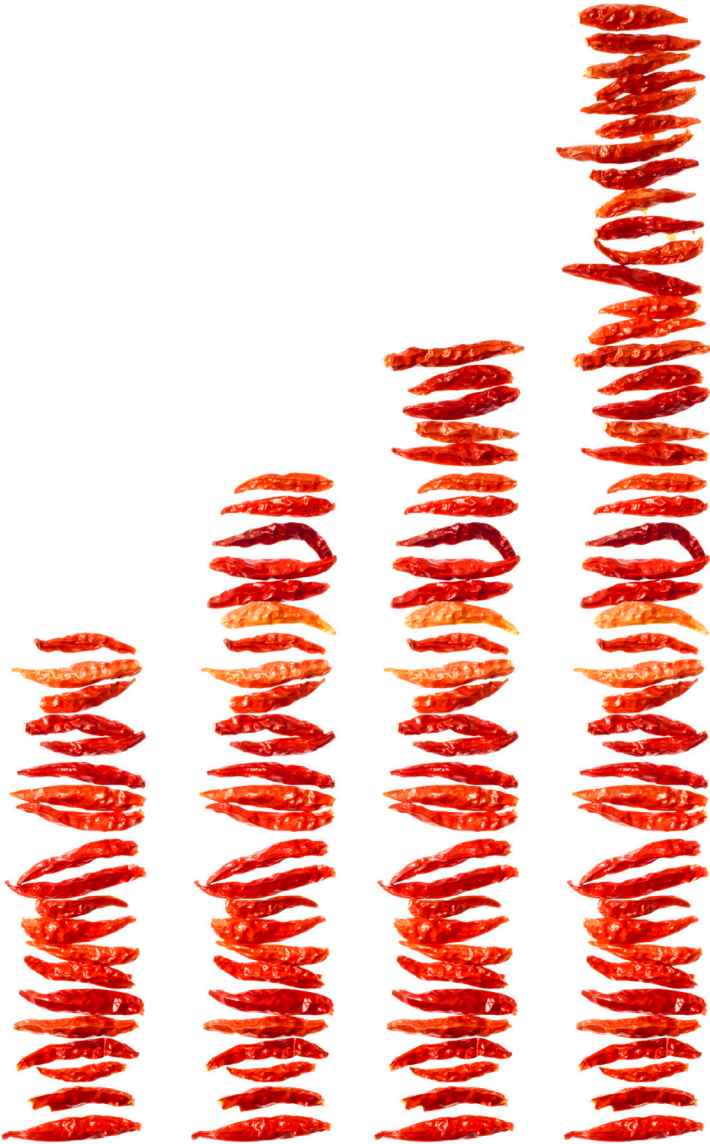


Elements for successful growth
in financial services
Poised for opportunities



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Profile of survey respondents

Figure 1:
Headquarters location

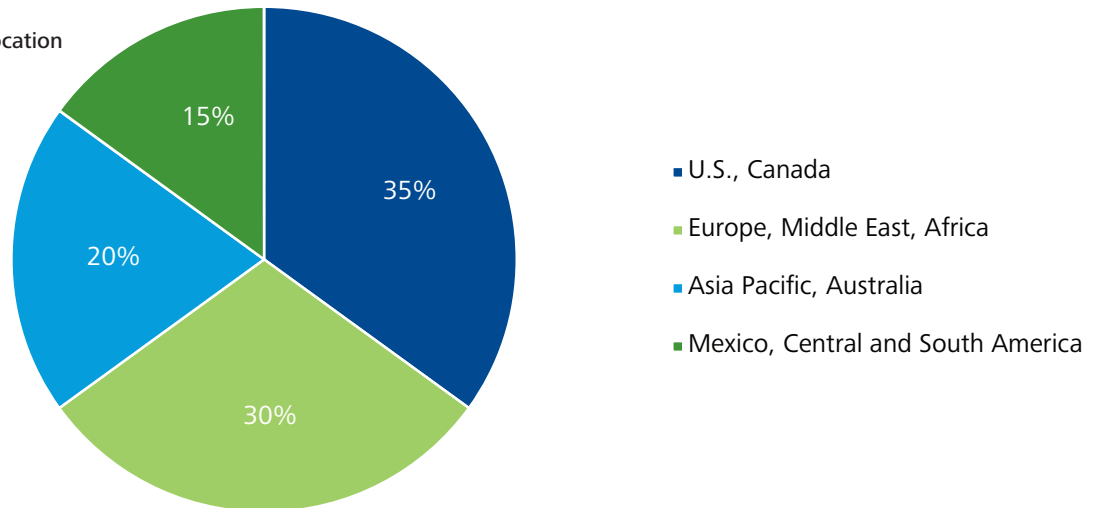


Figure 2:
Primary sector

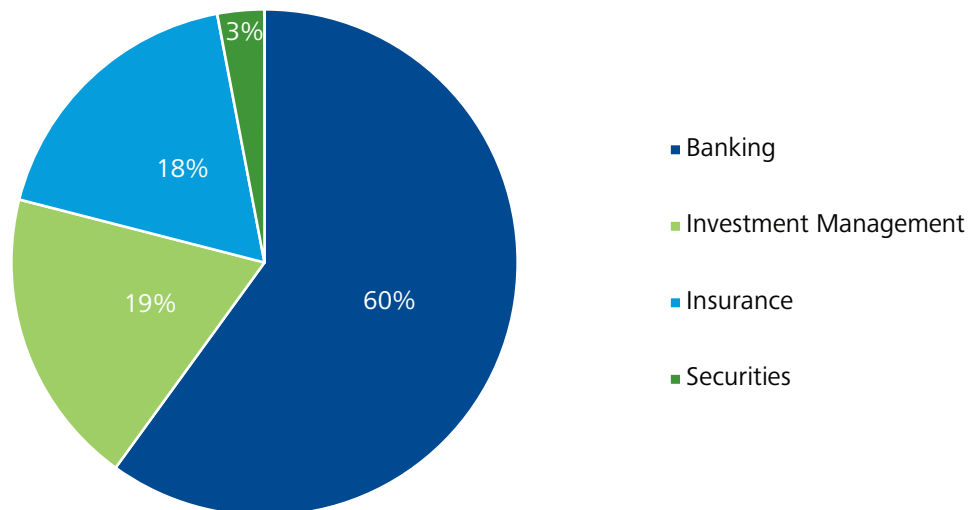
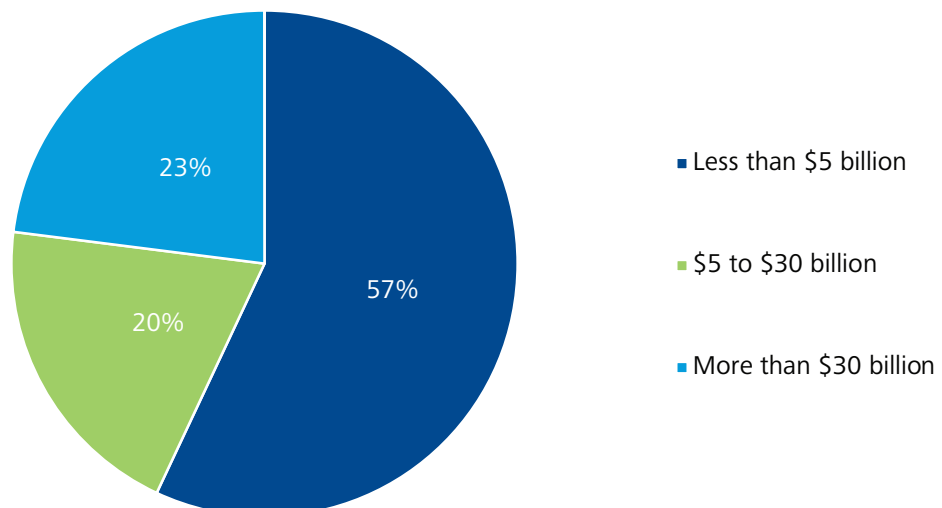


Figure 3:
Revenue



Foreword

Banks, securities firms, insurance companies, and investment managers around the world have spent much time over the last few years protecting their businesses from the shockwaves of economic crisis.

Many of these companies put growth and expansion plans on hold during this time, preferring to conserve what share of the market they could until more favorable business conditions emerge. For many financial services companies, that time is now.

This latest annual research report by Deloitte Touche Tohmatsu Limited's Global Financial Services Industry group examines four elements that contribute to successful growth:

- Getting fit for growth
- Managing for growth
- Controlling for growth
- Staffing for growth

Through telephone interviews with 200 senior executives on six continents, conducted during the first quarter of 2013, we explored a number of key themes:

- What steps are financial services firms taking in Europe, Africa, Asia, Australia, North America, and South America to expand their products and markets?
- How much competition are they facing?
- What issues do they face regarding infrastructure, data analytics, and talent?

By focusing on these and other questions against a strategic framework of products and markets, we believe many global financial services firms will be well-positioned to win the race for more customers and more business in the months and years ahead.

Regards,

A handwritten signature in black ink that reads "Chris Harvey". The signature is written in a cursive, flowing style with a long, sweeping underline that extends to the right.

Chris Harvey

Global Financial Services Industry Leader
Deloitte Touche Tohmatsu Limited (DTTL)

Getting fit for growth

Many of the world's leading financial services companies attained their prominence and scale through mergers and acquisitions. In many cases, the acquisitions that organizations made were not always a perfect fit, and eventually, those business units became outliers that either required too much capital, failed to generate sufficient revenues, posed regulatory challenges, or did not align with corporate strategy.

Following the global economic crisis, financial services companies began to scale down their organizations, both to become more efficient and to comply with regulatory mandates, such as Basel III, the Solvency II Directive, and the Dodd-Frank Wall Street Reform and Consumer Protection Act.

By divesting non-core activities and restructuring their business models, financial services companies began the process of getting fit for growth.

Products and markets

An integral part of this process is the assessment of multiple product and market strategies (Figure 4).

Figure 4: Product and market growth strategies

	Existing Products	New Products
Existing Markets	<ul style="list-style-type: none">• Share of wallet• Pricing strategy• Channel strategy• Customer acquisition	<ul style="list-style-type: none">• New product development• Channel strategies• Customer analytics
New Markets	<ul style="list-style-type: none">• Market entry strategy• M&A• New client acquisition	<ul style="list-style-type: none">• M&A• Market entry• Alliances/joint ventures



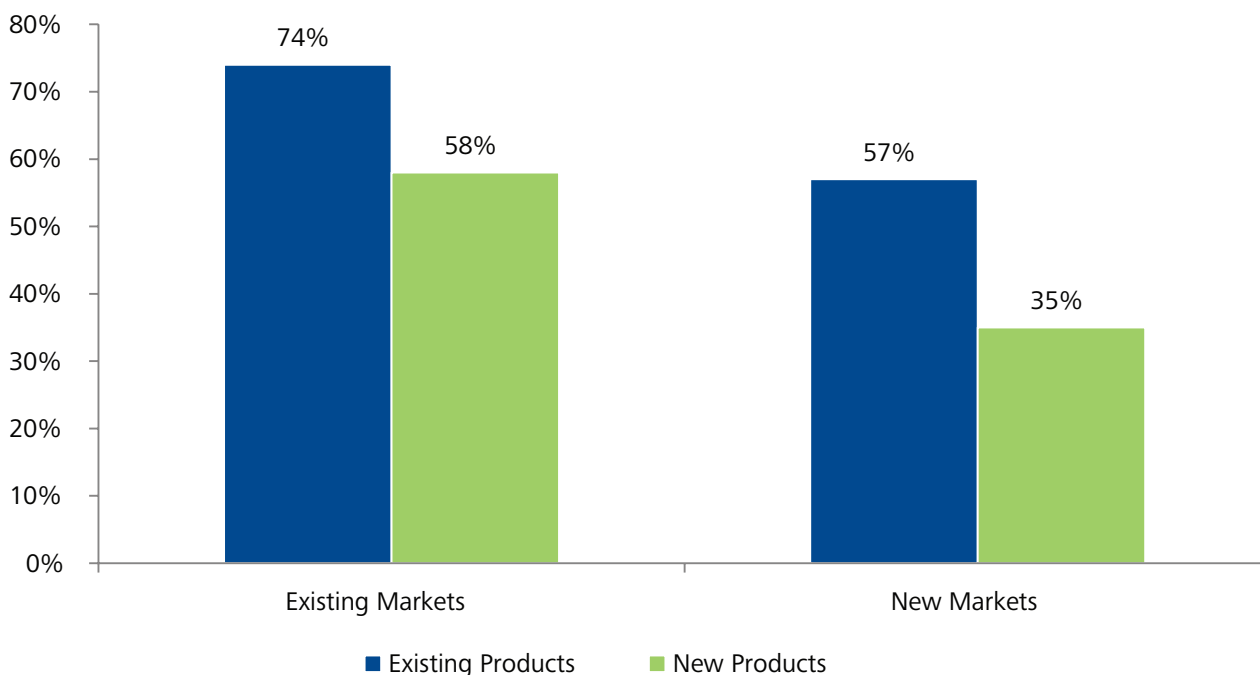
The most common product and market strategy is to offer **existing products in existing markets** by increasing share of wallet, acquiring more customers, and addressing both pricing and channel strategies. While companies may achieve additional organic growth in existing markets, the saturation of those markets, coupled with a high level of competition, could make the path of least resistance also the path of least reward.

The next most likely alternatives are to introduce **new products in existing markets** and/or offer **existing products in new markets**. The former requires a focus on new product development, channel strategies, and customer analytics, while the latter requires a focus on market entry strategies, M&A, and new client acquisitions. Both approaches offer higher risk and higher rewards.

The final product and market strategy is to offer **new products in new markets**, where the company is unknown to potential customers and where the market is unknown to the company. Here companies would focus on M&A, market entry strategies, and alliances or joint ventures.

According to our study, financial services companies' plans for growth mirror the possibilities in this matrix (Figure 5). Specifically, more companies are selling existing products in existing markets, fewer are introducing new products in existing markets or selling existing products in new markets, and even fewer are introducing new products in new markets.

Figure 5: What growth strategies, if any, is your firm currently pursuing?





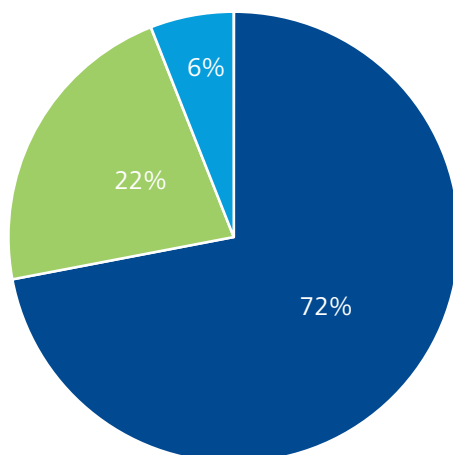
While most financial services companies are sticking with the products and markets they know best, many are also venturing into new territory in their quest for growth, as the following comments from our survey respondents show:

- “To be competitive in the market, we are reviewing our pricing structure and trying to provide new products in the market.”
- “To counter increased competition we have diversified our product portfolio, and increased our distribution channels and geographies.”

Competition is surging

Rising competition is one of the big reasons financial services companies are looking for growth in new products and new markets. More than two-thirds of our respondents say that competition in their industry sector has increased over the past 12 to 18 months (Figure 6).

Figure 6: How has the competition in your industry segment (retail banking, life insurance, mutual funds, etc.) changed over the last 12–18 months?



- Increased
- Remained the same
- Decreased

To cope with heightened competition — which is coming from both domestic and foreign entities as well as financial and non-financial companies — financial services firms are addressing a variety of strategic and tactical issues:

Technology: “Competition has become a bit sharp as the technological offerings are increasing and many of our competing banks are offering e-banking solutions, which requires heavy funding. The challenge is to keep the shareholders happy. We are using an advanced platform to be ahead of our competitors.”

Service: “We are concentrating more on customer service. We are following good market practices and are keeping in constant touch with our customers to make them feel valued. We are also coming up with strategies to attract more customers, like offering them products at better rates and pricings.”

Pricing: “We are competing with lower fees on some products. In some areas we have changed the incentive structures, and we have tried to bring in new products in the markets. From an organizational side more push has been given to advertising and branding.”

Marketing: “We do a lot of business through intermediaries who refer transactions, so we just have to be more active in interacting with them. We are constantly in touch with them and update them about what we are doing on product strategies and how we can make our marketing practices more effective.”

Value: “Our main focus is to enhance the product line and add value to our existing value chain. Today customers are more concerned about the value that they could derive out of their money spent on a particular product. So, if we can give additional value at the same price, then we can attract more customers.”



Balancing growth with cost and profitability

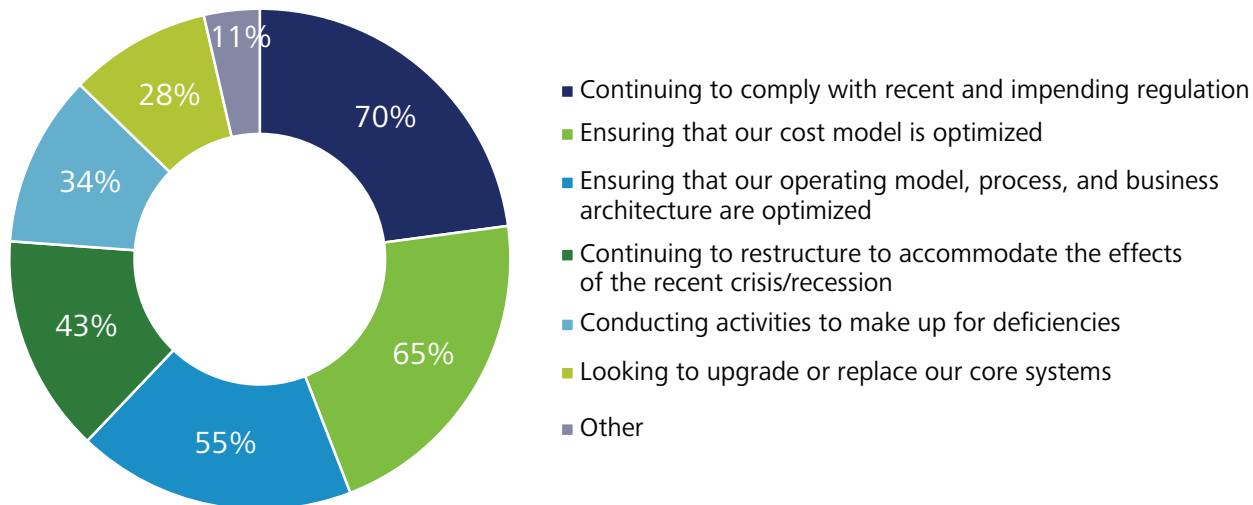
Growth requires investment, and investment impacts profitability. When asked how their companies plan to balance growth with cost and profitability, our survey respondents have a wide range of views:

- “We are focusing on selling non-core assets, increasing capital ratios, building liquidity and reducing risk. We're in a competitive marketplace, and we have to win business by understanding customers' needs and offering the best combination of products, service and value. The balance of cost and profit is there when business has its return on investment.”
- “In the long term, profitability is not the major concern, I think sustainability of our business and not doing anything wrong is more important, because we are willing to pay the cost in the short term if it can give us long-term sustainability.”

- “Growth at an additional cost is not the strategy. The idea of growth is to do more business and at the same time reduce cost. We cannot grow by increasing the costs. Our focus is to grow in the areas of our choice.”

In order to implement their growth strategies, respondents believe their companies need to continue to comply with recent and impending regulation, ensure that their cost models are optimized, and ensure that their operating models, processes, and business architecture are optimized as well (Figure 7).

Figure 7: Of the following, which are the top three activities you feel your company needs to address in order to implement its growth strategy?

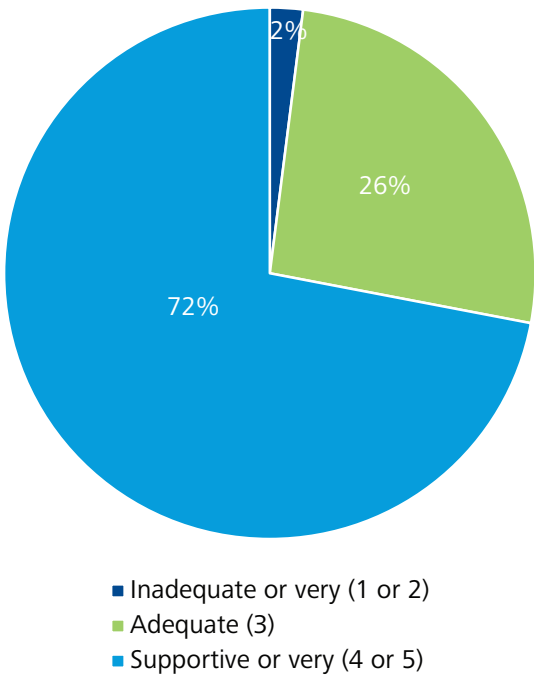


Note: Multiple responses accepted

Most respondents say that their core systems — which process daily transactions, and post updates to accounts and other financial records — can support their growth strategies (Figure 8). Only one-fourth expect to upgrade or replace these key resources (Figure 7).

By taking a balanced approach to growth, and investing in core systems to help carry out their strategies, financial services companies can position themselves to compete effectively in the coming years.

Figure 8: How well do your company’s core systems (e.g, back-end systems that process daily transactions, and post updates to accounts and other financial records) support your growth strategy?



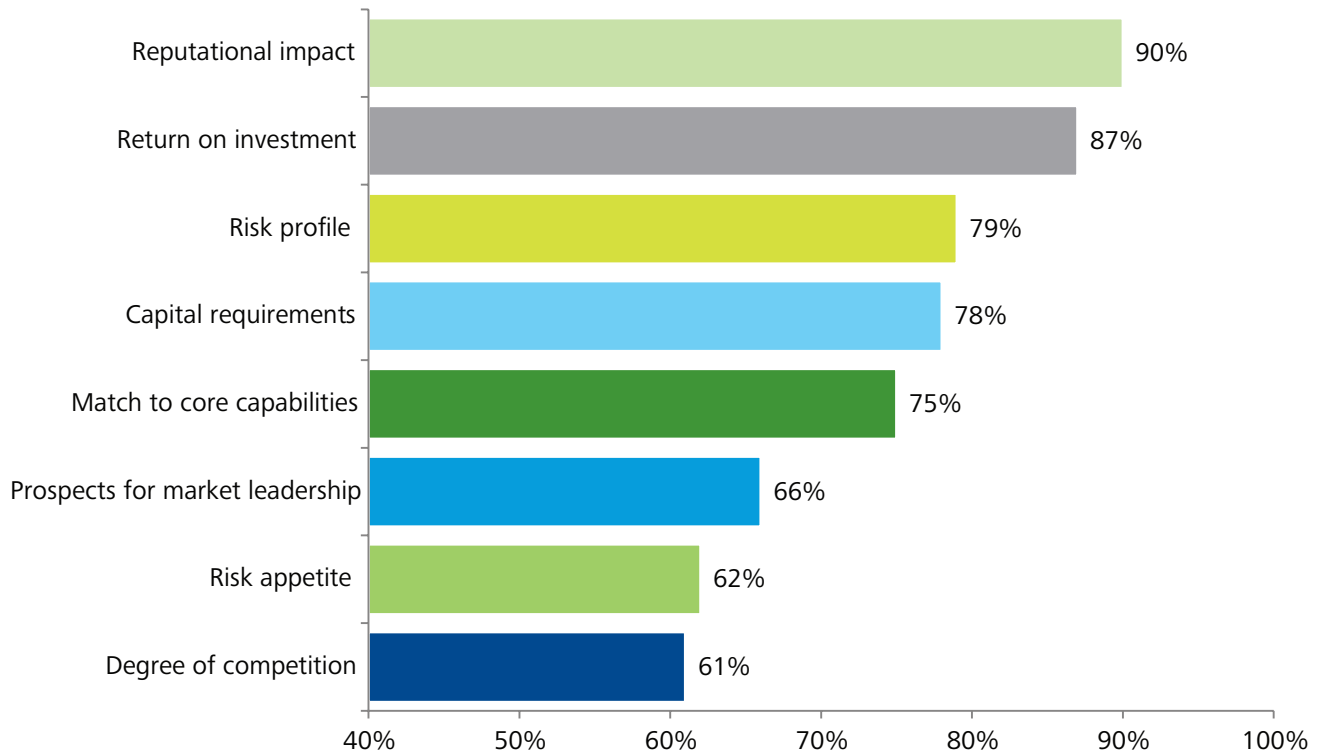


Managing for growth

As companies are preparing themselves for growth, having the right financial and other management information in place is of top importance. Ensuring that data can be translated into real intelligence is needed to enable targeted growth, and today many firms are operating on systems which do not enable the level of data management that would ideally be needed. Without the proper management information, firms can face a number of damaging issues when implementing a growth strategy.

While a number of factors are important when assessing growth strategies, it is not surprising that two stand out ahead of all others, according to our research: reputational impact and return on investment (Figure 9).

Figure 9: How important are the following focus areas that management in your company looks at when accessing one of the growth strategies?



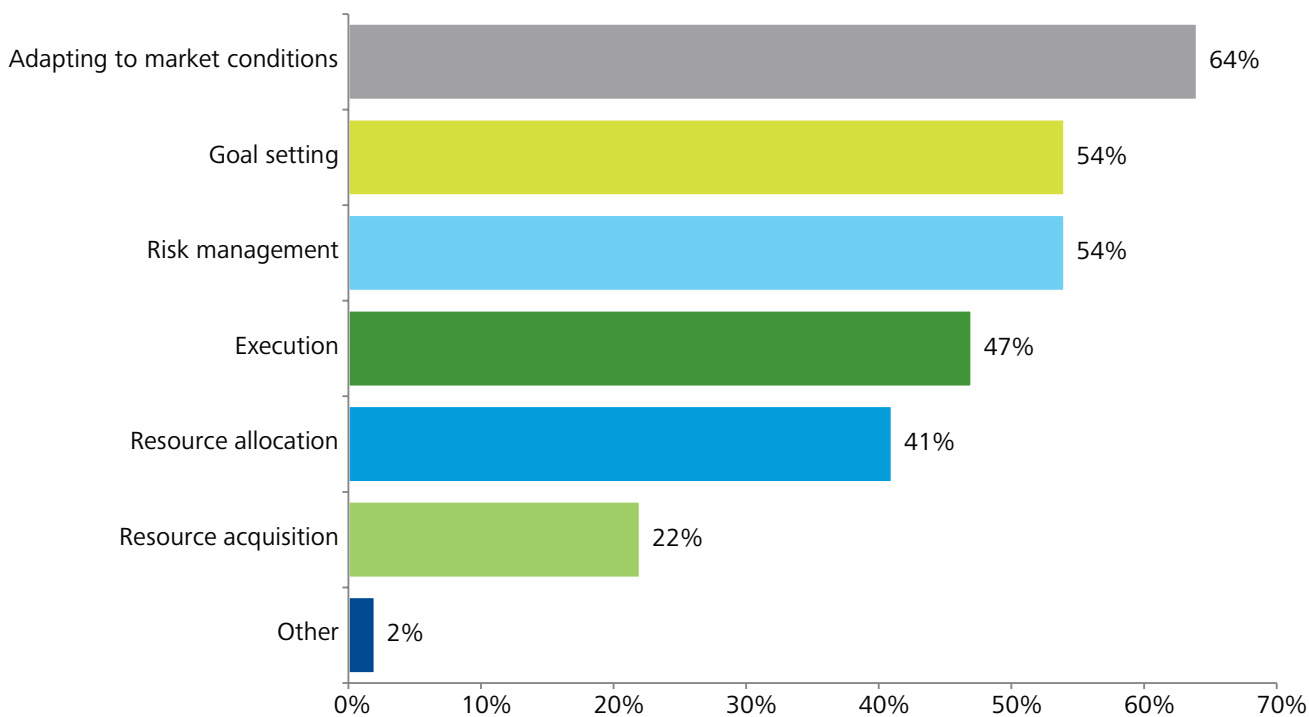
Note: Multiple responses accepted

Without sufficient ROI, organizations cannot continue to grow. However, in the wake of the recent economic crisis, reputation is just as important. Executives today recognize that they need a strong brand if they are to expand both within and beyond their current markets.

Respondents also acknowledge that the risk profile of possible growth strategies is also important, followed by the capital they require, and how well the strategies match their core capabilities.

As financial services companies consider new growth initiatives, respondents believe they have been most effective in adapting to market conditions, which have certainly presented challenges as the financial services industry has recovered from economic stress over the past several years (Figure 10). Executives also give themselves high marks for goal setting, risk management, and execution related to their growth strategies.

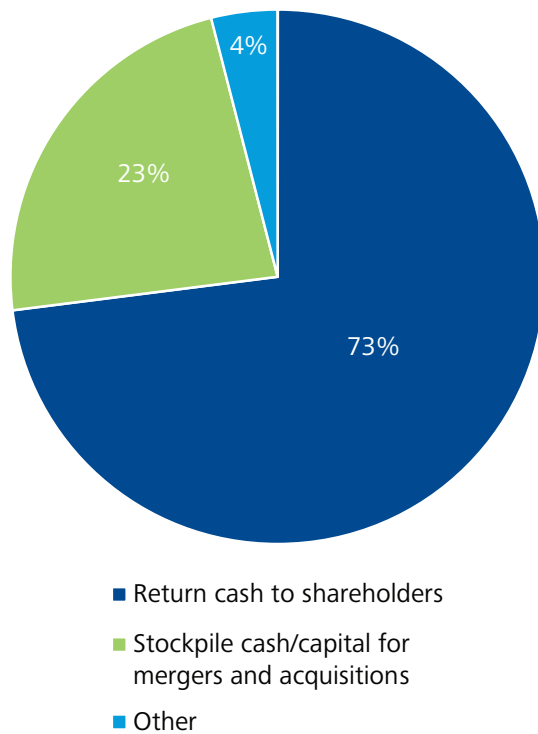
Figure 10: Of the following, which would you rank as the top-three most effective areas your company's leadership has used to manage their growth strategy?



Note: Multiple responses accepted

Financial services companies also recognize the need to reward investors for their patience and support throughout the economic crisis and subsequent recovery. Nearly three-quarters of our respondents say that they will return cash to shareholders once their new growth strategies have become profitable, while about one-quarter intend to retain profits for future acquisitions or other purposes (Figure 11).

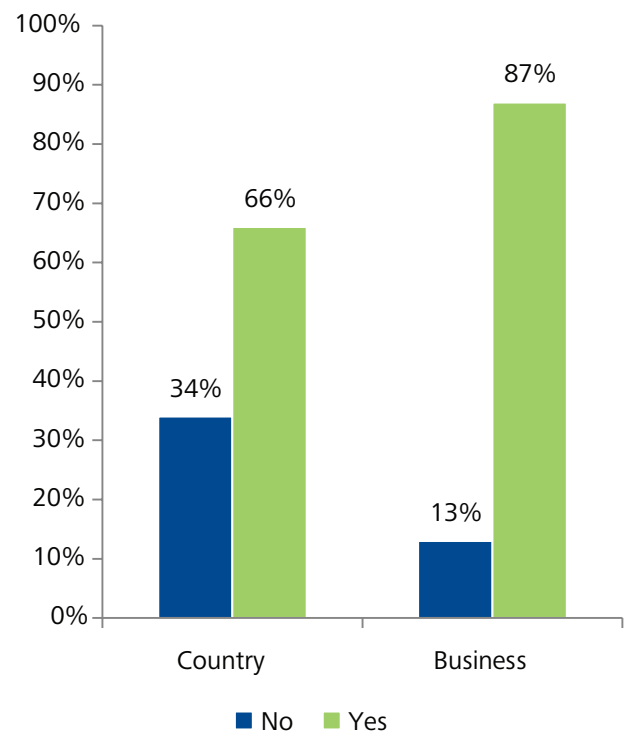
Figure 11: What is your company's plan of action once the growth strategies in place have been profitable?



Attitudes towards analytics

Having a robust technological and operational infrastructure is another important factor for growth. Nearly all respondents have an infrastructure that provides a comprehensive view of revenues business by business, while slightly fewer have an infrastructure that provides a holistic view of revenues country by country (Figure 12).

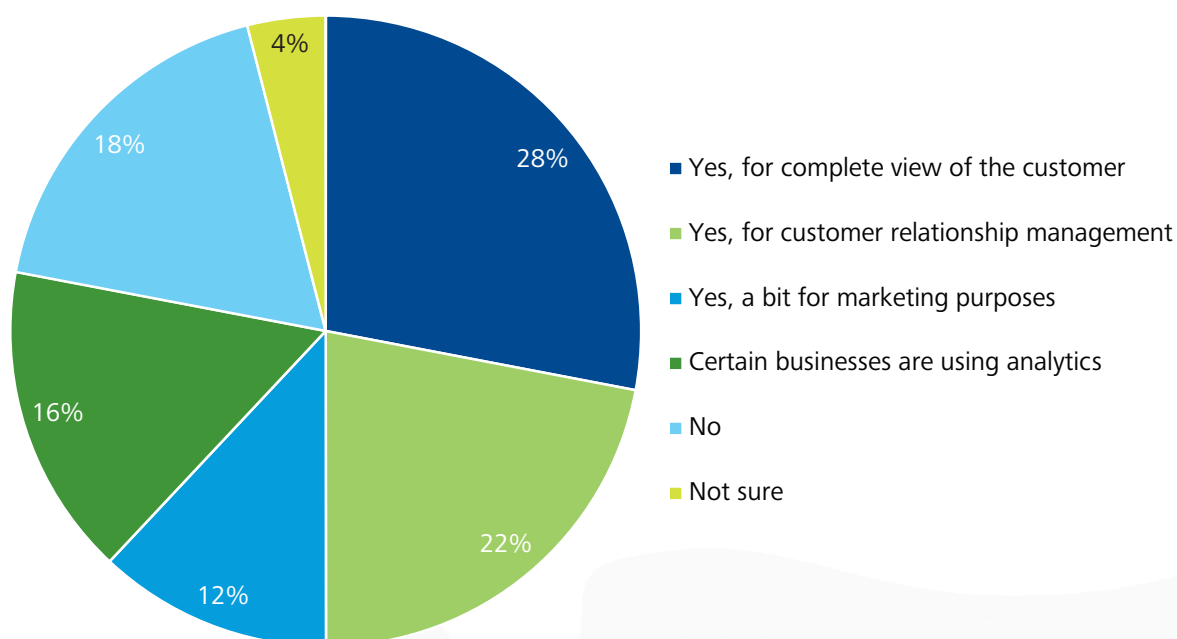
Figure 12: Does your infrastructure enable a holistic view of revenues by country and/or by business?



Like retailers and other consumer-focused businesses, financial services companies are employing data analytics when making key business decisions. Half of all respondents use analytics to either create a complete view of the customer or manage customer relationships (Figure 13).

Another one-quarter of respondents say they use analytics principally for marketing purposes or just in certain business units. Only one-fifth report that they do not use data analytics.

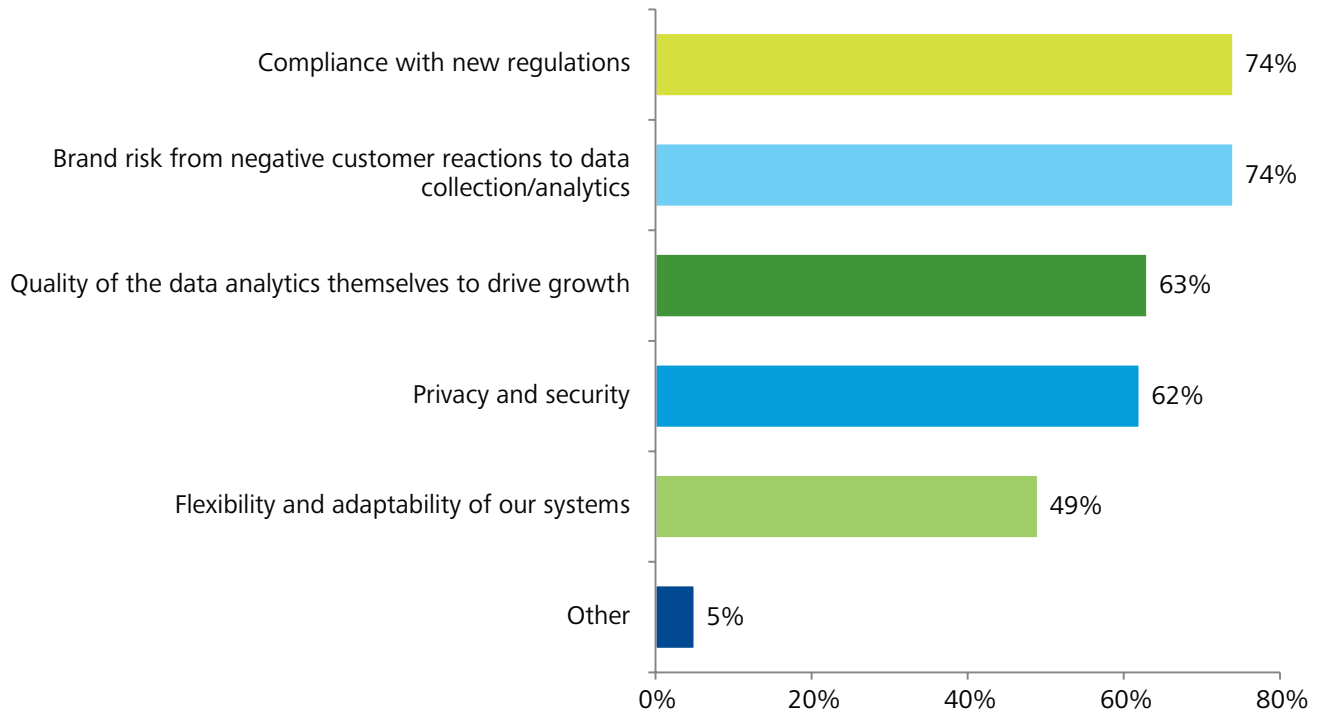
Figure 13: Is your company using customer analytics tools to gather data on customer behavior to help make key business decisions?



Financial services companies share several concerns about using data analytics to drive profitable growth. Three-quarters cite compliance with new regulations and potential brand risk from negative customer reactions to data collection/analytics as concerns (Figure 14). Slightly more than half say that the quality of the data analytics themselves and privacy/security issues are on their radar.

In an age when organizations in virtually all sectors are relying more and more on the power of information systems to help generate growth, financial services companies are wise to employ the power of data analytics prudently and carefully.

Figure 14: What are your three biggest concerns of using customer analytics to drive profitable growth?



Note: Multiple responses accepted



Controlling for growth

Growth results when reward outweighs risk. In any product and market strategy, it is essential to have appropriate controls in place to manage the broad range of risks that financial services companies face, both within their organizations and among their customers, their counterparties, and the countries where they operate.

Our survey respondents recognize the importance of having these controls in place to help manage risk:

- “We have a rigorous risk control and capital requirement function, as regulation is not going to get easier in the near future. Any new initiative has to be aligned with the risk management of our parent company.”
- “We are improving risk controls and monitoring systems at the bank. Moreover finalizing our systems rationalization processes is necessary to improve our risk management.”
- “We fully support an overall risk management objective, which includes a shift away from capital-intensive and nonadjustable products.”

- “We remain committed to forecasting and sustaining a strong, flexible, and productive risk management framework, one that will allow us to respond to market forces in a timely fashion while fulfilling our highest commitment to customer service.”
- “We have initiated a major transformation, designed to reduce risk and reposition businesses for continued growth in the current environment.”

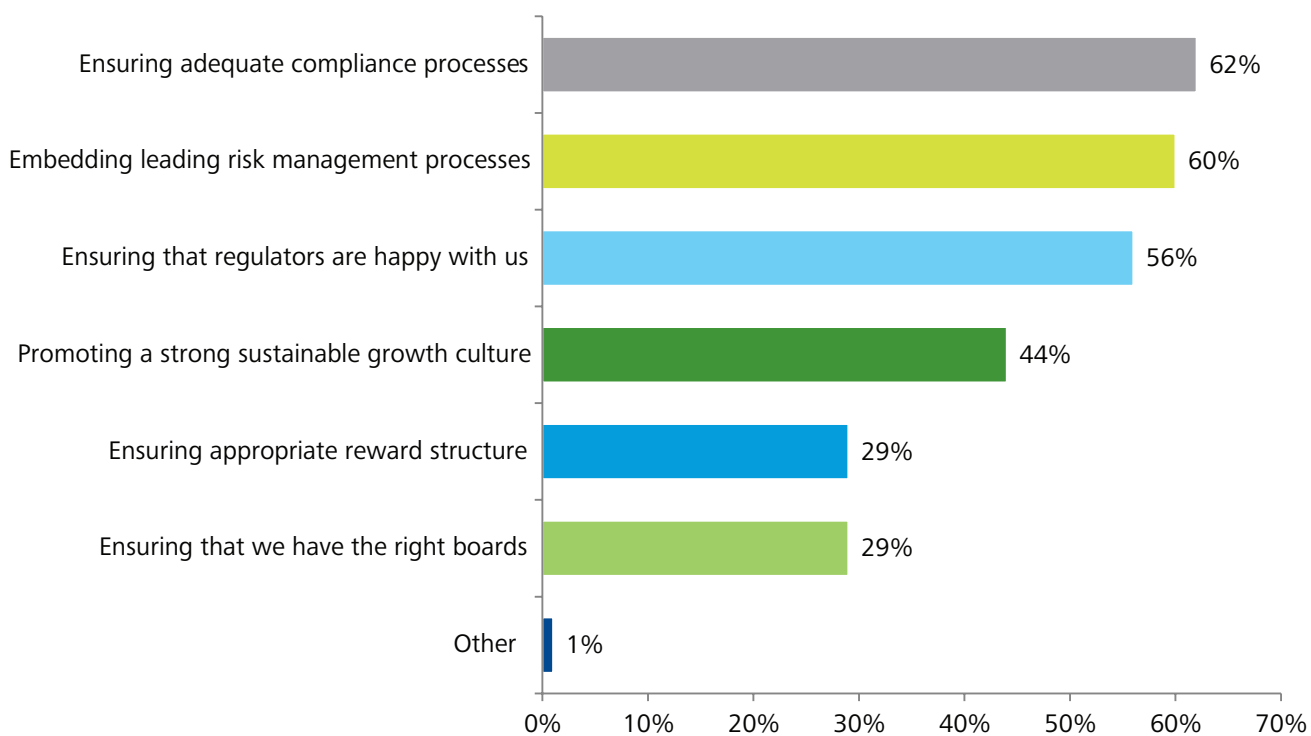
Looking for sustainable growth

Financial services companies need to have governance structures and risk management policies in place so that when ideas for sustainable growth emerge, there are controls in place that enable management to assess and implement those ideas effectively — whether they involve new products, new markets, or both.

Regulatory compliance and relationships with supervising agencies consume much management attention among global banks, securities firms, insurance companies, and asset managers. According to our study, financial services companies say that ensuring adequate compliance processes, embedding leading risk management processes in their organizations, and ensuring that they have effective relationships with their regulators are important steps for sustainable growth (Figure 15).



Figure 15: In the current environment, what are the three most important steps your company is taking to prepare for growth?



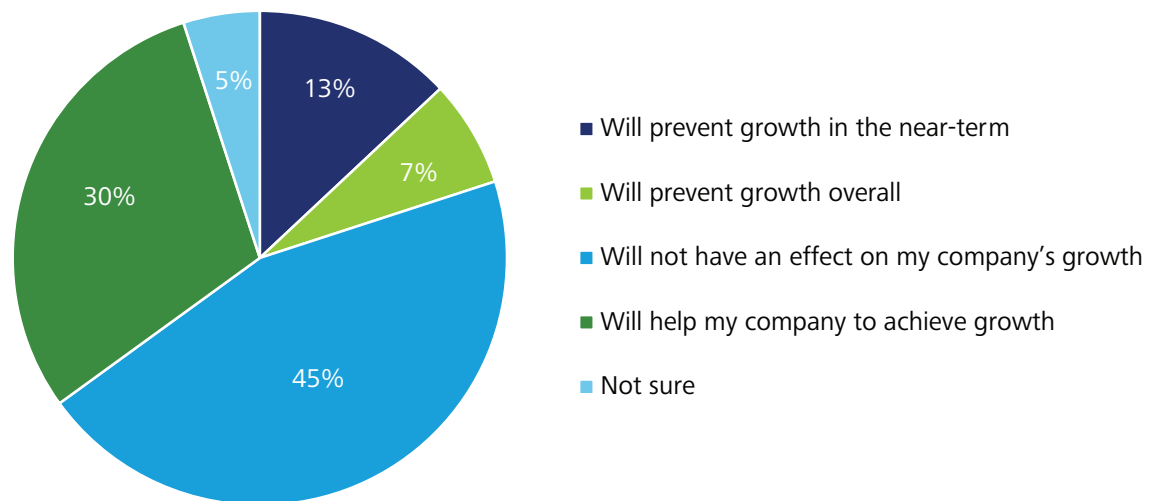
Note: Multiple responses accepted



Mandates for regulatory compliance are increasing in markets around the world, yet relatively few financial services companies see these new requirements as barriers to growth (Figure 16). On the contrary, nearly half of our respondents say increased regulations will

not affect the growth of their companies and nearly one-third say that the greater government oversight will actually help their companies achieve growth.

Figure 16: There have been a number of new government regulations that financial services companies need to comply with in the coming years. How do you think these will affect growth in your company?

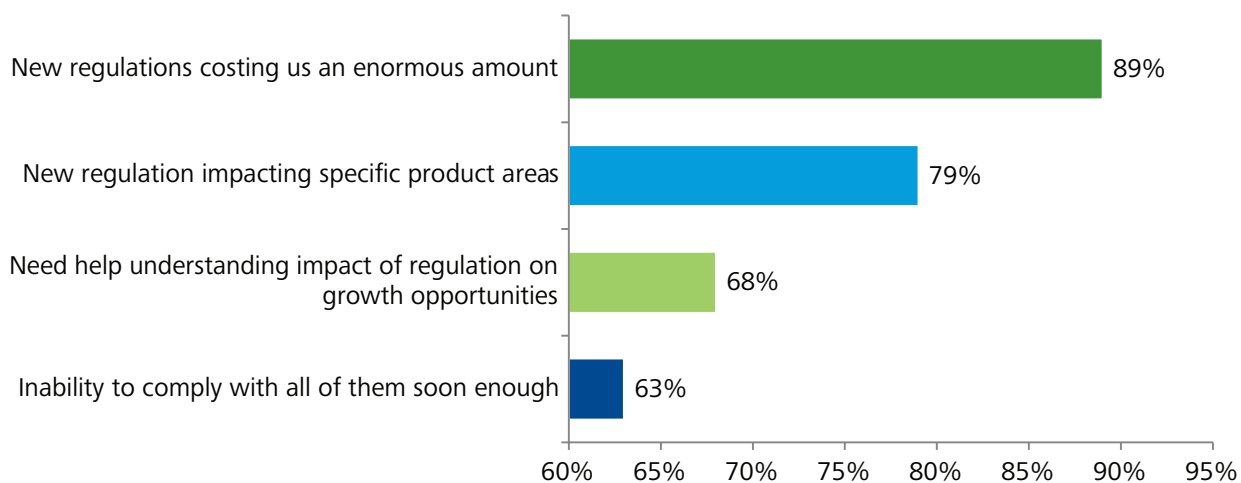




Among the relatively few companies that view greater regulation as an impediment to growth, most cite either cost or the impact on specific products as their leading reasons (Figure 17).

With proper controls in place, financial services companies can implement their growth plans confidently and effectively.

Figure 17: What are the three most important potential obstacles to growth from new regulations and compliance issues?



Staffing for growth

No discussion of growth would be complete without addressing the role of talent. As members of a service industry, financial services companies rely on the skills of their people to prosper. New business models, new products, and new markets require managers and employees who can not only develop strategies for growth, but also execute them effectively.

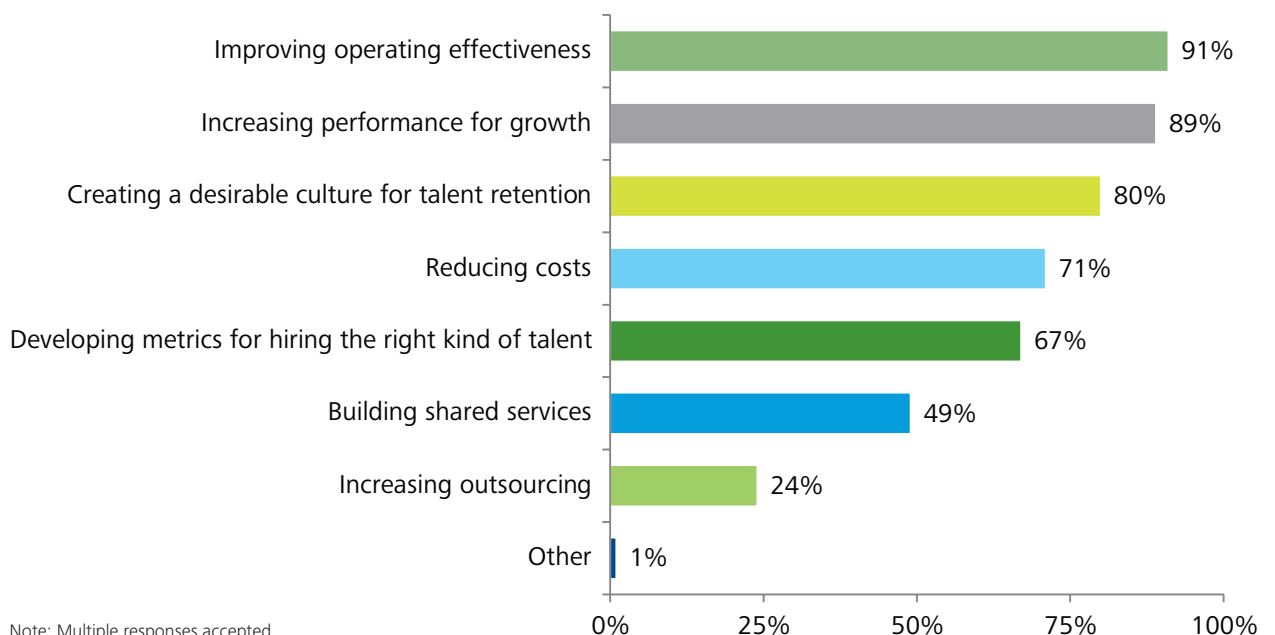
Comments from our survey respondents reflect the importance of attracting and retaining valued staff:

- “We have geared ourselves to tackle competition by hiring more talent and training the staff to improve the productivity.”
- “Our focus has also moved towards recruiting professionals, high caliber people, and retaining them.”
- “Experienced people are very tough to find and these people can solve tough issues very easily.”

- “We are continuing to recruit more people and we are doing what is required. The changing technology and customer demand is building up pressure on our product pipeline.”
- “We are doing a lot to cut costs and aim to maintain productivity, so we are recruiting more people and providing training to our staff.”

Having the right people doing the right things in the right way ranks high in the opinion of financial services executives. Well over three-quarters of our respondents believe that improving operating effectiveness, increasing performance for growth, and creating a desirable culture for talent retention are important drivers of their workforce agendas (Figure 18).

Figure 18: How important are the following drivers of your workforce agenda?

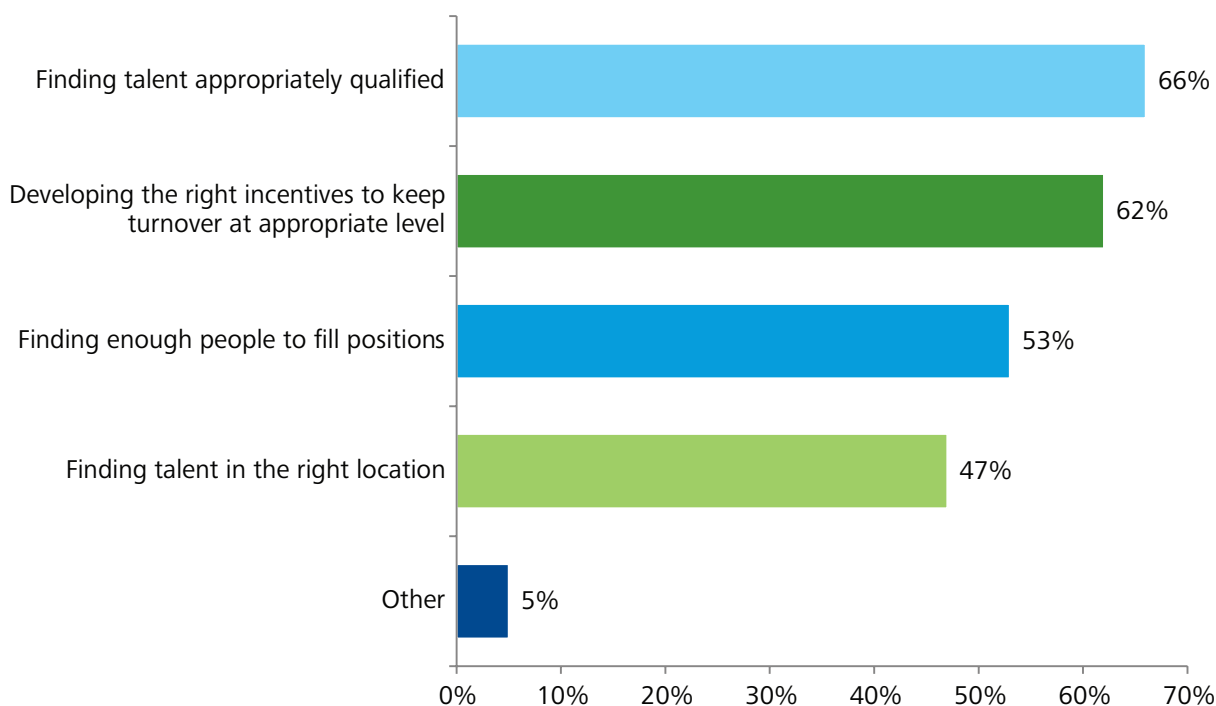


Many financial services companies were forced to reduce headcount and make other changes to their business models over the past few years. Now that they are adopting new product and market strategies to resume growing, some organizations are facing hurdles as they look to hire staff to help carry out their plans.

Staffing is a key requirement for strategic growth. Hiring motivated employees, tasking them with challenging responsibilities, and rewarding them for meaningful performance can help financial services companies reach their goals.

More than half of the companies we surveyed say that finding talent with appropriate qualifications and developing the right incentives to keep turnover at appropriate levels are important challenges to perpetuating their growth models (Figure 19).

Figure 19: How important are the following difficulties you have encountered in trying to obtain the right kind of talent to help perpetuate your growth models?



Note: Multiple responses accepted

Conclusion

Balancing for growth

Planning for growth is a continuous process. At various points in its lifecycle, a financial services company will find itself needing to focus on various aspects of a growth strategy — getting fit, managing, controlling, and staffing — for multiple products, businesses and markets. It is the balance of managing these four elements that will lead a company to profitable growth.

As evidenced in this survey, companies are working toward growth in a conservative, sustainable way. It is important that organizations develop a governance model that allows them to focus on these strategies for growth and maintain an appropriate level of attention among them.

Practically speaking, this means providing business units with adequate resources to foster growth and providing employees with challenging responsibilities to keep them motivated and engaged. Through this combination of resources and people within a management and governance framework, organizations can create an environment for innovation that can lead to further sustainable growth as they focus on the development of new products and markets. There is no single recipe for success, but by maintaining a balanced approach to growth, financial services companies will be ready to take advantage of business opportunities that they create.



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About the survey

The data presented in this report is from a survey conducted by The Marketing Audit, Inc. on behalf of Deloitte Touche Tohmatsu Limited Global Financial Services Industry group. The survey was conducted via phone interviews in the first half of 2013, and included feedback from 200 financial services executives.



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