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ICG Industry Insights Review

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About this Report

The ICG Industry Insights Review presents timely abstract reviews of the most relevant 'open published' perspectives and research reports from the world's leading branded management consulting firms.

ICG's Review ensures that executives and consultants are exposed to the widest range of high quality ideas, techniques and methodologies developed across the management consulting industry globally.

Relevant insights are identified and classified once only, either in a general category or by topic alignment to an industry segment or a functional area using our proprietary taxonomy.

Access to Full Reports

If you find an insight of interest and wish to access the full report, simply click the link beneath the title. Where possible, this will take you to the full report. Occasionally, the publisher may require the user to complete a registration or payment process prior to accessing the report.

Insight Sources

ICG sources candidate insights for review from the best and most relevant material published openly by (at least) the following branded consulting firms:

- Accenture
- AT Kearney
- Bain
- BCG
- Booz and Co
- Capgemini
- Deloitte, Touche & Tohmatsu
- Ernst and Young
- FMCG
- IBM
- KPMG
- McKinsey and Company
- Oliver Wyman
- Promontory
- PWC
- Roland Berger

Contents

Financial Services:
Industry Economic Context

General

"Elements for Success" – Deloitte

>> VIEW PDF (21 PAGES)

In this survey of 120 financial services executives across sectors and geographies Deloitte identifies five key elements for success in the new world (the "5 r's"): restructuring, returns, relationships, reporting and risk management.

We found the following the most insightful: the stark difference between growth prospects in banking and those available in asset management, insurance and securities (nicely portrayed in Figure 8); 29 per cent of respondents are "expecting many more additional regulatory changes" (Figure 14); the high ranking of Data Quality as a key area of focus.

Lastly, we refer readers to review the bottom of Figure 22 for a new "7-s style" diagram of the business institution and a distillation down to the 5 r's as key themes in the report.

"Economic Conditions Snapshot, June 2012: McKinsey Global Survey Results" – McKinsey

>> VIEW PDF (6 PAGES)

This survey attempts to provide a barometer of sentiment on the global economy over the previous quarter. In practice, it reflects more the sentiment over the week of survey completion – and hence does not provide a quarterly trend.

McKinsey tries to correct for this by interpolating with the required blend of glass half full or glass half empty narrative. So for example, this month's "correction" for the Greek elections is the apparent good news that only 15% of respondents expect demand to fall for their products and services.

Financial Services: Industry Categories

Retail Banking

"Global Consumer Banking Survey 2012" – E&Y

>> VIEW PDF (64 PAGES)

E&Y's annual consumer survey asked 30,000 retail banking customers across 35 countries, including 1,000 in Australia, what they expect of their financial institutions. Most tellingly, just 39 per cent of Australian customers thought their bank adapted its products and services to suit the customer's changing needs over time – significantly below the global average of 44 per cent. More encouragingly, 72 per cent of Australian customers would give their bank more personal information if it resulted in tangible improvements to the suitability of products and services offered. That echoed the global result (70 per cent) and E&Y rightly argue that these results illustrate the importance of adopting a tailored, customer-focused approach.

Despite bank marketing, E&Y find price is the primary driver of customer satisfaction: 35 per cent of Australian consumers list fees and charging structures as an area their bank could improve to increase satisfaction, compared with just 22 per cent globally.

This annual E&Y event is always a solid helicopter view of retail customer trends. Despite the difficulty comparing radically different market places, the global forces are clear and so too are the lessons. Customers expect more customisation of product and service but remain sceptical of fees and charges and are prepared to give banks a chance with more information.

"Innovation and the Future of Credit Cards" – McKinsey

>> VIEW PDF (8 PAGES)

In this release McKinsey applies a North Atlantic prism to the outlook for credit card markets. Importantly, the distinction between short-term profit recovery and longer-term structural threat is relevant to all markets. Profit-wise McKinsey stresses the need to focus on lending, the mainstay of the business, but identifies three other "catalysts": the rise of the interactive shopping experience; the power of big data; and the need for better and more flexible infrastructure.

McKinsey observes that competition is looming from non-traditional payment providers and substitute products, both in-store and on-line. This is hardly new. More insightful is that lending too can no longer rely on tactics such as low-rate balance transfers and teasers; rather McKinsey stresses new capabilities in targeting, underwriting and line management. Crucially, McKinsey suggests that the new shopping experience is where most threats lie and payment providers must be more integrated in the transaction. To do this, "big data" and more flexible systems are fundamental.

“The Evolving Mobile Payments Consumer: Strategic Insights from Around the Globe” – McKinsey

>> VIEW PDF (9 PAGES)

Drawing on its global mobile payments and focussing on Brazil, China, Hong Kong, India, the UK and US, McKinsey finds pronounced behavioural and market segmentation differences, making the obvious point that success lies in identifying these drivers accurately and constructing rigorous value propositions.

Nicely illustrated with colour temperature charts, the article teases out generational differences (e.g. older consumers are more likely to regard mobile options as more rather than less complicated) as well as geographic ones. Standardised approaches rarely work and McKinsey suggests, despite the heat in this segment, solid partnerships and sound base building may outrank time-to-market considerations.

“Pathways to Growth in Mobile Payments” – McKinsey

>> VIEW PDF (6 PAGES)

This report is a solid McKinsey overview of the landscape; it is broad brush with a few general pull-outs. McKinsey again reinforces the vast differences, market to market, in the roll-out of mobile payments (and indeed mobile platforms). The consultant forecasts 106 per cent compound annual growth in mobile payments over the next five years. The report calls out a couple of interesting case studies, including Woolworths in Australia installing contactless terminals in 3000 stores and the dominant transport-telco link up of NTT DOCOMO, Sony and transport companies in Japan. McKinsey stresses three questions: the actual role of mobile payments in the business; is there distinctive value proposition/assets; and the importance of risk management.

"Mobile Money: Getting to Scale in Emerging Markets" – McKinsey

>> VIEW PDF (10 PAGES)

This article is most worthwhile for the interview with Michael Joseph, the founder of the highly successful Kenyan M-Pesa mobile money scheme. Joseph's insights are book-ended by McKinsey's summations of lessons to date which boil down: to getting the agent network right – particularly challenging in its own right in emerging markets; developing a compelling product; and maintaining the corporate commitment. Not surprisingly, McKinsey argues finding a killer application depends on a detailed customer-needs assessment and identifying the "pain points" of most important customers. All up this is a solid précis of emerging market story.

"Managing Card Compromises from the Issuer's Perspective" – FICO

>> VIEW PDF (10 PAGES)

This is a vendor perspective on security responses from the maker of the widely used Falcon and Card Alert Services. It is nevertheless good, granular advice drawn from FICO's clients, most valuable in drawing up response plans. Although US-centric, FICO's surveys show 40 per cent of card issuers rank decision making in response to a breach as the biggest challenge while a further 28 per cent lack the tools and technology for taking systematic action. There are important insights here for those requiring a higher level understanding of the challenges in dealing with fraud and other security breaches and the fundamentals of systematic response.

“How Banks Can Take the Lead in Mobile Payments” – BCG

>> VIEW PDF (6 PAGES)

A well argued, somewhat contrarian view from BCG as part of a series BCG has done in the run up to the SWIFT International Banking Operations Seminar (SIBOS). The core argument is that M-payments are not likely to become mainstream for more than a decade, payments will remain card-centric over that period and mobile commerce will be more about discounts and offers than actual payments. BCG believes only 24 per cent of payments will be mobile in ten years based on 80 per cent of merchants having near field POS and 60 per cent of consumers having a smart phone with which they make half their purchases.

Most reassuringly for banks, BCG argues banks remain “masters of their destiny” due not only to their incumbency but the deep capital of payments knowledge and infrastructure. Many would regard the analysis as on the rosy side for banks but BCG’s analysis builds on a realistic assessment of individual trends to reach these conclusions. It predicts a “murky” five years as a multitude of confusing and conflicting trends emerge.

“EBAday: Key Themes in the Payments Industry” – Accenture

>> VIEW PDF (2 PAGES) and VIDEO

Video interview and transcript with Accenture payments principal Jeremy Light touching on the value of collateral in payments, SEPA timetable and the Accenture view on m-commerce. Counter to the preceding BCG paper, Light sees a threat to banks in being left as owners of “dumb accounts” while value-rich activity is undertaken outside the conventional banking system.

Wealth and Asset Management

"World Wealth Report 2012" – Capgemini and RBC Wealth Management

>> VIEW PDF (44 PAGES)

A comprehensive perspective on the world's high net-worth individuals, the key drivers of their wealth creation and how they are being impacted by global trends. The first half of the article is a region-by-region economic update. However, the second half is a deep-dive into how wealth firms can find opportunities to scale their businesses. It breaks out the wealth management value chain into detail and explores scale opportunities in each, recognising the challenges of standardising the advisory components. Important and insightful reading for heads of operations, advice and wealth strategy.

"The "Greater" Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth" – Accenture

>> VIEW PDF (8 PAGES)

This short article discusses the problems of an aging client mix (aka the "demographic time-bomb") and the challenges of capturing the children as clients as they inherit their parents' wealth. It recognises that the children are likely to demand different and flexible value propositions – something that most firms have not traditionally offered to date. The major implication is that the penalty for failing to adapt is a steady increase in asset run-off rates. Finally, it suggests that a potential disruptive strategy may be an "inheritance specialist" business model that targets the younger clients of businesses that fail to adapt. A well-written piece that captures most of the issues without exploring solutions in any depth.

"UK Wealth Management at Tipping Point" – KPMG

>> VIEW PDF (36 PAGES)

A well-written, evidence-based article on the challenges facing the UK wealth sector. It describes the issues facing advisory firms as they adjust their operating models to survive in what is becoming one of the most heavily regulated wealth industries globally. It particularly focuses on how wealth firms navigate the shift from product-led to relationship-led advice. The article recognises the challenge of change to a transparent fee-for-service pricing environment, but fails to note that the most important component of this change is the need for advisers to learn how to position value for customers – a skill that most have never had to develop in an environment of trailing commissions. In the end there is little new here that isn't discussed in detail elsewhere, but it does deliver a comprehensive summary of the key issues.

"How Asset Managers are Preparing for Solvency 11" – E&Y

>> VIEW PDF (40 PAGES)

A short online-only summary of survey results about how the Solvency II regulations are impacting the European asset managers who have insurance industry mandates. In a nutshell, the asset managers believe that their implementation programs are largely on schedule, and many think these regulations will help them win more business. However, they are finding that their insurance clients are not as engaged as they should be (given that compliance is compulsory). This is a quick read, and of general interest for European asset managers and insurers.

"Evolving Investment Management Regulation: A Clear Path Ahead?" – KPMG

>> VIEW PDF (60 PAGES)

A comprehensive perspective of the global wave of post-GFC regulatory reform in the investment management sector. The key themes of change are transparency, accountability, risk management, and consumer protection, and the article provides a good region-by-region perspective of the changes and challenges being created. Potential audiences are strategy and/or risk consultants seeking a perspective on how legislation will play out in their regions, and this is an excellent starting point. However, most readers will find that they will need to dig deeper elsewhere should they desire further detail.

Insurance

"A Brief Introduction to Insurance Underwriting and Information Advantage" – PWC

>> VIEW PDF (6 PAGES)

A short article for underwriters about the potential for the field of behavioural economics to augment the traditional qualitative / quantitative approach to risk assessment. If you can read past the poor editing, the authors present some good ideas about applying the predictive models common in investment management to determine levels of risk in Directors and Officers insurance. While the ideas are credible, they would benefit from production of evidence to demonstrate successful application.

"Life Insurance CFO Survey #30" – Towers Watson

>> VIEW PDF (4 PAGES)

The 30th survey in the series describes the challenges of two significant headwinds for US insurance companies – the low interest rate environment and increased statutory capital requirements. It notes that despite these challenges a significant proportion of firms are not taking all steps necessary to manage interest rate risk, and that other firms are exiting product segments to reduce risk (and cost). A short but rich deep-dive into an industry going through challenging times.

"Insurance Market Update" – Deloitte

>> VIEW PDF (4 PAGES)

A brief article about the impact in the UK of the Retail Distribution Review (RDR) legislation on insurance companies. It describes the need for product manufacturers to develop tailored marketing approaches to advisers to ensure sales can be maintained in an industry with fewer advisers and no sales commissions. The article reads as an advertorial for the results of Deloitte research into "adviser persona" data, and uses a rather vanilla, marketing 101 style. Ultimately the reader is left wondering how effective a persona-based market segmentation approach could be – the author provides no evidence of its use or results.

“Intelligent Insurer: Creating Value from Opportunities in a Changing World” – KPMG

>> VIEW PDF (40 PAGES)

This is a comprehensive thought-provoking article rich in ideas about the impact on the insurance industry of four global megatrends – demographics, technology, environment, and social values and ethics. The authors apply these trends to the four key components of the insurance business model – products and markets, distribution and operations, governance and people, and regulation and capital management. Each section starts with a contextual analysis, followed by the authors’ hypotheses about the impact of the trends. The report is the output of a well-structured brainstorming workshop, which KPMG then developed into ideas for growth opportunities in many areas. A good read for major players in the industry.

“Insurance Tech Trends 2012 – Elevate IT for Digital Business” – Deloitte

>> VIEW PDF (76 PAGES)

This is Deloitte’s third annual report on how technology is impacting the insurance industry. The article is well-structured and divided into two sections – disruptors and enablers. The commentary is rich with ideas and the approach pragmatic, with each section including “Lessons from the front line”, “Where to start”, and finally “My Take”. Case studies bring the ideas to life. The article is targeted at CIOs of major insurers and is a good summary of the issues CIOs should be considering.

Financial Services: Functional Categories

Strategy and Transformation

"Benefitting from Big Data: Leveraging Unstructured Data Capabilities for Competitive Advantage" – Booz

>> VIEW PDF (16 PAGES)

The article provides workmanlike presentation of the trends toward overwhelming growth in the volume, variety and velocity of unstructured data – a veritable "data tsunami". It cites several mainstream examples of data sources and the productive uses to which they can be put.

The article is useful for those new to Big Data seeking an overview of key issues, but less rewarding for those looking for deeper insights or specific techniques.

Strategy Cost Management

"Using the Cost Reduction Imperative to Drive Quality and Strategic Advantage" – PWC

>> VIEW PDF (16 PAGES)

This timely, short article is focused on the opportunity to use a cost management imperative within a mortgage lender to focus on improving quality and strategic alignment. In an environment of low credit growth, cost management is a key lever of profitability improvement and the authors distinguish "slash and burn" approaches from strategic cost management. Six critical elements are proposed, with the overriding objective of repositioning the organisation for the future and making cost management a core characteristic of how the business is run.

Ultimately while the article is not detailed enough to be a prescription for cost reduction in the mortgage sector, the critical elements have wider application to those designing cost management initiatives in other contexts.

Corporate Finance/M&A

"How a Short-Term Strategy Can Backfire" – Harvard Business School Accounting & Management Unit Working

>> VIEW PDF (6 PAGES)

This article addresses the strategy of explicitly trying to maximize near-term earnings and stock prices — an approach known as "short-termism". It notes that companies that pursue this strategy face greater risks, including a higher cost of capital and a lower return on assets, than companies that focus on creating long-term value.

The analysis, focussed on the US market, found that companies that sell business services and supplies, computers, and electronic equipment, along with the banking, energy, export trading, insurance, and wholesale industries are focused more on the short term and found that short-termism was also negatively correlated with return on assets, leverage, rank in the S&P 500, and market-to-book ratio.

The authors caution that although executives may bemoan the short-term focus of investors, they reinforce that mind-set and that managers may feel they have no choice especially when executive compensation is typically tied to current performance and stock prices.

This article is clear analysis that points out the value in understanding the type of company you are, the expectations of your investor base and the importance of linking executive remuneration to those expectations.

"Value Patterns: The Concept" – BCG

>> VIEW PDF (6 PAGES)

This is the second article in the series on the "investment thesis" (see June Insight for our review of the first article in the series).

In this article, the authors look at "value patterns", noting that like a poker player, a CEO's strategic and investment choices are also calculated bets, made in a competitive and uncertain environment. In the same way that a poker player's initial position depends on his or her cards, a company is grounded in its starting position.

A value pattern describes how a company's starting position at a given point in time shapes the range and types of strategic moves that are most likely to create value.

The authors have identified 10 value patterns within the overall market, each with its own combination of opportunities, tradeoffs, risks, and relevant strategic moves that are most likely to create value. These range from "Health High Growth" to "Distressed".

The article notes that 75 per cent of companies have value patterns that are distinctive, and to an outside observer suggest clear pathways to competitive success and value creation. The other 25 per cent have characteristics close to the average company; instead of being able to focus on two or three clear issues in their investment thesis, these companies must take a more balanced approach.

The implication for the CEO and senior executive is that gaining an understanding of value patterns presents senior executives with four key imperatives.

1. Embrace the outside view;
2. Frame an investment thesis that fits your value pattern;
3. Test your investment thesis for new unlocks;
4. Anticipate shifts from one value pattern to another.

“How Value Patterns Work” – BCG

>> VIEW PDF (6 PAGES)

In this third instalment BCG, looks at one category of the value pattern group – the “high-value-brand category” – to highlight that within each pattern, there are those that create and destroy value and that value creators follow a common set of policies.

While this category of company competes in many different industries, they share some fortunate characteristics: powerful competitive advantages in market segments that are not especially cyclical; limited concentration of earning power; advantage from scale, brands, capabilities or strategic control of scarce resources; or a combination of these strengths. As a result of these advantages, they generate higher gross margins and returns on capital.

And yet, despite so healthy a starting position, high-value-brand companies do not create more shareholder value, on average, than the market as a whole.

A review of the winners and losers in this market reveals four clear priorities for high-value-brand companies.

1. Protect and grow the category;
2. Fight the pressures of commoditisation;
3. Avoid complexity and low-quality growth;
4. Carefully allocate excess cash.

Regulation, Public Affairs and Governance

"The Impact of Regulation on the Structure of European Over-the-Counter Derivative Markets" – Deloitte

>> VIEW PDF (20 PAGES)

This very solid release by Deloitte Europe summarises recent European regulatory reforms relating to over-the-counter derivative trading and sets out Deloitte's views on likely changes to market volume, pricing and liquidity.

While at times a hard read with superfluous narrative in places, the release covers a lot of ground and canvasses a range of issues that derivative market participants should be considering as you form your responses to regulatory policy releases.

"Basel III and Beyond – Using Stress Testing to Help Answer the Big Strategic Questions" – PWC

>> VIEW PDF (2 PAGES)

PwC UK offers a concise overview on the stress testing requirements mandated by European regulators. The diagram on page 1 provides a comprehensive overview of stress testing components and outputs but would benefit from additional detail on stress testing inputs. There are snippets of useful insights in the narrative – such as the application of stress testing to strategic planning.

The main message is well-made: that appropriately-structured stress testing integrated into business management can provide a useful basis for identifying vulnerabilities and gauging the long-term sustainability of their business models. At two-pages the article is worth a look.

“Swap Data Reporting: Ready to Deliver?” – PWC

>> VIEW PDF (6 PAGES)

PWC US provides a useful brief on the implications of Dodd Frank requirements for reporting of swap transactions. The article usefully considers requirements for real-time and confidential regulatory reporting and looks at opportunities for synergies between these two sets of reports. Unsurprisingly, the main message of the article is that swap dealers and major swap participants need to act soon – and call on their advisers to assist them to develop a suitable response plan. This aside, the article is well worth reading if you are in the area of trading compliance.

“A Matter of Trust: Managing Individual Conflicts of Interest for Financial Institutions” – PWC

>> VIEW PDF (35 PAGES) and VIDEO

Look past the excessive sales and promotion in this release by PwC US for some very useful ideas for structuring your own conflict of interest policy framework. The release suggests categorising conflicts as actual, perceived, potential and political. It also recommends use of a verification program to reinforce the “tone from the top”. The release would be stronger with more examples of conflict situations and development of the schematic on page 7.

“EC Issues Recovery and Resolution Proposals and Outlines a European Banking Union” – PWC

>> VIEW PDF (2 PAGES)

This short and sweet regulation update from PwC Europe summarises the key points from the European Commission’s (EC’s) 6 June draft Directive on a recovery and resolution framework.

Human Capital

"Leading in the 21st Century" – McKinsey

>> VIEW PDF (17 PAGES)

This ambitious article from McKinsey attempts to shed light on key principles of leadership required in the more uncertain times we face today, where the business environment is "volatile, globalised [and] hyper-connected". In doing so, the authors draw upon the experience of current and former CEOs from organisations such as Deutsche Bank, Renault-Nissan, the UK's Royal Mail, Dupont and Novartis, as well as the Israeli president.

On the topic of leading in an age where information is instantaneous and economies are interconnected, Carlos Ghosn argues that it is during crises (external ones in particular) when true leadership is shown – since in that situation it is not a company's strategy that is called into question, but rather its leader's ability to adapt it to a new reality.

On the topic of "centered leadership", or ensuring that the balance between physical and emotional health is maintained, Josef Ackermann talks about the importance of having physical stamina, a stable psyche and the ability to relax quickly. Daniel Vasella talks about the importance of having a trusted advisor who can help you find balance.

On the topic of 24/7 media scrutiny, Ackermann acknowledges that CEO's are the institution they lead with Vasella adding that the press will often portray leaders as either heroes or villains, depending on what will sell papers that day. Moya Greene goes on to highlight the power of investing in internal communications as a way to underscore the positive things a company is doing and cut through the negativism in the press.

On decision making under uncertainty, Ghosn makes the point that good leadership demands the playing of two somewhat contradictory roles: on the one hand, being open and empathetic to other viewpoints when gathering data, but on the other hand, being confident, secure and a hard driver once a decision is made and must be executed. In a similar vein, Ackermann acknowledges that problems have become so complex today that one needs to collect the opinions of a number of people before making a decision – a CEO needs the expertise, judgment and buy-in of his/her team.

Finally, the article closes by emphasising three skills that can help leaders thrive in today's turbulent environment: 1) Seeing with a microscope and a telescope; 2) Competing as a "tri-sector" (public, private and social) athlete; and 3) Staying grounded during a crisis.

"How Multinationals can Attract the Talent they Need" – McKinsey

>> VIEW PDF (8 PAGE)

Traditionally, global organisations have had little issue attracting top talent. However, this dynamic is changing as talent in emerging economics becomes more scarce, expensive and difficult to retain; local companies are seen as more attractive employers than previously and executives from developed markets are less inclined to take overseas postings than before.

In order to become more attractive to locals, global companies need to make a more concerted effort in promoting executives from emerging markets into global senior leadership positions, in effect role modelling a potential path to the top. In addition, top talent can be offered additional perks such as sponsored MBAs (e.g. Bertelsmann) and cross-cultural training programs (e.g. Goldman Sachs).
The article also suggests that working on developing the organisations employer brand can have a big impact, whether it's enhancing the basics of the "employee value proposition" or encouraging stronger ties to employee's families.

In order to encourage home market executives to take postings abroad, the article suggests techniques such as replacing fixed-term expatriate packages with open-ended international roles, formalising expectations around how much time needs to be spent in overseas postings (and the type of posting, e.g. different function, high-growth environment etc.) or sending executives to emerging markets as consultants first.

Finance and Risk

"Progress in Financial Services Risk Management: A Survey of Major Financial Services Institutions" – E&Y

>> VIEW PDF (64 PAGES)

A high quality, extensive survey by Ernst & Young in cooperation with the Institute of International Finance (IIF), covering progress in risk management in the global financial services sector, this report is based upon responses from 69 banks and 6 insurance companies, giving it a high level of credibility.

The 64-page, well-structured report provides a snapshot of where the industry currently stands with implementing changes in its risk management approach since the financial crisis. It covers Risk Culture, Risk Appetite, Stress Testing and the Impact of Basel III. One of the highlights of the report is an excellent paragraph regarding the governance roles and responsibilities of the key players in the risk framework and how they have evolved.

Although the frequent use of percentages may distract at times, this report is recommended reading for all risk professionals with an interest in the Financial Services industry. It can serve as an excellent benchmark when assessing risk frameworks, may be an eye-opener for some stakeholders and at the very least updates the reader on current trends in financial services risk management.

Highly recommended.

"The Solvency II Discount Rate: Nothing is Simple" – KPMG

>> VIEW PDF (11 PAGES)

Solvency II is an EU Directive that codifies and harmonises EU insurance regulation.

This fairly technical paper examines issues surrounding determination of the risk-free rate at which to discount liability cash flows for the economic capital balance sheet under Solvency II.

The discussion, inter alia, includes examination of:

- Liquidity premium,
- Cyclical requirements, and
- Extrapolation methods from the "last liquid point" for long-term cash flows.

The paper provides a good exposition of the theory. While directed at ALM specialists, it also serves as a good grounder for general readers, with Australian relevance due to the strong parallels between Solvency and LAGIC, in particular on theoretical foundations for an illiquidity premium.

“Accenture 2012 Risk Analytics Study: Insights for the Banking Industry” – Accenture

>> VIEW PDF (28 PAGES)

A survey based article by Accenture’s risk management team, this report provides an overview of the current risk analytics capabilities cross-industry. To collect the data, Accenture interviewed over 450 risk analytics specialists all over the world, of which surprisingly only 40% are active in the banking sector. The other 60% are employed in Insurance and the Chemical Industry. The absence of other industries where risk analytics are well established – Energy and Resources, for example – is a surprise.

As is often the case with survey-based articles, this study is not laden with new insights. The general message is that investment in risk analytics has gone up, and that more is needed, mainly driven by the well-known changes in the regulatory environment.

Risk analytics plays an increasingly pivotal role in the development of improved risk frameworks, as data quality and central data warehousing becomes increasingly important. The right analytics to empower risk decisioning are vital, as the widespread failure of risk models through the GFC made clear. This Accenture article fails to get this message across, and moreover is not well structured or easy to read. The lack of key insights and recommendations makes this a disappointing foray into important subject matter.

“Uncovering Covered Bonds Should Covered Bonds be Part of your Funding Strategies?” – PWC

>> VIEW PDF (20 PAGES)

A timely paper given concerns over the high (though declining) reliance of local banks on volatile wholesale funding, as well as recent legislation in Australia permitting covered bond programs.

Covered bonds are essentially a claim on both the issuer and (in the event of non-payment) the cover pool of assets. Main advantages for the banks include access to a more stable longer-term form of funding and to a broader pool of investors. This form of financing has a long history in Europe, and as the paper explains:

> “during the credit crisis, the supply of liquidity to European banks, the traditional issuers of covered bonds … was not significantly interrupted”

The paper considers:

- Attractions for issuers and investors,
- Regulatory regimes in Europe, Asia Pacific (including Australia in general terms), US and Canada,
- Emerging regulatory trends, and
- Key steps towards establishing a covered bond program.

There is a cautionary note – this is not a “silver bullet”. As the author explains:

> “Covered bonds may help with a bank’s liquidity ratios, but they do not reduce risk-weighted assets or the leverage ratios. With a growing proportion of the balance sheet encumbered, what may be a solution for liquidity, can become a problem with leverage and capital.”

“Driving High Performance Through Intra-day Liquidity and Collateral Management in Payment Operations” – Accenture

>> VIEW PDF (8 PAGES)

Subtitled How to win out in the latest banking battleground, Accenture are hardly pulling punches in terms of ambition for this viewpoint (produced in association with The SEPA Consultancy). Given its 8-page length, of course, it cannot possibly succeed; however brevity and succinctness prove to be the strongest points of a well-written piece, which covers immediate and longer-term priorities for liquidity management and collateral management, with the linkage clearly articulated.

The article identifies eight building blocks and each is given a disappointingly short précis, pointing to best practice but without any context in terms of difficulty of achievement. Co-dependencies between these building blocks – for example between automated collateral management decisioning and real-time single global view of collateral and liquidity positions – represent the real and formidable hurdles for most market participants.

As banks undertake to scale the heights of efficient collateral management, sound collateral transformation on both client and house side, liquidity management and incentivised funds transfer pricing, this document provides a useful view from base camp. It is occasionally let down by lapses in wording, but a read-through will be rewarding.

“Deal or no Deal: Methods, Processes and Models for the New M&A Environment” – PWC

>> VIEW PDF (8 PAGES)

This article is part of PWC’s excellent CFOdirect series, which, though it has moved away from subscription-based access to free to all, requires an e-mail registration to access. PwC should take note: we could not download the article using mobile browsers, using Chrome or Safari on OS X, or using Chrome or Internet Explorer on Windows. Only Firefox successfully gave us the option of bypassing the default pop-up blocker settings and accessing the PDF.

So is it worth the effort? The report notes a decline in deal success rates since 2008 (surely a function of the economic environment), and fingers complacency in good times and a lack of forward-looking deal risk analysis as the cause. Current market pressures to consolidate are well drawn out, and a brief discussion of valuation approaches highlights their many inadequacies before coming down in favour of an approach which identifies franchise value and growth value separately from current asset and earnings-backed value.

Ho-hum so far but the paper improves from here as it qualitatively analyses causes of failure and suggests governance structures to provide an independent risk management framework for deal risk. This is developed thoroughly throughout the rest of the paper, resulting in a “leadership agreement and integration strategy” to produce the deal-or-no-deal decision.

Companies very used to deal-doing may find much of the furniture is already in the room; even so we suggest this would be a useful piece to review and refresh existing frameworks. Others may find significant benefit, if only in the reminder that employing external advisers is a necessary but not sufficient condition for independent shareholder-value focused M&A management.

Technology

ARTICLE OF THE MONTH

"The Role of the Chief Data Officer in Financial Services" – Capgemini

>> VIEW PDF (32 PAGES)

As digital information continues its inexorable rise, so too do the number and diversity of specialist roles and functions required to manage it effectively. This article elevates the hitherto minor role of Chief Data Officer to enterprise prominence, operating from a new branch on the organisational chart – the data management office or DMO. The article sheds light on how organisational structure is likely to morph over the next few years.

A superb article which starts with modest scope and then goes the extra mile to extensively define the suite of services provided through the CDO in a thoughtful, detailed and highly usable format.

"A New Era in Banking: Cloud Computing Changes the Game" – Accenture

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While the message that cloud computing will shake up Banking (and many other industries) is unquestionably true, there is very little in the way of new thinking here. Cloud based services are categorised by who controls and uses them (giving us "private", "public", "public sovereign" and "hybrid" clouds), however this taxonomy falls short of offering genuinely new and actionable insight.

The most useful advice is a warning on the potential for the disintermediation of banks by those with genuinely disruptive technology-based offerings – generally players from outside the traditional banking industry. Examples of what some of the more traditional banks are up to in this space are also a welcome offering.

Strategic Analytics

"Measuring Organizational Maturity in Predictive Analytics: the First Step to Enabling the Vision" – Capgemini

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Capgemini invites readers to reflect on the uses and further potential of Predictive Analytics (PA), and on the preparedness of their own enterprise to realise its significant and ultimately essential benefits. There is little on specific techniques of PA here, instead more on the process of managing PA from a programme management perspective – from business case through change management.

A very gentle introduction, useful for those who have not yet got their feet wet.

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