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Deloitte CFO Survey

Spring 2018 | Denmark

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1. Foreword

During the past 12 months, digitalization has climbed up the Danish CFO agenda at a steady pace. The digital awareness among Danish CFOs is increasing and technologies such as cloud, visualization and robotics process automation (RPA) are at the forefront when it comes to digitalizing work processes and methods in financial departments.

In May 2017, we conducted the first Danish CFO Survey and found that only half of the respondents had a digitalization strategy for their financial department. This year, we track significant progress as two thirds of the respondents have a digitalization strategy.

Having a digitalization strategy enables an easier, faster and safer digital journey regardless of the size of the company. Further, when outlining a digitalization strategy, the CFO must contemplate the factors that affect a digital journey, and assess how to find talents that excel in both finance, analytics and digitalization.

According to the current CFO Survey, the lack of employees with the right skills is the largest concern for Danish CFOs in the year to come. Consequently, it poses a significant challenge for Danish companies in the global competition.

"I think the bookkeeper who reconciles accounts will largely disappear. In the future, robots and algorithms will be able to handle the job," says Christian Baltzer, Group CFO at Tryg, on page 3. Christian has 10 years of experience with digitalization and expects the role of the CFO akin to a "Chief Performance Officer": An officer who makes data-driven decisions with a crowd of employees that excel in coding, predictive analytics and machine learning.

Peter Jonasson, CFO in Banedanmark, is in the midst of a large and complex digital transformation process visible for the public at large: "There has been significant criticism of a perceived lack of financial management, and the fact that the trains have not been timely. For these reasons, customer satisfaction has fallen. It has challenged us. To reverse this criticism, it has been necessary for us to undergo an aggressive transformation." Read more about Peter Jonasson's strategic approach to digitalizing a government agency on page 10.

Digitalization of the company's core functions such as the financial department creates a gap between the most successful companies and the average companies. If you are looking to stay ahead in the digital transition, there is plenty of inspiration to get from the companies at digital frontline.

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2. Methodology

The Danish Deloitte CFO Survey of May 2018 signals how the priorities, challenges and digitalization processes have evolved in Danish financial departments throughout the past year.

The survey is based upon responses from 137 CFOs from Danish companies in the private and financial sector as well as a selection of public companies. With an equivalent number of respondents in the two previous CFO Surveys (May 2017 and November 2017), we are able to compare the answers and provide an overview of the main concerns on the CFO agenda.

Deloitte Denmark carries out the CFO Survey as part of a biannual European CFO Survey to provide you with relevant insights. The insights are divided into two areas: (1) prospects and challenges in relation to the business, and (2) prospects and challenges in relation to digitalization of the financial department.

Compared to the Danish CFO Survey of November 2017, there are two major changes. In this survey, we focus on the private and financial sector, covering 80% and 19%, respectively. Public companies cover 1%. We also enhanced the focus on companies with a higher annual turnover in order to include more companies with a digital focus. The number of companies with a revenue above 500 million DKK has increased with 10pp.



3. Executive summary

What are the perceptions, priorities and challenges of CFOs in Danish companies and how is digitalization moving ahead in the financial departments?

Increased optimism in a stable economy

- In general, the CFOs are increasingly optimistic about the financial prospects of their companies: 38% indicate that they are either "more optimistic" or "significantly more optimistic" about the financial prospects of their company (+11pp compared to November 2017). 78% of CFOs perceive the current financial and economic situation as being "normal" (+19pp compared to November 2017).
- In general, the surveyed CFOs indicate an increased willingness to take greater risk onto the balance sheet of their company and they expect revenue, operating margins, CAPEX and the number of employees to increase in the year to come.

The main challenge: Lacking the right competencies

- The greatest challenge for CFOs in the year to come is the lack of new candidates with the right competencies. Thus, 36% (+21pp compared to November 2017) of the CFOs indicate that a lack of new candidates may pose a significant risk for their business.
- When assessing the main barriers for implementing digital strategies in financial departments, the lack of competencies is again identified as a key challenge. Both a lack in competencies among current employees (24%) as well as a lack in new candidates with the right competencies (21%) are highlighted as main barriers.

Digitalization is an increasing priority

- The number of CFOs with a defined digitalization strategy for their finance organization has increased from 51% in 2017 to 66% in this survey. Thus, digitalization seems to have played an increasing role on the CFO agenda in the last year.
- The CFOs rate the preparation of their finance team in terms of digital transformation as increasingly "mature" and "very mature" (+11pp compared to May 2017).
- New digital tools particularly cloud, visualization, RPA and advanced analytics - are considered increasingly relevant. The digital tools are considered relevant for improving processes and engaging talent across the workforce.

4. The modern CFO is a business strategist rather than a digits champion

The CFO should lift his or her head from the spreadsheet and focus on working as a strategic sparring partner. The future for CFOs is about data analysis, performance and being able to see ahead to the opportunities of the next quarter, says Christian Baltzer, CFO for Tryg.

How did your background prepare you for your role as CFO? While the classic CFOs' responsibilities have consisted of creating financial statements and making sure that the books are correct, strategic work is taking up more and more of CFOs' time these days. The company's direction, risks and future opportunities are crucial considerations when making strategic decisions. As an actuary, one is trained to understand stochastic variance, the connected risks and the various sample spaces that one

What can you use your knowledge of sample spaces for?

investigates. I use this insight strategically.

We must recognize that it is not possible to say precisely where a company will find itself in a year or two, only that it will be found within a given sample space. Depending on where in the space the company ends up, as a CFO, I must know the reasons for the position and our options as a company. Is it a question of stochastic variation? Or should we make radical changes to move the business? This training and approach have a significance.

"In the 'old days', the dashboard was in focus, and the CFO kept track of the fuel supply and the speed. Today, the CFO should also be able to see if one is heading towards a curve."

How do you take on a strategic role as CFO?

It is not enough just to have control of the firm's financial history; I must also be able to answer the central question: How can we best exploit our capital? It is fundamental that I am able to look out the windscreen rather than down at the dashboard. In the 'old days', the dashboard was in focus, and the CFO kept track of the fuel supply and the speed. Today, the CFO should also be able to see if one is heading towards a curve.

Executive boards may be divided into silos with clearly defined fields of responsibility. Where does this put the CFO? CFOs must be able to play more on the others' half, and not just be a digits champion. For example, he or she must be able to understand the business-related issues that a head of sales or production faces. To be a strategic partner, a CFO must know how he or she can support other managers' objectives, and it is important to speak a language they can relate to.



Christian Baltzer graduated as an actuary from the University of Copenhagen in 2004. He has been with Tryg since 2009 and has worked with business development, business intelligence and analytics, among other areas, before being named group CFO in 2016. Baltzer will take up the position as CFO at Danske Bank on 14 October 2018.

Tryg is one of the largest insurance companies in the Nordic region, with operations in Denmark, Norway and Sweden. The company is listed on the Nasdaq OMX Copenhagen, and its 3,300 employees serve more than 3 million customers.

What language is it?

Storytelling is the bridge to making numbers intuitive, turning on the light bulb in other people's minds and motivating those who are not especially interested in figures. The CFO should be able to breathe life into the figures and make them intelligible. It creates value for the business when concrete and factual knowledge is drawn out of the data.

It sounds like there is much more to the CFO role than professional finance. What should one do to prepare for the future if one strives to become a CFO?

Understanding strategic and business structures is crucial, so thinking about business value is quite natural. You must help creating vision and be able to motivate an organization. If you cannot do this, it will be difficult to break out of the accounting role.

If we project the development that the CFO role has undergone, where do you see it in 10 years?

Assuming that robotics, automation, analytics and data are taking up more and more space in the corporate world, it would not surprise me if, in 10 years, we see organizations without a 'CFO'. "Assuming that robotics, automation, analytics and data are taking up more and more space in the corporate world, it would not surprise me if, in 10 years, we see organizations without a 'CFO'."

I can well imagine a setup where the chief accountant assumes the classic CFO responsibilities, and where management realizes the need for a new role that focuses solely on performance. For example, a 'Chief Performance Officer' might take several business decisions based on data and information and then be charged with extracting the maximum value from the capital that is used.

Which role do you as a CFO have in the digitalization process?

Basically, my role is about prioritizing and figuring out what supports the strategy the best and then work out where we will derive the greatest impact from our investment. When one



digitalizes and carries out a transformation, I must know, as CFO, how far we can go before our spending no longer returns any value. At some point, the burden of the transformation is greater than the added value. In achieving this balance, I have a central role and make sure that we invest in a responsible manner.

How do you weigh and prioritize the various initiatives at Tryg?

This task is partly about finding out how the customers' needs and the aims of the business are related to our new ideas and concepts. Correspondingly, we need to make clear how the funding of the new initiatives is handled. For example, does it come from new sales or via cost reductions? At Tryg, we have created what we call a bank where the business can pitch its ideas. It's a bit like the TV program Dragons' Den, where we, as the management, sit at the control column and prioritize capital to the right places in the company as good ideas come along.

Is it possible to follow up on the initiatives?

The follow-up is a challenge, but instead of looking only at the bottom line, we identify at least three KPIs that make up the success criteria for each project. For example, it could be a reduction in the number of full-time employees, or an increase in the number of customers converting to a sale. To better measure the impact of the initiatives, we sometimes carry out A/B testing with control groups. It is critical to design a good follow-up from the start, and it needs to be thought through. If the initiatives do not have the desired effect, they should be stopped.

While digitalization is taking place, there is often a need for increased cyber security. How much does this take up your agenda?

Cyber security is a basic prerequisite. Although you can never be 100 percent safe, you have to be robust and have the right procedures ready if there is a breach. Of course, Cyber security has to be invested in, but balancing is central. You can spend billions on Cyber security and set up several walls to secure your business, but this does not necessarily mean that the company is stronger or delivers a better customer experience. We can see that over 90 percent of all Cyber security breaches happen when a user clicks on a link or passes on his or her password in a phishing email. Therefore, education and internal understanding in this field are nearly more important than large IT walls.

How does digitalization affect the composition of employees in the finance function?

I think the bookkeeper who reconciles accounts will largely disappear. In the future, robots and algorithms will be able to handle the job. The classic accounting employee who ensures that the accounts are correct, that procedures are working and that there is the necessary dialogue with auditing will continue to be necessary. This type of employee will become even more specialized within their field as the complexity increases all the time. The new IFRS rules are not actually less complex than before, are they? For managers, the task is to be able to coordinate, cooperate, find the right profiles and master storytelling activities. While there previously was a need for professional management, today there is a need for leaders who are able to make the employees feel the unity and fellowship of the organization.

Which competencies are particularly in demand?

Being able to bring business value from the numbers. This requires employees who are able to code, make forward-looking analyses such as predictive analytics and communicate, among other things. Students should learn something about statistics, predictive modelling, machine learning and neural networks in various forms. In the future, we will experience new working procedures where machines and humans work together to complete tasks. We already have a group of analysts and actuaries who are working with big data and the technologies I have mentioned to predict the directions that constitute possible business opportunities for our company.

5. Analysis: Current risks and barriers

Significant risks for the business

The greatest challenge for the surveyed CFOs is the lack of new candidates with the right competencies, i.e. candidates that combine the traditional finance functions with new, digital disciplines.

36% of the CFOs - compared to 25% in November 2017 - indicate that a lack of new candidates may pose a significant risk for their business. The lack of new candidates with the right competencies ranked fourth in November 2017, but is now the top challenge for CFOs looking 12 months ahead.

Cyber risk is generally a high priority for CFOs and ranks as the second most substantial risk for the CFOs in this survey (27%). The risk of cybercrime is persistent, and having a detailed and well-planned cyber risk strategy is a precondition for doing business today.

In November 2017, reduction in demand ranked as a top risk by 41% of the respondents. However, in the current survey a reduction in demand ranks as the third largest risk (25%).

Barriers for digital transformation

According to the surveyed CFOs, the main barrier for starting a digital transformation is legislation and regulation (32%). The lack of competencies among current employees (24%) ranks second and

the lack of new candidates with the right competencies (21%) ranks third. Thus, the talent gap seems to represent a threat to CFOs in terms of business development and digitalization.

Whereas the CFOs of small and large companies agree that a lack of new candidates with the right competencies and cyber risks compose significant business risks in the year to come, CFOs of large companies seem more concerned about the lack of existing and new competences compared to the CFOs of small companies.

Figure 3



Figure 2

Top risks in the year to come*



6. Analysis: Digital awareness is progressing

Digitalization of the financial department has become a higher priority for CFOs compared to the May 2017 Survey. In general, the digital technologies are no longer perceived as "not relevant" and the number of respondents who "consider use" of the technologies is growing. The financial departments that use visualization tools are on the rise (up from 5% to 42%), RPA (from 14% to 30%) and cloud computing (from 30% to 42%) compared to last year. However, more than half of the respondents have not yet integrated the new digital technologies (cloud, visualization, RPA, advanced analytics, cognitive computing, in-memory computing and blockchain).

Figure 4

Application of digital technologies



Even though more CFOs consider the finance team to be digitally mature, many CFOs still rate their financial organization to be neither immature nor mature (38%). This may indicate that some finance organizations have not yet considered the benefits of digitalization.

Figure 5

Maturity of financial departments regarding digital transformation



The financial departments that do have a digital strategy in place indicate that the aim mainly is to reduce error rates (25%) and to reduce production and delivery times (18%). These were also the main priorities in the May 2017 Survey. Cost optimization, which was a top two goal in 2017, is now at the bottom of the respondents' priority list.

Figure 6

Primary goals of financial digitalisation strategies*

#1	Reduce error rates (May 2017: #1)
#2	Reduce production and delivery time (May 2017: #1)
#3	Increase flexibility and scalable solutions (May 2017: #4)
#4	Improve employee satisfaction (May 2017: #5)
#5	Improve decision-making support (May 2017: #2)
#6	Cost optimisation (May 2017: #2)

(*In previous surveys "Reduce error rates" and "Reduce production and delivery time" constituted a single category)

When assessing the functional impacts of digital transformation initiatives, this survey indicates that customer service is the centre of attention (46%), followed by sales (26%), production (24%) and IT (21%).

Figure 7

Functional areas benefitting the most from digital transformation



7. Digital technologies applied in finance

Within the next 12 months, several organizations will extend the digital initiatives beyond customer-facing functions to the middle and back offices. The 'core of the businesses – i.e. the financial departments – will experience the advantages of digital transformation, when CFOs start using technologies in their core systems to develop new digital capabilities.¹

Cloud computing

Cloud is a kind of computing that uses scalable, elastic technology to deliver services over the internet. Instead of making large investments up front, finance departments can get the full stack of finance functionality "as-a-service," delivered through public, private, or hybrid clouds.

Figure 8



Robotics Process Automation (RPA)

Process robots automate transaction processing and communication across multiple technology systems. Robots perform recurring processes just like humans, but with less risk of errors and fatigue.

Figure 9

Robotics Process Automation (RPA)





Visualization

Visualization refers to the innovative use of images and interactive technology to explore large, high-density data sets. Visualization suites complement business intelligence and analytics platforms, offering rich graphics, interactivity and usability on par with leading consumer experiences.

Figure 10

Visualization Technology integrated to some degree



Advanced analytics

Analytics has long been part of the finance arsenal, but new techniques are helping business people tackle the crunchy questions with insightful answers. Often that means combing through big data to see patterns that suggest future opportunities.

Figure 11

Advanced analytics



Cognitive computing

Cognitive computing and artificial intelligence (AI) simulate human thinking. This technology includes machine learning, natural language processing, speech recognition and computer vision.

Figure 12

Cognitive computing Technology integrated to some degree

May 2018 9% May 2017 3%

In-memory computing

In-memory computing refers to storing data in main memory to get faster response times; because the data is compressed, storage requirements are reduced. The result? Speed and access to quantities of data that were previously unimaginable.

Figure 13

In-memory computing

Technology integrated to some degree

May 2018 7% May 2017 4%

Blockchain

Blockchain is a digital distributed ledger, where transactions are verified and securely stored on a network of distributed and connected nodes, without a governing central authority.

Figure 14

Blockchain

Technology integrated to some degree May 2018 2% May 2017 0%

1. Source: Deloitte Tech Trends 2018: The symphonic enterprise

8. Aggressive transformation across the board

Mega-projects worth billions that will change society, transparent transformation and digitalization out in the open: Banedanmark's Chief Financial Officer is on a razor-sharp journey.

You are the Chief Financial Officer (CFO) of a large public construction company with a dense agenda. What has changed the most in recent years?

The number of complex mega-projects that Banedanmark runs has grown significantly. In the past, we did not have such projects, those running between five and ten years and with a budget in the double-digit billions. Today, they have become part of our core business; thus, we are working on the Copenhagen–Ringsted and Ringsted–Fehmarn extensions, and on the signal and electrification programs.

What does this mean for the complexity of your organization?

Our level of complexity is growing significantly. The changes brought about by the mega-projects affect the entire business and the way we act. At the same time, our mega-projects are a prerequisite for other very large investments, so there is obviously a great deal of political awareness. For example, the electrification program is crucial for future train operations. It requires a special focus of the organization to handle so many community-changing mega-projects at the same time.

Was it also the prospect of working with mega-projects that originally motivated you?

Definitely. It is hugely motivating to work on such large projects and programs, just as there is a problem-solving aspect to the work that is interesting. I have become keenly aware that you should not be afraid of problems when working as a CFO.

How has your current task composition affected the financial function?

Banedanmark achieved remarkably impressive streamlining throughout the '00s, but as the size and nature of our programs have changed, something new is required of the entire company to achieve the same level of efficiency. Today, the finance function has to be extremely business-oriented and possess a deep business understanding, because it must be a central part of the solution of our tasks. We have had to accept that the right solutions last year are not necessarily the right ones today.

How has that change been?

We have paid a lot of attention to articulating the new reality and

trying to promote the right community culture, and to centralizing the finance function as a 'center of excellence'. It has been important for us to be an integral part of the project management process, so economics is not only about control. It must not be. We must be a part of the solution. We must not slip into just being the spreadsheet controller; we must be an active part of the steering committee.

"It has been important for us to be an integral part of the project management process, so economics is not only about control. It must not be. We must be a part of the solution."

Did you succeed with that?

We have had a good deal of success. Two years ago, I could not have imagined that the tasks and complexity we would face would be so great. It is no secret that our tasks, the complexity of the organization and the speed with which the transformations have happened have challenged us. However, we receive good feedback from every part of the business. Others notice that my people contribute positively to the assignments, which is a great gift for them, because we are always in a rush and things have to work.

What has challenged you most about the transformation process?

The speed and size of the transformation have been the biggest challenges. These are happening in almost all of our core areas simultaneously, such as the digitalization of traffic management, relocation, outsourcing and so on. In addition, there has been significant criticism of a perceived lack of financial management, and the fact that the trains have not been timely. For these reasons, customer satisfaction has fallen. It has challenged us. To reverse this criticism, it has been necessary for us to undergo an aggressive transformation.



"Data is gold, and it must be put into a business context to realize its full value. Therefore, data must never become a purely technical discipline."

How do you, as a manager, get the organization along in that situation?

The managers play a key role and, for those of us in charge, we are infinitely dependent on their proficiency and well-developed management skills. They are, and will continue to be, central to our success and whether we, as a firm, manage to build the right culture. The CFO alone cannot do this. It requires very strong management teams throughout the organization; therefore, management will always be a major focus. We cannot forget this in a time when technology and digitalization dominate the headlines.

What role does the firm's public organization status play in the transformation?

Transformation takes place out in the open. Everyone can follow the process, whether it goes back or forth, or up or down. This

is a prerequisite when working with other people's money; it is a framework condition. By contrast, in private companies, you may have the opportunity to be more closely guarded and only launch when done.

Who has driven your transformation forward?

Obviously, the financial function is highly placed, and managing the economy is a very special position. As the CFO, I am therefore able to take the lead in development and push the organization to move in the right direction. However, since I make the final decisions after many meetings, it is important to take responsibility for those decisions, too.

Does it apply to the entire digitalization area?

As a CFO, one can do a great deal of service by considering data as valuable in the context of good financial management. Data is gold, and it must be put into a business context to realize its full value. Therefore, data must never become a purely technical discipline. I can succeed with my financial management, digitalization and transformation efforts if I manage to use data well: it goes hand in hand. Data protection is, therefore, a core component of my strategic agenda.

Peter Jonasson is a political science graduate of the University of Copenhagen and has been Banedanmark's CFO since 2016. Prior to that, he was a university director at the Copenhagen Business School.

Banedanmark is a state enterprise under the Ministry of Transport, Building and Housing with more than 2,000 employees. The company is responsible for ensuring that passenger and freight trains run around the country, that the track is maintained and that rail projects worth billions are being carried out. Banedanmark's head office is located in the Østerbro neighborhood of Copenhagen.





Why is data so central?

If you want more and better digital processes, structured data is a prerequisite. We work with robots, and as long as the data is provided correctly, they can solve the tasks very well, but there is a huge demand for data quality. Advanced models and algorithms typically break down because their data are unstructured or inadequate.

How do you work with data governance and taking advantage of the opportunities it provides?

We have established a data and digitalization unit that reports to me. Their task is to centralize data protection and help spread digitalization projects throughout the company. They work extensively with pilot projects and digitalization models and are a place to test new digitalization ideas and efficiency opportunities.

Do you see the unit as a lasting feature, or can you get to the point where data use is a normal part of the business?

Yes and no. Just as businesspeople need to be educated to think about economics, they should also think of digitalization, and every director should have a digitalization strategy for his or her area of interest. This keeps us from shifting responsibility for thinking about digitalization out of the rest of the business and parking it centrally. Still, I always think there will be a need for a center of excellence that can deliver the crosscutting skills, even though the whole business is increasingly thinking about digitalization.

How will it reflect on the organization?

We will implement far more, and far larger, data-driven models. We will increasingly start making use of 'predictive maintenance', sensors and the 'Internet of Things' (IoT) to make even more datadriven decisions. The signal program will be the largest single IoT project in Denmark. As such, our divisions will experience a huge change in what it means to be a maintenance organization.

What meaning does public awareness have for the development of your smaller digitalization projects?

Our pilot projects have clear stopping points, so there is strict control over how much time and money we spend on them. Even though we are a public company, we must be willing to invest, because it is worth trying out new technologies in practice. We must allow ourselves to test things and write off smaller investments to see what a given potential really is and where the digitalization benefits truly are.

9. The European Deloitte CFO Survey Spring 2018

This is the third time Deloitte Denmark takes part of the European CFO Survey: A biannual report conducted across 20 countries in Deloitte EMEA. If you wish to gain insight into the perceptions of the European CFOs and compare these to those of the Danish CFOs, you can download the European CFO Survey <u>here</u>.





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