll into small rural villages in India, they are not just delivering vital healthcare services. They're also helping an excluded section of society take the first tentative steps towards entering the financial system, with the hope of building a more prosperous life.

Staff in these 'clinics on wheels' are selling medical, life, property and livestock insurance to poor, often illiterate farmers. For people accustomed to the ever-present threat of floods, typhoons, sickness and injury, such protection offers a valuable lifeline, giving much-needed security over their livelihood.

As part of its growth agenda, the Indian Government wants its vast rural population to gain greater awareness of and access to financial



A view from the market

Going the last mile

Bringing insurance to remote Indian agricultural communities

services and healthcare. An example of one such initiative is a joint-venture between Jain TV, the largest rural distribution network in India, and Unirisx, a provider of state-of-the-art insurance technology.

A multi-channel approach

Given the enormous distances and the inaccessible terrain, it's not viable for insurance entities to operate a standalone team of sales agents. So, in a classic case of thinking outside the box, Mobile Banking Bima Services (MBBS, 'Bima' being the Hindi word for insurance), has utilized a number of innovative distribution channels. The mobile, hi-tech hospitals already treat thousands of patients in rural, tribal and hilly areas of India. Consequently local people have an intrinsic trust in the doctors working in these vehicles, and are comfortable buying other products and services from them.

The joint-venture is also making the most of its media connections. Jain TV has teamed up with state-owned broadcasting organizations, called 'kendras', whose bulletins give important information on weather conditions, crop prices, new agricultural technologies, insurance and credit facilities and state/government subsidies. This serves to both educate the target audience and market the micro-insurer's services.

The 'kendras', along with Jain TV's own news and current affairs programs,

rely on a network of members to gather agricultural news and other information from villages and remote rural areas. These individuals are embedded in the local communities, in some cases teaching literacy to adults and children, and many have been employed as sales agents for MBBS, building on their contacts and their standing in the villages.

Further sales outlets include 24-hour pharmacies and medical retail stores, post offices, family planning clinics and even tea plantations, all of which offer enthusiastic staff willing to promote insurance products on a commission-only basis.

Harnessing technology

Through the latest generation mobile phones, and a network of 'e-kiosk' terminals, MBBS is providing a fast, secure link between the customer and the processing teams at head office. In a short time, an agent can process an order, take payment, and deal with claims, all in a secure, cash-free environment. The kiosks even have the facility for live video links. Customer data can subsequently be used for further marketing activity.

Claims handlers are also benefiting from the latest remote technology. Satellite pictures on Google Earth™ help them check the extent of flood or other damage, and with livestock carrying radio frequency identification

(RFID) tags, claims can be remotely settled in a timely manner.

Facilitating trust

Trust is an essential part of building a sustainable insurance business. For example, situations have occurred in previous years where policies have only been paid in relation to wind damage, and those covered against floods received no payment, eroding trust in the insurance process. This highlights the importance of first paying a non-conditional emergency payment, followed by a second later payment based on indemnity loss, to engender confidence. To help address this issue, MBBS has introduced an automatic, 'no questions asked' payment scheme when weather conditions exceed a certain specified limit, the technological advancements described above enabling the weather to be closely monitored remotely.

This model chosen by MBBS is already making inroads into the states of Bihar, Uttarakhand and Madhya Pradesh, and has ambitious plans for further expansion, as it can be replicated across India and in other developing nations. By educating rural communities on the value of insurance, providers can help achieve greater financial inclusion, while building a successful, long-term business.

Insights

KPMG member firms provide a wide-ranging offering of studies, analyses and insights on the financial services industry. For more information please go to www.kpmg.com/frontiersinfinance



frontiers in tax, July 2010

frontiers in tax is designed to interest, challenge and stimulate financial services tax professionals by focusing specifically on the tax issues facing the global financial services executive. In this edition, we address the changing regulation; the emerging topic of living wills; and the growing focus on risk management in tax, emphasizing the need to build high performing tax function.



Transformation: The Future of Alternatives, June 2010

Is the Alternative Investments industry facing a new world order? What does the future hold for Alternative Investments? KPMG International Cooperative has conducted a research study with Investment Managers, Administrators and Institutional Investors to answer these questions.



Insights into Canadian banking, June 2010

Insights into Canadian Banking is a compilation of articles that address the issues impacting Canada's banking sector and their position in the global financial industry, including making sense of the multitude of regulatory change, the implications of the pending federal credit union legislation and tax implications relating to the acquisition of US banks.



Fill the glass to the brim: Analysis of the tax implications of UCITS IV and the impact for funds operating cross-border, June 2010

In cooperation with the European Fund Administration Asset Management Association (EFAMA), KPMG member firms across Europe have been studying UCITS IV to establish whether it works across different tax jurisdictions without adversely affecting administrative operations, the fund or the investor. This report is a summary of KPMG's findings.



Foreign banks in Japan 2010 Survey, August 2010

This publication is KPMG's annual survey of the published financial statements of foreign banks in Japan. The balance sheets and statements of income included in this survey are English translations of the March 31, 2010 condensed accounts for the 60 foreign banks registered in Japan.



Enterprise Risk Management for Insurers: China survey, March 2010

This survey of risk management by insurers based in mainland China and Hong Kong shows an increased familiarity with enterprise risk management. However, the strategies and approaches of the executives in the survey differ markedly in their sophistication. Therefore, does risk management continue to be overlooked as a key factor in strategic planning?



From cost to value: 2010 Global Survey on the CIO Agenda, June 2010

KPMG conducted a global survey on the CIO agenda, focusing on IT areas such as sourcing, risk and compliance, cost optimization and portfolio management, with an objective to help CIOs set their priorities for the future. The report highlights the changes in the role of CIOs following the financial crisis, as well as the impact of the crisis on IT investments.



UK Banks: Performance benchmarking survey, August 2010

This survey analyzes the 2010 interim results of the following banks: Barclays, HSBC, Lloyds Banking Group, RBS and Standard Chartered. It provides analytical insight into the banks' reported results within the context of an ever-changing political, regulatory and economic climate. It also shares insight into what can be expected over the coming period.

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