Global Financial Services Industry

Financial Services in 2010

Hallmarks of Success

Audit. Tax. Consulting. Financial Advisory.

Contents

	Page
Foreword	1
Executive summary	2
Introduction	4
Section 1: Market drivers	6
Section 2: Operating challenges	12
Notes	19
For more information	20
Contacts	21

Foreword

The worldwide market for financial services is evolving rapidly and by 2010 is likely to look very different than it does today. New asset classes such as private equity and hedge funds are attracting a growing number of investors, shifting the center of gravity in the world's capital markets. The payments business – which is a major source of revenue and profit for many financial institutions – is being restructured, changing the fundamental economics of banking. Meanwhile, in many countries, the impending retirement of the baby boom generation is changing the focus of financial services from long-term accumulation to managed consumption.

Emerging markets such as Brazil, Russia, India and China with their rapidly growing middle classes are becoming increasingly important sources of growth, particularly for firms in mature economies. Over the coming years, the financial services markets in Europe and North America should grow modestly versus the rapid growth of Asia and South America. Although in Europe consolidation is accelerating as cross border transactions increase. Only a few financial services firms currently have the majority of their business outside of their home market – a pattern that is likely to change as the imperative to find new ways to grow increases.

These marketplace drivers are already having a huge impact on the financial services industry, and are likely to be key drivers in determining winners and losers by 2010 and beyond.

At the same time, financial institutions around the world will need to forge the hallmarks of operational excellence in areas such as offshoring, taxation and financial reporting, service and process innovation, and in internal control. These operational challenges are a major source of headaches for many firms; yet they also present significant opportunities for improved efficiency, service and performance.

Financial institutions intent on being positioned for success in 2010 must start preparing now. This Deloitte Touche Tohmatsu (DTT) report identifies the major market drivers and operational challenges financial institutions will likely face over the next four years, and pin-points the strategies and practices recommended to create the hallmarks of success.

I trust you will find this report interesting and commercially insightful.

Jack Ribeiro
Managing Partner
Global Financial Services Industry Group
Deloitte Touche Tohmatsu

Executive summary

Helping ensure a financial institution has the hallmarks for success in 2010 means building a more global outlook into their business – the journey needs to start today by identifying the key market and operational drivers. Going forward, DTT expects leading financial institutions in 2010 to exhibit the following six hallmarks of success.

Global markets and a business model to match. The financial services industry is likely to become increasingly global as firms in mature markets seek new sources of growth in emerging economies beyond their domestic home market. Success will hinge on creating an exportable, low-cost business model specifically designed to serve these new types of customers (low income, high volume), rather than trying to force-fit the model currently used to serve more affluent customers in existing western markets. The need to scale up will be driven by three factors. First, the need to have a significant balance sheet will be critical in supporting the major corporate clients and in funding future activities. Second, many financial products are likely to become commoditized meaning margins will likely become thinner and economies of scale more important. Third, the ability to have a multinational market portfolio could only be sustained by major organizations.

Mass efficiency with focused premium service. Shrinking margins are likely to drive an overall trend toward commoditization. Operational improvements will primarily focus on efficiency, self-service and economies of scale. Yet there may also be opportunities to reinvest some of those back-office cost savings into premium services for high value market segments – including 'mass affluent' segments that may be underserved today. In the back office this is likely to drive further the move to offshore non-customer facing activities. Beyond 2010, the emergence of industry utilities should become dominant from investment banking to insurance.

Consolidation with a purpose. Merger and acquisition volume is likely to remain high, both at the national and regional levels. For example, DTT expects 700 European banks essentially to disappear through mergers over the next three years. A number of deals are also expected between west and east, and vice versa – specifically to capitalize on increasing globalization[1]. The Asia Pacific market is also likely to see a rise in both transaction volumes and values between now and the end of the decade – with major capital flows into both China and India. Finally, North America should also see an up-tick in deals although these are likely to be centered around mid-tier consolidation. However, acquisitions should not be the only club in the bag in creating the hallmarks of success. Savvy divestments allied with smart redeployment of capital, could be equally important in creating competitive advantage, although they do not always make the front page. Further, we expect to see both strategies being augmented by organic market entry strategies. Business models leveraging direct distribution, could be highly effective, profitable and efficient – if, critically, the right proposition can be formulated.

Winning the struggle for growth through stronger customer relationships. Financial institutions of every shape and size are likely to face a continuing challenge to grow their top line – even after large acquisitions. Financial markets reward financial institutions achieving the best revenue growth and superior risk adjusted returns on invested capital. For instance, DTT's analysis shows on a worldwide basis the five banks with the fastest revenue growth saw their stock price soar by an average of 91 percent over a four year period – over four times better than the industry average[2]. Going forward, there may be reduced headroom for growth in most mature western economies; the game would be to solidify existing customer relationships, steal market share and increase share of wallet by relearning the growth habit through innovative practices.

Financial institutions should rethink their growth strategies, eschewing product innovation in favor of process and service improvements. The latter are much harder for competitors to replicate, thus providing a more enduring advantage, both in terms of better customer relationships and revenue growth. Process and service innovations also tend to reduce complexity and cost, creating a 'virtuous circle' of top-line growth and bottom-line profitability.

Successful financial institutions are likely to embed innovation into the very fabric of the organization – from strategy and processes, to people, systems and business partners – actively developing good ideas into enduring commercial success.

Transparency and compliance as a performance springboard. Regulators and capital markets are demanding greater transparency in all aspects of governance. But top-performing firms by 2010 are likely to go beyond the minimum requirements, using transparency and compliance as a way to win the hearts and minds of investors, and leveraging their efforts to improve decision-making, cost efficiency, and service quality.

This is a significant mindset shift for most financial institutions. Since behavioral shifts are often the most challenging to attain – expect many financial institutions not to develop this capability for a performance springboard.

Cracking the IT value code. By 2010 leading financial institutions are likely to be some of the most sophisticated users of technology on the planet. Today the top 25 financial institutions in the world spend in excess of $50 billion on technology in a single year[3]. Financial institutions should get improved productivity, enhanced revenue growth, and better profitability from this level of spend in the future. The challenge going forward for financial institutions should be two fold – digitization of business and effective IT governance.

Firstly, the differentiator between success and failure is likely not to be the absolute amount spent, but rather on the governance of technology within the business. Recent decades have seen large gaps open up between the board and technology departments within financial firms. To remedy this problem, it is important for financial institutions to have a CIO with a seat at the top table. This should only be granted to those individuals who are 'bilingual' in the languages of technology and business – acquiring such an individual should be among the top items on every CEO's agenda.

Secondly, financial institutions are incredibly complex businesses. Over the next five years technology should be applied to reducing this degree of complexity by the eradication of paper-based processes. For instance, trading of many asset classes is now done on electronic exchanges. By contrast, back-office clearing and settlement is often stuck in a paper-based world driving up complexity, risk and reducing the efficiency of markets.

By 2010, technology is likely to be almost invisible yet pervasive throughout leading financial institutions. This simplicity should drive new business models and be integral to forging each of the hallmarks of success identified in this report.

The trends and challenges identified in this report are likely to affect the vast majority of financial services firms. But only the best are likely to profit from them. Big is likely to become beautiful, but in itself will be no guarantee of success. Financial institutions that start building these qualities into their corporate DNA today are the ones most likely to come out on top in 2010.

Introduction

Helping ensure a financial institution has all the hallmarks for success in 2010 necessitates the building of a more global outlook into their business – the journey should start today.

The world of financial services is evolving rapidly. Looking ahead to the end of the decade the shifting centers of gravity in financial markets are likely to have a profound impact on the evolution of the financial services industry. Building a business with strong foundations in mature markets allied with a fit-for-purpose emerging markets operating model is likely to distinguish leaders from followers. However, the race to be successful by the end of the decade is not a crystal-ball gazing exercise for corporate planners locked in darkened rooms. Rather it should be high on the corporate agenda, with actions and priorities set now to ensure the hallmarks for success will be in place by 2010.

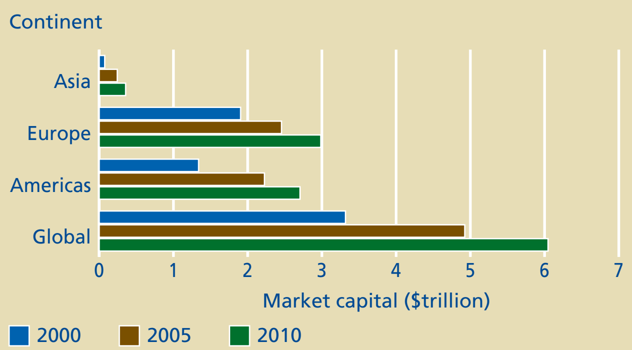
We expect rapid evolutionary progress for the industry. The financial services industry is unlikely to see revolutionary change over the next four or five years, only because it is highly regulated and has high barriers to entry. Further, the regulatory (re-)enforcements in the early part of this decade such as Sarbanes Oxley, Basel II/Solvency II, International Financial Reporting Standards amongst many – are likely to have raised the barriers further to entry.

Nonetheless, the shifting centers of economic and financial gravity may precipitate some highly significant changes both in the markets that major financial institutions operate and in the challenges management will face over the medium-term.

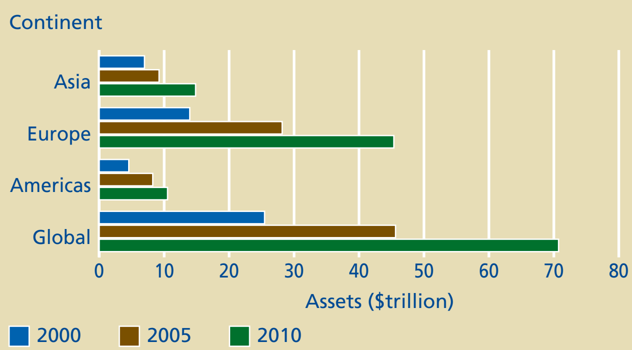
A look back to 1995 shows just how far the industry has progressed. For instance, the US retirement market has seen a doubling of assets from $6 billion to over $13 billion between 1995 and 2005[4]. To be sure, the environment going forward is likely to be shaped by the two major forces of operational efficiency and attention switching to global markets. Witness the 2005 results of a major financial services group showing modest profit growth in Europe and North America of between 10-13 percent, but in Asia and Latin America growth rates of 30-50 percent[5].

Last year 15 major financial groups had more than half their assets abroad. Although a US organization takes top spot, seven of the top ten places are taken by European organizations[6]. It is clear that the battle for international dominance will likely be played out between the top-tier of institutions, each of which knows there may only be a handful of winners (Figure 1). The last five years have seen rapid growth in both asset and market value terms. European financial institutions have their fate in their own hands, accounting for nearly two thirds of global banking assets. The rise of China is still to come and its trajectory will likely be determined by the opening up of the market in 2007 under World Trade Organization (WTO) rules and the IPOs of the big four Chinese banks.

Figure 1: Market capitalization of the top financial services firms in Europe, Asia and Americas in 2000, 2005 and 2010



The top 100 banks according to assets in Asia, Europe and Americas in 2000, 2005 and 2010



Source: The Banker 100 top banks (July editions 2000/2005) and FT Global 500, 13 March 2006 and 4 May 2000, Deloitte Analysis.

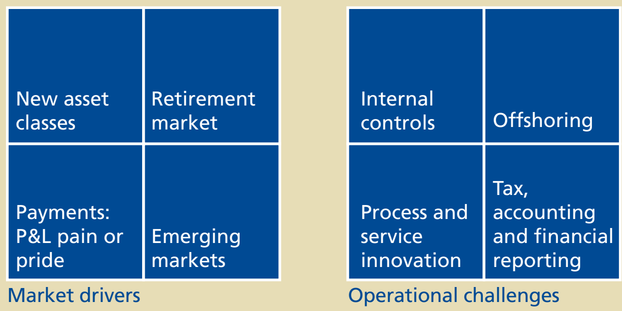
Secondly, operational efficiency should play an increasingly important role. The need to streamline processes, eradicate paper, reduce headcounts and manage related operational risk will affect all parts of the financial services industry. The march to reduce the cost-base is already taking hold. Figure 2 shows that in the banking sector the cost to income ratio has fallen from the high 60s to the low 60s over the last five years.

Figure 2: Average cost income ratio of the top 100 banks between 2000-2005

Source: The Banker 100 top banks – July editions 2002-2005.

Taking into account four major market trends that should have a highly significant impact on financial institutions in all major global regions between now and 2010, this research report looks at the corporate agenda and actions required to build the hallmarks of success in this period and for the decade beyond. It also looks at four major operational challenges financial institutions are likely to face in that same timeframe. It explains why these trends are likely to be important, quantifies their expected impact, and identifies the hallmarks of success in tackling these issues (Figure 3).

Figure 3: Drivers of change



Section 1: Market drivers

Given the high barriers to entry and tightly regulated environment, revolutionary changes are unlikely to occur over the next four years. Yet the evolutionary changes that are already underway should have a profound effect on financial services markets in every region of the globe. This section looks at four of the most important market trends, and analyzes their potential impact on firms in the financial services industry.

New asset classes: Changing the center of gravity

A wall of money is flowing into hedge funds and Private Equity (PE), shifting the center of gravity in the world's capital markets, polarizing investment styles and creating headaches for regulators.

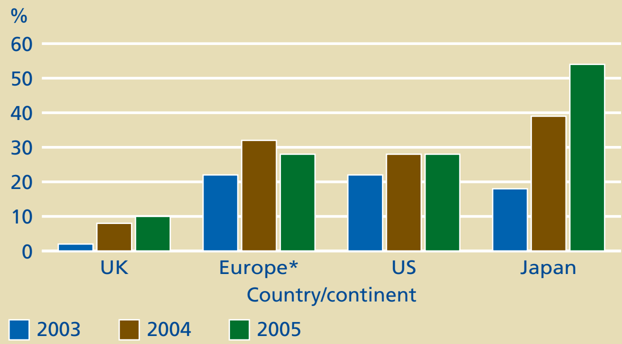
The world's capital markets are seeing their center of gravity shift toward new types of investments such as PE and hedge funds. Money is pouring into these new asset classes as investors look for higher returns than they can obtain from traditional investments such as stocks, bonds and mutual funds. This shift from traditional to new asset classes – and the potential imbalances it creates – should significantly reshape the financial services industry between now and 2010. The impact is likely to go beyond these asset classes and may ripple out with the potential to profoundly change the world's capital markets and its traditional institutions.

In 2005, PE funds attracted a record $261 billion worldwide[7]. This growth could be attributed to several factors, including: more sophisticated financial techniques, low interest rates, and ruthlessly efficient approaches to deploying capital[8].

Hedge fund performance cooled a bit during 2005, yet all indications suggest the sector's growth will likely continue to accelerate through 2010 and beyond. In 2000, net inflows were $300 billion; in 2005, net inflows exceeded $1 trillion[9]; and by 2010, recent global forecasts predict there will be 25,000 hedge funds valued at more than $4 trillion[10]. Growth of individual hedge funds is expected to slow over the next three years, but will likely still outpace most other types of funds. The United States accounted for 69 percent of the world's total hedge fund assets, while Europe checked in at 25 percent[11]. Hedge funds in Asia accounted for only five percent of the worldwide total, but recently surpassed $100 billion in total assets and are expected to outpace funds in other regions over the next few years[12] – in part due to loosening restrictions on short-selling in Taiwan and South Korea. By 2010, the flow of capital into these new asset classes is likely to drive dramatic change in the following three areas – investment styles, innovation and consolidation and regulation of financial markets.

Firstly, sophisticated, wealthy investors in mature markets increasingly view PE and hedge funds as crucial to achieving their aggressive investment goals – and the trend is spreading. The market is maturing, resulting in more institutional investors placing assets with hedge funds. For instance Figure 4 shows how, around the globe, the proportion of institutions using hedge funds is changing investment behaviors and the overall use of hedge funds has risen dramatically, particularly in Japan. Hedge funds are also expected to become increasingly popular in China, particularly among the emerging wealthy class[13]. Hedge funds, in conjunction with PE, could kick start the moribund Chinese equities market.

Figure 4: Hedging their bets: Institutions using hedge funds



* Excluding UK.
Source: The Economist, 4 March 2006.

Secondly, the shift of capital to new asset classes is likely to affect every part of the capital markets industry. Mass market offerings such as mutual funds will likely be forced to rethink their products and services. At the same time, exchanges are likely to face shrinking margins and pressure to consolidate, driven by two factors: bulk trading, and the need to gain liquidity. These trends, along with regulatory changes such as MiFid in Europe, are expected to drive radical changes in the world's stock exchanges over the medium-term – with the most visible change likely to be the demise of floor trading.

Thirdly, the balance of regulation may be required to better mirror the shifting flows of capital. In the past regulatory authorities have tended to focus the majority of their resources on traditional financial institutions involved in capital markets. Institutions dealing in new asset classes such as hedge funds and PE firms tend to be skinny businesses based on a small number of people – tens rather than hundreds and thousands of staff. These savvy businesses leverage technology and the settlement infrastructure of others to enhance operational efficiency. The challenge for regulators will likely be to adjust their own resources to focus on these extremely high capital intensive firms.

2010 forecast: By 2010 between 75 and 80 percent of institutional investors will likely be investing in new asset classes

Bottom Line
The ripple out effect of hedge funds and PE funds will likely be two-fold:

The virtual enterprise: The major impact of new asset class firms is likely to be on the business models of traditional capital markets players. Typically capital markets have tended not to place a significant focus on business models – especially when markets are doing well. Capital markets players will be driven increasingly to use utilities eradicating duplication that currently exists across many capital market players.

Risk & reward: Capital market firms may need to inject more of a funds type thinking into their business – to give investors better risk/reward options. Along with this strategy may come the attendant issues of managing risk. This is likely to involve the incorporation of hedge fund and PE-type thinking into current business models. Managing this transition will likely be a major challenge.

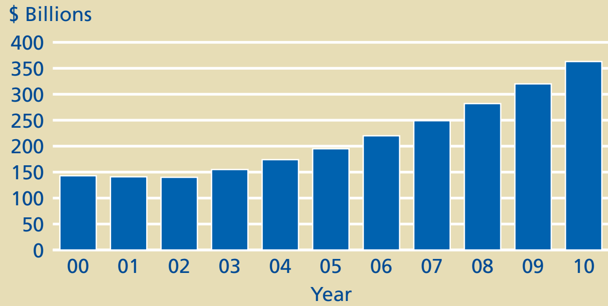
Brain drain: A major challenge facing capital markets players over the medium-term may be to retain talent. Many capital market players offer significant rewards for top performers. Last year, however, the top earner in hedge funds took home $0.5 billion[14]. Allied with the fact that many new asset classes are managed by small, non-hierarchical firms based in Stamford and London's West End rather than financial districts – it altogether makes a very attractive proposition to find the best financial brains from New York and London.

Aging populations: Turning silver into gold

Members of the wealthiest generation the world has ever seen are now quitting their jobs and preparing for a long, indulgent retirement – a phenomenon for which few financial services institutions may be fully prepared.

On a busy downtown street in Lisbon, a tennis-court sized poster for one of Portugal's major banks pictures an elegant and attractive silver haired couple – boomers. Baby boomers have had a huge economic impact at every stage of their lives, but none greater than the impact they are likely to have when they retire. Boomers will likely be the wealthiest retirees the world has ever seen, and are destined to become a dominant factor in the financial services industry for decades to come. For instance, according to some industry leaders; "the substantial graying of America will be the biggest event in the history of the US financial services market"[15]. But this is not just a US trend – it should affect every mature market where the overall population is aging. Take Australia, where 4.1 million boomers are worth an estimated $1 trillion[16]. Figure 5 shows the potential market growth in USA Individual Retirement Account (IRA) retirement assets.

Figure 5: Annual rollover IRA contributions 2000-2010



Source: Employee Benefits Research Institute, Investment Company Institute, Cerulli Associates; 3 December 2003, Deloitte analysis.

Are financial institutions fully prepared for the challenge and impact of an older population? Yes and no. Today, the financial services industry is largely designed to serve customers who are accumulating and holding assets for the long-term. It is not designed to serve retiring baby boomers, who will steadily consume their assets over the next few decades. Although new financial products and services are starting to emerge, more attention and innovation are needed. Major opportunities to turn silver into gold include:

- **Increased savings – and faster returns**. Over the next few years, capital markets are likely to see a large influx of retirement-related funds as people who have neglected their nest egg try to catch up. People will likely be particularly interested in products that offer a chance for higher-than-average returns.

- Healthcare. When people get older, they need product offerings that address their greater need for short-term and long-term healthcare.

- Investments and financial planning. As boomers get closer to retirement, they need to manage their retirement assets more closely. Financial institutions could act as advisers, helping pre-retirees plan for the future, shifting asset allocations at the point of retirement, capitalizing on the rollover and inheritance boom, helping with business sales/successions, and consulting with clients who find themselves suddenly wealthy.

- Finding ways to release capital and pass wealth to the next generation: Often assets are tied up in houses or other illiquid assets; financial services organizations should innovate to find new ways to help their aging customers release this wealth for their own consumption, healthcare and children but these products should also be seen to be fair by regulators. In the United Kingdom, for example, equity release mortgages have been growing rapidly amongst the older population so that house owners could turn their property into cash by giving up some ownership rights early but regulators are raising eyebrows about whether consumers are being mis-sold such products.

Wealth management businesses are already well positioned to benefit from the aging trend; however, retail bankers and insurers have a lot more work to do. The United Kingdom's two biggest financial institutions are currently looking for acquisitions in the United States – presumably to capitalize on the aging population. Yet most companies are only just waking up to the impact that these shifting demographics will have on their business. Few financial institutions fully understand how to change their business model and business practices to capitalize on this opportunity, and many may spend the rest of this decade trying to position themselves appropriately.

2010 forecast: Worldwide retirement related assets could reach nearly $25 trillion by 2010

Bottom Line
The 'silver hair' market should create tremendous opportunities for the financial services industry. But capitalizing on those opportunities will require firms to adopt a new approach and mindset.

Differentiation from the herd: The financial services industry is well positioned to capitalize on the retirement trend, with a clear opportunity to serve as consultants and advisers to help people tackle these complex challenges. However, successful firms will likely need to differentiate themselves actively from their rivals by 2010.

Peer-to-peer. People change as they get older. The transformation includes physical changes (e.g. declining eyesight, hearing, dexterity), mental changes (e.g. discomfort with new ideas and practices), and role changes (e.g. empty nest, changing economic status, more time/less income, becoming grandparents). In addition, some experts have suggested the next wave of retirees may not act like retirees at all, but more like teenagers – exuberantly living life to the full using their newly found financial freedom. All of these changes will likely have a significant impact on how financial services are positioned and delivered – but most critically will the end consumer identify their relationship with the financial institution as peer-to-peer?

Get the balance right. Many financial institutions will likely have a primary focus on serving the 50+ market. Critical to success will likely be achieving a balance between financial planning related to life insurance, long-term care, estate planning, equities, fixed income, and annuity programs and the growing sophistication of many boomers. All of these offerings should be woven into a clear and flexible roadmap tailored to an individual's unique needs and circumstances – with increasingly tight product margins.

Payments: P&L pain or pride

Financial institutions potentially face significant Profit & Loss (P&L) pain due to the confluence of emerging regulations and technology trends. Financial institutions without a payments strategy are likely to be followers by 2010.

Fifty years ago, financial institutions generally conducted their back office operations in the same location they served customers. Today, those disparate functions are often thousands of miles apart. Payment processing faces that same kind of radical shift, but compressed into a period of only five years.

Today, each market area of the financial services marketplace has its own separate payment infrastructure. In effect the plumbing is duplicated and is often analog and paper-based rather than digital. The opportunity is to eliminate or at least truncate paper as early as possible in the payment process and to interconnect these systems, exposing inefficiencies and bringing huge productivity and risk mitigation benefits. These massive changes to the payments infrastructure are changing the economics of banking and creating an environment of genuine competition.

Payment processing is becoming increasingly commoditized as banks lose their government-mandated monopoly on clearing payments[17] between individuals and businesses. Banks currently derive as much as 40 percent of their total revenue from handling payments. For instance, one major US bank generates around $9 billion annually from payments related services. But banks are no longer the only game in town. Credit card processors, such as First Data Systems and EuroConnects, have quietly built up substantial payment operations. Meanwhile, Internet-based services such as PayPal continue to increase their share of the payments business, cutting banks out of lucrative handling and conversion fees.

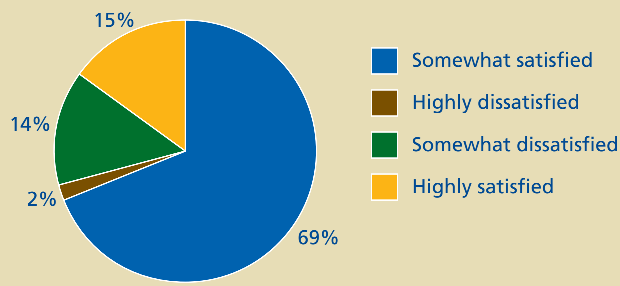
The Single Euro Payment Area (SEPA) should accelerate this trend, attempting to create a standardized payment environment across Europe that drives down payment revenue and margins.

As payment systems change, financial institutions may need new strategies to protect and sustain their revenue flows. Most banks are aware of the problem and are actively taking steps to address it. In a recent study, 63 percent of bankers said they have completed – or plan to complete – upgrades to their payments systems[18]. But are they doing enough? Figure 6 shows over two-thirds of banks are only somewhat satisfied with their current payment strategy.

According to an executive at a major US bank: "There are lots of profits to be had in handling payments of various types[19]." The bank generates about 30 percent of its revenue from payments services, including checks, credit cards, cash and securities. Paper check volume has been steadily falling, but that decline has been more than offset by the growth in electronic transactions. The bank processed 42.5 billion checks in 2000, but only 37.9 billion in 2004. By 2007, it expects that number to drop to 31.1 billion. Yet the volume of electronic payments has grown from 30.7 billion in 2000 to 45.1 billion in 2004 – and will reach an estimated 60 billion in 2007[20].

Figure 6: Overall, how satisfied is your bank with its current approach to payments processing?

(% respondents)



Source: Economist Intelligence Unit Survey, 2005.

2010 forecast: Most financial institutions are likely to suffer a fall in revenue from payments of 20-30 percent by 2010

Bottom Line

Do not dabble: Payments are often viewed as the unglamorous side of financial services, but they are likely to take center stage by 2010. Financial institutions should make a strategic decision to invest in the payments business – or get out of it by outsourcing. Dabbling will likely not work. To succeed, firms should give the payments business the strategic position it deserves – aggressively repositioning themselves to survive and thrive in the shifting payments landscape. As one executive noted, "banks can't just put their heads in the sand and hope to maintain incremental returns from product silos."

Develop new products and processes. As payment systems evolve, financial institutions should create new sources of payment revenue by understanding the cost of the inherent counterparty credit risk and redefining their value proposition to new and existing customers. Financial institutions without a payments strategy are likely to see significant erosion in revenues from payments and be cut-off or disintermediated from certain key marketplaces.

Take an enterprise approach. To succeed, banks should be totally committed to the payments business. For instance, one leading US bank has adopted an enterprise approach to payments, launching a group dedicated to payment strategies, and adding payments to the bank's ten point manifesto[21]. As suggested by one executive "payments are the glue which hold customers, both depositors and borrowers, to the bank[22]."

Figure 7: Investing in China

Domestic seller	Investor(s)	Transaction size ($ million)	Stake
Bank of China	• Temasek • Royal Bank of Scotland • Merrill Lynch • Li Ka-shing Foundation • UBS • Asian Development Bank	$7,275	23.0%
China Construction Bank	• Bank of America • Temasek	$5,400	15.4%
Industrial and Commercial Bank of China	• Goldman Sachs • Allianz • American Express	$3,000	10.0%
Huaxia Bank	• Pangaea Capital • Management • Deutsche Bank • Sal. Oppenheim Ir. & Cie	$455	20.9%
Bank of Beijing	• ING Bank	$215	19.9%
Tianjin Bank	• ANZ Bank	$151	19.9%
Bohai Bank	• Standard Chartered	$123	19.9%
Minsheng Bank	• Temasek	$110	4.6%
Shenzhen Development Bank	• General Electric	$100	7.0%
Nanjing City Commercial Bank	• BNP Paribas	$87	19.2%
Hangzhou City Commercial Bank	• Commonwealth Bank	$78	19.9%

Source: 2006 Press Reports, Deloitte Research.

Emerging markets: Opportunities, but no guarantees

Emerging markets offer a possible solution to the growth problem, but only if financial institutions can adapt their business models to operate profitably in these new and largely uncharted territories by 2010.

As emerging markets mature, they should provide western financial institutions with tremendous growth opportunities. But success is by no means guaranteed. Financial institutions that wish to capitalize on these markets should do much more than just show up.

Demand for financial services in emerging markets is being driven by rapid increases in Gross Domestic Product (GDP), disposable income, and personal savings. China and India are the most obvious destinations for institutions in search of growth. Both countries have enormous populations with growing middle classes and steadily rising incomes. In fact, by 2010, the middle classes in India and China are each expected to be larger than the entire US population[23]. These increasingly affluent segments could be extremely lucrative for financial services firms, and will likely be key to industry growth for many years to come.

The restructuring of China's banking industry has created new opportunities for foreign firms to participate in investments and transactions. Many expect barriers to entry to fall after the full opening of China's banking sector in 2007 – and are positioning themselves accordingly. For example, 71 percent of surveyed securities firms say China will be very important to their business in 2010[24]. Figure 7 shows the major investments already made into Chinese banks by western financial institutions and investors.

In India, competition, privatization, economic growth and an influx of foreign capital is igniting the market for financial services. According to the Reserve Bank of India, the nation's total bank assets rose from $187.2 billion to $373.8 billion between 1998 and 2003, a staggering compound annual growth rate of 14.8 percent. And by 2007, India's banks are forecast to have assets of $546.4 billion, a 192 percent increase in just nine years[25].

Although emerging markets such as Brazil, Russia, India and China present huge opportunities for growth, there are no guarantees of success. The keys to success should be understanding and catering to local needs, and, as always, carefully minding the details of execution.

In particular, financial services firms are likely to need a proven and repeatable model for exporting business processes and systems into new markets, combining a firm's best existing practices with new practices from the outside. In most cases, existing business models are designed for mature western markets with high wealth, low growth dynamics, versus the high growth, low wealth emerging markets.

This is likely to require a different operating model. There are three options for market entry strategies – acquisitions, joint ventures and organic growth. Much is already known of acquisitions and joint ventures, less so around organic growth. However, acquisitions can be expensive and governments can protect their best financial institutions from market forces, meaning organic growth is likely to become a more common, if unknown, market entry tool for financial institutions.

There are five phases to organic entry into emerging markets. Firstly, market sizing of potential opportunities based on their relative growth rates and potential fit with the business areas of the financial institution. Secondly, critical to success is achieving the right blend of local and international management skills and understanding the importance of local culture. Thirdly, governmental relationships when entering an emerging market are critical – how can this access be gained? Fourthly, in which parts of the market would existing propositions work best – how much modification needs to be made to existing product sets? Finally, an infrastructure has to be built beyond the initial beach-head into the country – how easy is it to replicate the business model from a domestic market?

2010 forecast: growth levels in emerging markets should top 20 percent for many financial institutions

Bottom Line

Portfolio of markets. The majority of financial institutions have strong domestic ties. The majority of revenue and operations are often based in one country. Financial services, as with the world economy, are entering a new era of more international markets. The major challenge for financial services leaders is to reshape the profile of their business. Put plainly, which is the best portfolio of markets most likely to generate sustainable profitability for the business? Enacting this transition is hugely difficult and high risky, but should enable a financial institution to grow and prosper beyond 2010.

Exportable, repeatable model. Financial services firms will likely need a proven and repeatable model for exporting business processes and systems into new markets, combining a firm's best existing practices with new practices and cultures from the outside. In most cases, existing business models are designed for mature western markets with relatively wealthy clientele. But in emerging economies, firms are likely to be dealing with a much larger number of customers – most of whom are less wealthy. This will require the creation of a different operating model.

Big and beautiful. Expanding a financial institution to the far-flung corners of the world is certainly attractive – it also has its downsides. A big question still remains over potential 'dis-economies' of scale for the world's largest financial institutions. Will the world's largest financial firms pay a price for their sheer scale? The major challenge will likely be to manage the interface between local regulators, global best practices and shareholders – at the same time.

Section 2: Operating challenges

In addition to the major market trends, there are a number of operating issues that are likely to have a big impact on the way financial institutions do business in 2010 – both at home and abroad. These issues present significant management challenges, yet they also provide major opportunities to improve efficiency, service, financial performance and competitive advantage.

Offshoring: Releasing the value

To move beyond pure labor arbitrage benefits, major financial institutions will likely need to take their offshoring strategies to the next level by re-engineering business processes and developing a truly global operating model.

Offshoring is now an accepted business practice throughout the financial services industry, and so far has delivered relatively impressive savings – largely by capitalizing on cheap labor. Yet in most cases offshoring accounts for less than five percent of a firm's total operation. As offshoring expands and matures, financial institutions must find ways to maintain and improve the cost savings without sacrificing service quality. Firms that get this wrong will likely find their offshore efforts do more harm than good.

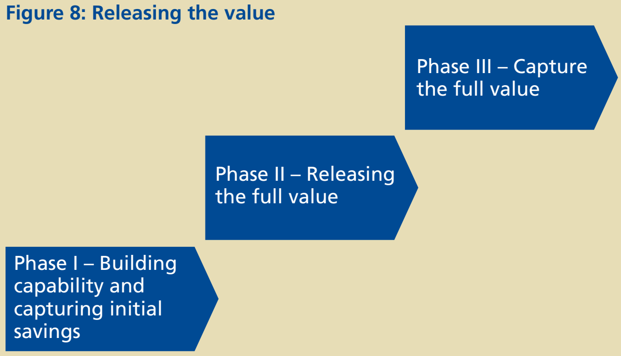
Financial services offshoring continues to expand along every dimension. However, significant strategies are now evident in those financial institutions that offshore. For instance, on average, major financial institutions have over 2.5 percent of total head count offshore[26], while industry leaders have over 10 percent of total headcount in lower cost locations[27]. Further there is significant potential for improving the level of cost savings. On average financial institutions save around 40 percent against the same business process onshore[28]. However, when industry best practice is applied to offshore operations DTT estimates that total savings could be tripled.

India remains the industry's offshore provider of choice, accounting for 72 percent of offshore headcount[29]. China is a distant second at four percent, with the Philippines just behind at three percent[30].

Offshoring was initially driven by labor arbitrage, but these days capitalizing on low-cost labor is only the beginning. Offshoring now should move to the next level to release more value for financial institutions (Figure 8). Analysis of the trajectory of financial institutions offshoring strategies shows many strategies are now at a crossroads[31]. A significant contrast can be detected between the leaders and a small minority of so-called 'falling stars' which are seeing a decline in the productivity of their offshore activities.

In the years to come, offshoring may reshape the financial services industry in the same way that foreign production has reshaped manufacturing. Entire back office processes and departments could move offshore. Ultimately, financial firms may go even further – transforming themselves into global operating businesses.

Figure 8: Releasing the value



Source: Deloitte & Touche LLP, 2006.

In addition, offshoring can help financial firms penetrate new and emerging markets. An offshore operation provides a local presence, allowing a firm to gain first-hand experience in the market and helping to establish the brand. This initial market position can later be developed into full-scale business operations.

2010 forecast: Financial services executives estimate that between 10 and 20 per cent of the cost-base of financial institutions will be offshore by 2010[32]

Bottom Line
Although offshoring has already proven its worth, firms cannot take the benefits for granted. To stay ahead, they should continue to optimize and improve their offshoring practices.

A clean slate. Offshore operations are less likely to be burdened by a firm's internal politics, 'fiefdoms' and 'sacred cows', thus providing an ideal environment to develop new and improved systems, processes and business practices. These innovations – once proven and perfected – can then be transplanted back to domestic operations.

Cross-shore integration. Now that offshoring is an integral part of the financial institutions operating model, firms should focus on improving integration between onshore and offshore operations to create a seamless global delivery model.

Recycling savings. Offshore cost savings and efficiencies can be used to fund enhanced service performance in mature markets that otherwise might not be economically feasible. For example, offshoring could enable firms to offer live advisors to mature, mass market – instead of limiting such services to their wealthiest clients.

Internal control: A springboard to improved operating performance

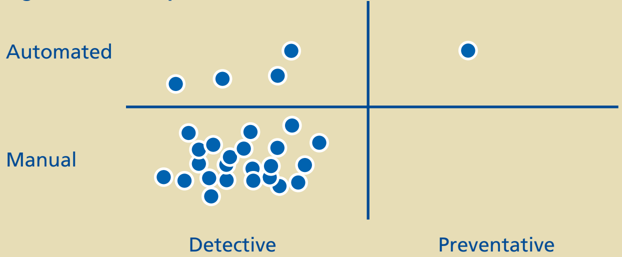
Building the capability to be able to consolidate and report data beyond compliance demands by regulatory authorities is likely to be a key differentiator between winners and followers by 2010.

In the past some financial institutions have viewed regulatory compliance as little more than a 'necessary evil'. But by 2010 the internal control systems and processes needed to achieve compliance may also be used to boost a company's efficiency and performance – essentially 'killing two birds with one stone'. Failure to implement world-class internal control systems could result in significant action beginning taken by the regulator or supervisory authority[33].

An avalanche of regulation is sweeping across the financial services industry – regardless of market, geography or industry sector. For large, international financial institutions, in particular, this is causing a major headache. The breadth of compliance now being demanded of an international business is extremely significant – the highest profile and most significant new rules being Sarbanes-Oxley for the US Securities and Exchange Commission (SEC) registered companies, to Basel II (for banking institutions) and Solvency II (for insurance companies) not to mention International Financial Reporting Standards (IFRS) and local market regulations. The task of complying with all these new regulations is demanding in terms not only of costs involved, but also the resources and expertise required.

There is a potential silver lining to this dark and ominous cloud, however. Those financial institutions that could build financial and cultural disciplines into their business procedures to report efficiently and effectively on compliance to the required regulatory authorities could achieve greater transparency about their risks and build a potential competitive advantage.

Figure 9: Control portfolio



Source: Network Vigilance – Strategic compliance through SOX, 2005.

Thus far, many financial services firms have invested huge amounts of time, money and resources complying with these existing regulations. Yet only a minority are using their compliance activities as a springboard to improve the way they manage and operate the business. Figure 9 shows how financial institutions should move their internal control systems from being focused mainly on manually orientated detection, toward automatic prevention – the journey will likely be a long one.

There are four key questions to be posed in the organization to build future competitive advantage in this area of internal control: How is the business embracing these new compliance requirements and consolidating the required information across business units and across jurisdictions? How is the business 'reservoiring' the data required on an enterprise wide basis? What are the resources – technology, people, and expertise – required in world class internal control systems? Are there new risk categories being formed by the lack of capability to comply with the new regulatory demands?

2010 forecast: Between now and 2010 many financial institutions may see an average 20 to 30 percent increase in expenditure on internal control

Bottom line
Internal controls and reporting systems could help a firm avoid misconduct, but they could also be used to improve performance and profitability – helping the organization get where it wants to go while avoiding pitfalls and surprises along the way.

See the big picture. The most effective approaches encompass all dimensions of the business. It is important to take an enterprise wide view of internal controls. As financial institutions become more international it is critical to build an internal control system that is flexible and capable of scaling as the business moves into new markets.

Be realistic. All internal controls systems have their limits. Internal controls cannot change an inherently poor manager into a good one. And there is only so much they could do to address shifts in government policy, changing economic conditions, competitor actions and other factors that are beyond management's control.

Clarity of purpose. Internal controls could do so much to improve the performance of a financial institution that it is sometimes wrongly perceived as a panacea for all business issues. Further, internal control should be a key management tool, not merely the preserve of internal audit or the finance department. Finally, internal controls should be integrated into the overall management dashboard to bring greater clarity to performance and risk management.

The struggle for growth: Process and service innovation provide the keys to sustained performance and enhanced customer relationships

In the struggle for growth in mature markets, a key hallmark of success to deliver sustainable revenue increases and enhance the customer experience is likely to be the ability to identify and execute services/process innovations, over product innovations.

Growth remains at the top of the financial services agenda. Yet the traditional strategy of growing through product innovation has largely failed to deliver on the promise – financial institutions not shifting their focus from product to process innovations are likely to see slowing growth by 2010. DTT estimates the world's top 100 financial services companies together invest nearly $11 billion a year in product development. Yet the resulting products are rarely differentiated and competitors quickly copy those that are. Product innovations also tend to drive up operating complexity and cost, creating a 'vicious circle' that makes it increasingly difficult to attract and retain customers[34].

Process and service innovations, on the other hand, focus on simplifying operations and giving customers what they really want. These types of innovations also tend to be much harder for competitors to replicate, and thus provide a far more enduring advantage. According to Sir John Bond, former Chairman of HSBC, "Product innovation gives less than three months competitive advantage. Process innovation gives at least 12 months competitive advantage"[35].

More top performing financial institutions need to commit themselves to enhancing the customer experience through service innovations that significantly improve the customer experience, in some cases even where the cost is high. Commerce Bank – a US banking institution that has grown 30 percent a year for the last six years – is a beacon of best practice of customer relationships[36]. The New Jersey-based bank has a policy of answering every phone call within two rings and over 90 percent of calls are resolved by a single person so customers do not get passed around. Equally important in delivering this level and consistency of service is how staff are treated. Vernon Hill, Chairman and Chief Executive Officer, rewards his people each time they eradicate business policies that prohibit service excellence – this is not a common practice within most of the world's financial institutions. The bank offers a below market average rate on deposits, but focuses on delivering its brand promise of being 'America's most convenient bank', arguably giving customers a real choice and a tangibly different experience.

Process innovations focus on the way work is performed – making it better, faster and cheaper. These types of innovations – particularly in areas such as marketing and sales – can take an organization's performance to a whole new level, importantly augmenting the transformational improvements associated with a major acquisition or geographic expansion in sustaining revenue increases.

The Spanish savings bank Bancaja – which last year saw assets rise by 34 percent – provides an excellent example of the switch away from products. To achieve this it has made some very specific commitments to customers such as no small print or hidden surprises in the contract. In addition, it is sensitive to the cash-flow situation of customers always accepting home-related direct debits, and delaying mortgage payments should the customer become unemployed. Finally, the bank attempts to foster loyalty with key segments of the market, notably by wavering fees for those customers under 26 and over 65 years old.

In a recent study, two-thirds of the executives surveyed said innovation will likely be the key to success in financial services over the next five years[37]. Meanwhile, the struggle for growth continues – particularly for western financial institutions in maturing markets. In executing an innovation strategy, process and service improvements are likely to prove themselves to be the most effective levers for achieving sustainable growth and differentiation from the competition through an enhanced customer experience.

By harnessing technology and innovation to provide better service and delivery, financial institutions can strengthen ties with customers and achieve sustainable performance improvements. However, this new approach requires a fundamental shift in mindset, from the board level down.

2010 forecast: The total budget allocated to product innovation is likely to fall from $11 billion in 1995 to $6 billion by 2010[38]

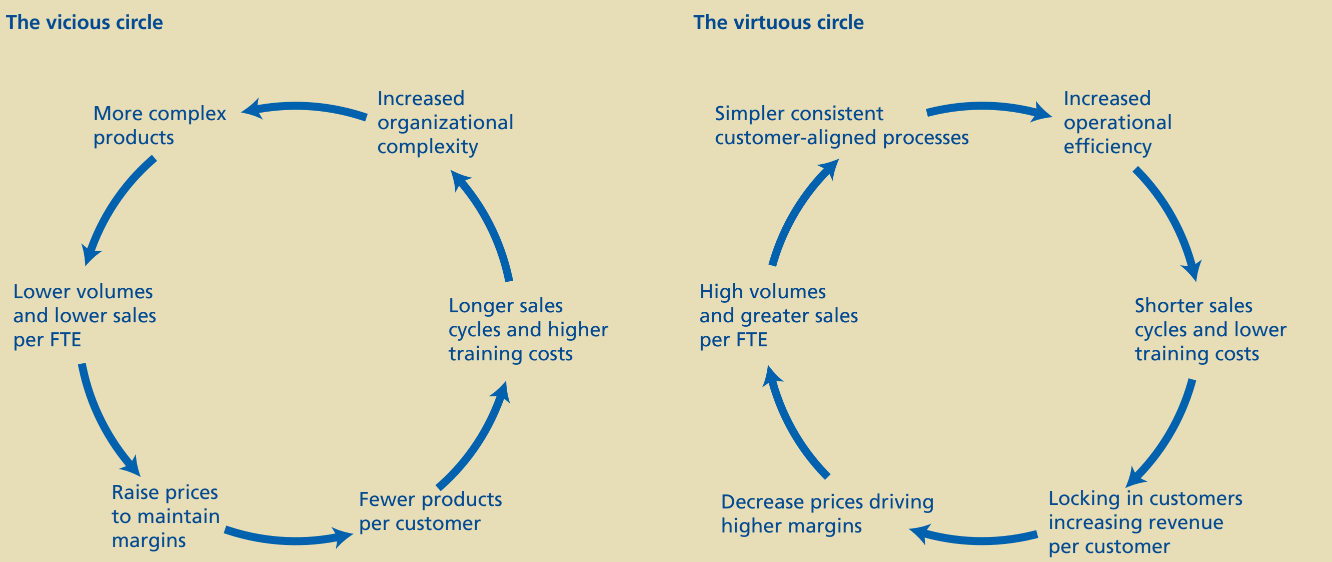
Bottom Line

Enhancing the customer relationship through the experience. Although it might seem counterintuitive, financial institutions can improve the way they serve external customers by looking inward, turning customer insights into service and process innovations that improve the customer relationship and experience. To do this there are three key levels – service, value and convenience.

The 'virtuous circle'. Process and service innovations create value by attracting customers through a virtuous circle of simplicity and efficiency. Product innovations often do just the opposite, driving customers away by increasing complexity and costs (Figure 10).

Lasting innovation. The most successful financial institutions should embed process and service innovation into the very fabric of the organization – from strategy and processes, to people, systems and business partners – actively developing good ideas that are difficult for other companies to copy, thus achieving a sustainable competitive advantage.

Figure 10: Connecting innovation to growth



Source: Deloitte Development LLC, 2005.

Mindset matters – Tax, accounting and financial reporting

A radical shift in mindset is required amongst senior executives to bring transparency and technology to tax planning and financial reporting activities – a hallmark of success to a financial institution by 2010.

A key operational driver of success by 2010 will likely be building greater transparency in tax, accounting and financial reporting activities. Over the first half of this decade a variety of factors – ethical concerns, advances in technology and investor scrutiny – have been combining together to bring about change. In the past, lack of transparency has meant financial institutions have operated in a non-optimal fashion. By 2010, a key hallmark of success should be imbuing a new mindset around tax, accounting and financial reporting which will differentiate winners from losers.

Four drivers have come from diverse origins, but are combining together in powerful ways to bring change to the arena of tax and financial reporting. Firstly, the harmonization of accounting and regulatory principles across the world's major markets has been gaining momentum for some time, but is now baring its teeth. There have been huge changes for those financial institutions applying IFRS for the first time in reporting financial performance. This is especially the case for the European Union listed groups, but is also relevant to other jurisdictions which have adopted IFRS or aligned their own national accounting standards with IFRS, for instance Australia. Further, regulatory change has also mandated changes in reporting and tax management. Both Sarbanes Oxley 404 and the European Union 8th Directive require a more structured approach to tax management and financial reporting[39].

Secondly, greater pressures are now being placed on financial institutions around the ethics of tax management and financial management. Governments, in the form of tax authorities, as well as many non-governmental organizations are now putting major corporations under pressure around the level of 'fair' taxation to be paid[40]. As a consequence tension is likely to be created within the financial institution between the CFO and non-executive directors. This is because the CFO is judged on post-tax measures such as Earning per Share (EPS). Similarly in structuring capital funding the level of relative taxation will be of increasing importance. All this points to a blurring of the debate between tax avoidance (legal) and evasion (illegal) which is likely to make the CFO's job more demanding.

Thirdly, the application of technology is bringing more transparency to tax and financial reporting. Harnessing the power of technology in systemizing tax planning, for instance, could radically improve the efficiency of the business.

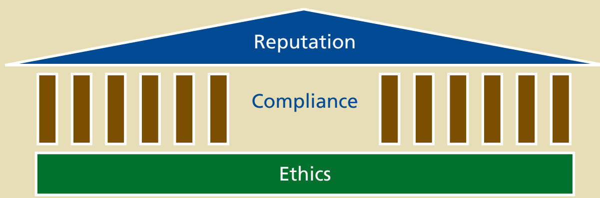
Finally, investors now demand more clarity around financial and tax risk indicators. This can differentiate between one stock and another, the implication being that tax and financial reporting activities move from being merely the provision of information in line with listing/exchange rules. For instance investors are more likely to pick a stock with greater transparency – as long as they like what they see. Conversely, it is likely to have a polarizing effect on financial institutions where opacity indicates weaknesses and this is likely to drive transaction activity.

2010 forecast: Whilst access to the right caliber of management and employees will likely remain a key factor, a combination of tax, accounting and reporting pressures is likely to play a major role in the relocation of a headquarters of a major financial institution by 2010

Bottom Line

No place to hide: Now the genie of greater disclosure is out of the bottle, it is critical management grasp the opportunity to bring greater transparency to their tax, accounting and financial reporting practices. This will likely require senior management to shift their mindset towards building transparency into their overall corporate social responsibility thinking (Figure 11).

Figure 11: Building the foundations



Source: Deloitte & Touche LLP, 2006.

Because you're worth IT: The deployment of technology should be at the core of the most successful strategies. This does not negate the need for a fundamental shift in the approach to management mindsets. However successful strategies may be underpinned by savvy application of technology – particularly in relation to tax planning.

Communication matters: As in all walks of business life, competition is likely to become more intense and so getting a message into the marketplace will likely become even more important. Investor Relation departments may need to add a new dimension to communications with the capital markets. The capability to provide more transparency around tax efficiency and financial indicators will increasingly become a hygiene factor.

Hallmarks of success in 2010

The journey to create a leading financial institution by the end of the decade should start today. Crafting a fit-for-purpose business model requires the incorporation of the market trends and the implementation of the operational issues identified in this report, plus other sector or geographic specific issues. Going forward, expect successful financial institutions in 2010 to exhibit the following hallmarks.

Global markets and a business model to match. The financial services industry is likely to become increasingly global as firms in mature markets seek new sources of growth in emerging economies. Success will hinge on creating an exportable, low-cost business model specifically designed to serve these new types of customers (low income, high volume), rather than trying to force-fit the model currently used to serve more affluent customers in existing western markets. The need to scale up will likely be driven by three factors. Firstly, having a significant balance sheet will likely be critical in supporting the major corporate clients and in funding future activities. Secondly, many financial products are likely to become commoditized meaning margins will become skinnier and economies of scale more important. Thirdly, the ability to have a multinational market portfolio could only be sustained by major organizations.

Mass efficiency with focused premium service. Shrinking margins are likely to drive an overall trend toward commoditization. Operational improvements should primarily focus on efficiency, self-service and economies of scale. Yet there may also be opportunities to reinvest some of those back-office cost savings into premium services for high value market segments – including 'mass affluent' segments that may be underserved today. In the back-office this may further drive the move to offshore non-customer facing activities. Beyond 2010, the emergence of industry utilities are likely to become dominant from investment banking to insurance.

Consolidation with a purpose. Merger and acquisition volume should remain high, both at the national and regional levels. For example, DTT expects 700 European banks to disappear through mergers over the next three years. A number of deals are also expected between west and east, and vice versa – specifically to capitalize on increasing globalization. The Asia Pacific market is also likely to see a rise in both transaction volumes and values between now and the end of the decade – with major capital flows into both China and India. Finally, North America should also see an up-tick in deals, although these are likely to be centered around mid-tier consolidation. However, acquisitions should not be the only club in the bag in creating the hallmarks of success. Savvy divestments allied with smart redeployment of capital, could be equally important in creating competitive advantage, although they do not always make the front page. Further DTT expects to see both strategies being augmented by organic market entry strategies.

Business models leveraging a direct distribution, could be highly effective, profitable and capital efficient – if, critically, the right proposition could be formulated.

Winning the struggle for growth through enhanced customer relationships. Financial institutions of every shape and size are likely to face a continuing challenge to grow their top line – even after large acquisitions. Financial markets reward financial institutions achieving the best relative growth in revenues. For instance, DTT's analysis shows on a worldwide basis the five banks with the fastest revenue growth saw their stock price soar by an average of 91 percent over a four year period – over four times better than the industry average[41]. Going forward, there may be reduced headroom for growth in most mature western economies; the game will likely be to solidify existing customer relationships, steal market share and increase share of wallet by relearning the growth habit through innovative practices.

Financial institutions should rethink their growth strategies, eschewing product innovation in favor of process and service improvements. The latter are much harder for competitors to replicate, thus providing a more enduring advantage, both in terms of better customer relationships and revenue growth. Process and service innovations also tend to reduce complexity and cost, creating a 'virtuous circle' of top-line growth and bottom-line profitability.

Successful financial institutions are likely to embed innovation into the very fabric of the organization – from strategy and processes, to people, systems and business partners – actively developing good ideas into enduring commercial success.

Transparency and compliance as a performance springboard. Regulators and capital markets are demanding greater transparency. But top-performing firms by 2010 are likely to go beyond the minimum requirements, using transparency and compliance as a way to win the hearts and minds of investors, and leveraging their efforts to improve decision-making, cost efficiency, and service quality.

This is a significant mindset shift for most financial institutions. Since behavioral shifts are often the most challenging to attain – expect many financial institutions not to develop this capability for a performance springboard.

Cracking the IT value code. By 2010 leading financial institutions are likely to be some of the most sophisticated users of technology on the planet. Today the top 25 financial institutions in the world spend in excess of $50 billion on technology in a single year. Clearly, financial institutions should get improved productivity, enhanced revenue growth, and better profitability from this level of spend in the future. The challenge going forward for financial institutions will likely be two fold – the digitization of business and effective IT governance.

Firstly, the differentiator between success and failure is likely not to be the absolute amount spent, but rather on the governance of technology within the business. Recent decades have seen large gaps open up between the board and technology departments within financial institutions. To remedy this problem, it is imperative financial institutions have a CIO with a seat at the top table. This should only be granted to those individuals who are 'bilingual' in the languages of technology and business – acquiring such an individual should be top of every CEO's agenda.

Secondly, financial institutions are incredibly complex businesses. Over the next five years technology must be applied to reducing this degree of complexity – by the eradication of paper-based processes. For instance, trading of many asset classes is now done on electronic exchanges. By contrast, back office clearing and settlement is often stuck in a paper-based world driving up complexity and reducing the efficiency of markets.

By 2010, technology is likely to be almost invisible yet pervasive throughout leading financial institutions. This simplicity should drive new business models and will be integral to forging each of the hallmarks of success identified in this report.

The world never stands still – so it is worth taking a brief look at the drivers beyond 2010. Two major factors – one front office, the other back office – is likely to drive financial services in the next decade. Firstly, the continued growth of the Internet will fully impact the market. The creation of customer 'gateways' should become much more dominant – for instance retail financial services may be sold as on-line packaged products. This is likely to require a radical transformation of the business model of financial institutions.

Secondly, the emergence of industry utilities is likely to become common practice. The pressures to continually grow revenues at a quicker rate than costs is likely to to take its toll on financial institutions, notably second-tier organizations. Many processes in financial firms are duplicated across rivals. Increasingly financial institutions are likely to collaborate with rivals to create industry utilities operating across the world's major markets. Again this will require a fundamental shift in the operating mindset and business models of financial institutions.

The trends and challenges identified in this report are likely to affect the vast majority financial services firm. But only the best will profit from them. Big is likely to become beautiful, but in itself will be no guarantee of success. Financial institutions that start building these qualities into their corporate DNA today are the ones most likely to come out on top in 2010.

Notes

1. A new playing field: Creating global champions – the emergence of pan-European retail banks through cross-border M&A, Deloitte & Touche LLP, 2005.
2. Glittering Prize: How financial institutions can drive growth through process and service innovations, Deloitte Development LLC, 2005.
3. Celent – IT spending in banks. www.celent.com
4. The Outlook for the Defined Contribution and IRA Markets, Merrill Lynch, 2004.
5. HSBC European record – The Guardian, 7 March 2006.
6. Numbers in the news – Financial Times, 9 March 2006.
7. Private Equity Pressing – the.street.com
8. Financial World 2006.
9. Hedge funds – A catalyst reshaping global investment, KMPG.
10. The hedge fund report, www.street.com
11. Growing pains – The Economist, 2 March 2006.
12. Asian hedge funds top $100bn mark – Financial Times, 6 February 2006.
13. China looks at hedge funds, Hedge fund reader, 23 January 2006.
14. Growing pains – The Economist, 2 March 2006.
15. Chasing grotesquely undersaved and now ageing baby boomers, Financial Times, 26 January 2006.
16. Australian Government Culture and recreational portal – baby boomers. www.cultureandrecreation.gov.au/articles/babyboomers/
17. Elevating payments to strategic advantage, Economist Intelligence Unit, May 2005.
18. ibid.
19. eweek. Time is now for banks to rethink payment strategies 2004. www.eweek.com/article.
20. Elevating payments to strategic advantage, Economist Intelligence Unit, May 2005.
21. LogicaCMG payments infrastructure: Transformation for the future. www.logicacmg.com
22. Elevating payments to strategic advantage, Economist Intelligence Unit, May 2005.
23. Business Week Online: India and China, www.businessweek.com/magazine
24. Economist Intelligence Unit 2005 – Business China.
25. Ground floor entry for banking, IBM, 13 September 2005.
26. Global Financial Services off shoring: Scaling new heights, Deloitte Touche Tohmatsu, 2005.
27. ibid.
28. Offshore outsourcing in the financial services industry, Deutsche Bank research, 2004.
29. Top 10 countries for offshoring, Forbes – www.forbes.com
30. ibid.
31. Making the most of Cost Savings Using offshore to facilitate service improvements, Magellan Consultancy Services 2005.
32. Trends in global offshore outsourcing: Growing adoption offers opportunity for some, Forrester 2004.
33. A major North American Bank was recently bar from making any major acquistions unitl it has upgraded its internal control systems, Financial Times 4 April 2006.
34. Glittering prize: How financial institutions can drive growth through service and process innovations, Deloitte Development LLC, 2005.
35. Sir John Bond March 2000, Chairman, HSBC. Speech to Cornhill Club, London.
36. In the research conducted by the Loyalty Quest report, a joint study by Deloitte and the Consumer Bankers Association of the United States, interviews with 26 CEOs/Heads of Retail of the major banking institutions in the United States identified Commerce bank as the best practise in customer service.
37. Economist Intelligence Unit 2005.
38. Glittering prize: How financial institutions can drive growth through service and process innovations, Deloitte Development LLC, 2005.
39. Tax risk and strategy: Recent Developments, Deloitte Touche Tohmatsu 2005.
40. Harmonizing tax competition 1998: An emerging global issue.
41. Glittering prize: How financial institutions can drive growth through service and process innovations, Deloitte Development LLC, 2005.

For more information

Jack Ribeiro
Managing Partner
Global Financial Services Industry
Deloitte & Touche USA LLP
+1 212 436 2573
jribeiro@deloitte.com

Chris Gentle
Director of Research
Global Financial Services Industry
Deloitte & Touche UK LLP
+44 20 7303 0201
cgentle@deloitte.co.uk

Chris Patterson
Director of Marketing
Global Financial Services Industry
Deloitte & Touche USA LLP
+1 212 436 2779
chrpatterson@deloitte.com

Contacts

Deloitte Touche Tohmatsu Member Firm Financial Services Industry Leaders

Americas

Argentina
Fabián Djurinsky
+54 11 4320 2700 ext. 4008
fdjurinsky@deloitte.com

Bahamas
Raymond Winder
+1 242 302 4841
rwinder@deloitte.com

Bermuda
Roger Titterton
+1 441 299 1313
rtitterton@deloitte.com

Brazil
Clodomir Félix
+55 11 5186 1655
clodomirfelix@deloitte.com

Canada
Catherine Bateman
+1 416 601 5953
cbateman@deloitte.ca

Cayman Islands
Glen Wigney
+1 345 814 2202
gwigney@deloitte.com

Chile
Alberto Kulenkampff
+56 2 270 3180
akulenkampff@deloitte.com

Colombia
Ricardo Rubio Rueda
+57 1 546 1818
rrubio@deloitte.com

Mexico
Carlos A.Garcia
+52 55 50 80 60 93
cargarcia@deloittemx.com

United States
Jack Ribeiro
+1 212 436 2573
jribeiro@deloitte.com

Venezuela
Hernán Marambio-Cortés
+58 212 206 8641
hmarambiocortes@deloitte.com

Asia Pacific

Australia
Keith Skinner
+61 2 9322 7580
keskinner@deloitte.com.au

Gerry Schipper
+61 3 9208 7085
gjschipper@deloitte.com.au

Warren Green
+61 2 9322 5454
wgreen@deloitte.com.au

China
(People's Republic of)
Wade Deffenbaugh
+852 2852 6629
wadeffenbaugh@deloitte.com.hk

India
Dileep Choksi
+91 22 2202 6073
dcc@deloitte.com

Indonesia
Riniek Winarsih
+62 21 231 2381 ext. 3886
rwinarsih@deloitte.com

Japan
Yoriko Goto
+81 3 6213 1372
yoriko.goto@tohmatsu.co.jp

Yukio Ono
+81 3 6213 3630
yukio.ono@tohmatsu.co.jp

Korea
Joseph Shin
+82 2 6676 1100
yishin@deloitte.com

Malaysia
Meng Kwai Ng
+60 3 7723 6560
mng@deloitte.com

New Zealand
Ian Perry
+64 4 495 3917
iperry@deloitte.co.nz

Philippines
Avelina Gille
+63 2 812 0535
agille@deloitte.com

Singapore
Prakash Desai
+65 6530 5585
pradesai@deloitte.com

Taiwan
Ray Chang
+886 2 2545 9988 ext. 3029
raychang@deloitte.com.tw

Thailand
Russell Toy
+66 2 676 5700 x5093
rutoy@deloitte.com

Europe, Middle East and Africa

Austria
Dominik Damm
+43 1 53700 5440
dodamm@deloitte.com

Belgium
Frank Verhaegen
+32 3 800 8853
fverhaegen@deloitte.com

Central Europe
Mike Jennings
+420 246 042 576
mijennings@deloitteCE.com

Cyprus
Nicos Charalambous
+357 25 868740
ncharalambous@deloitte.com

Denmark
Lone Møller Olsen
+45 33 76 38 03
lolsen@deloitte.dk

Finland
Petri Heinonen
+358 20 755 5460
pheinonen@deloitte.com

France
José-Luis Garcia
+33 1 40 88 28 15
josgarcia@deloitte.fr

Germany
Friedhelm Kläs
+49 69 75695 6111
fklaes@deloitte.de

Greece
Nicos Sofianos
+30 210 678 1219
nsofianos@deloitte.gr

Iceland
Sigrún Ragna Ólafsdóttir
+354 580 3112
solafsdottir@deloitte.com

Ireland
Mary Fulton
+353 1 417 2379
mfulton@deloitte.ie

Israel
Dan Halpern
+972 3 608 5471
dhalpern@deloitte.com

Italy
Riccardo Motta
+39 02 833 22 323
rmotta@deloitte.it

Kuwait
Tim Bullock
+965 243 8060 ext. 101
tbullock@deloitte.com

Luxembourg
Eric van de Kerkhove
+352 451 452 468
evandekerkhove@deloitte.lu

Malta
Raphael Aloisio
+356 21 335 290
raloisio@deloitte.com.mt

Middle East
Joseph El-Fadl
+961 1 363005
jelfadl@deloitte.com

Netherlands
Rob Stout
+31 20 454 7055
rstout@deloitte.nl

Norway
Terje Boasson
+47 23 27 92 09
terje.boasson@deloitte.no

Portugal
Maria Augusta Francisco
+351 21 381 6020
mafrancisco@deloitte.pt

Russia
Vadim Sorokin
+7 095 787 0626
vsorokin@deloitte.ru

Slovak Republic
Gerry Stanley
+421 2 582 49177
gstanley@deloitteCE.com

South Africa
Geoff Pinnock
+27 11 806 5194
gpinnock@deloitte.co.za

Spain
Fernando Ruíz
+34 91 514 5692
feruiz@deloitte.es

Sweden
Jan Palmqvist
+46 8 506 723 82
jpalmqvist@deloitte.se

Switzerland
Philip Göth
+41 44 421 6228
pgoeth@deloitte.com

Turkey
Hasan Kilic
+90 212 317 64 16
hkilic@deloitte.com

Sibel Turker
+90 212 317 64 24
sturker@deloitte.com

Ukraine
Natalia Samoilova
+380 44 490 9000
nsamoilova@deloitte.com.ua

United Kingdom
Russell Collins
+44 20 7303 2929
rcollins@deloitte.co.uk

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, Deloitte delivers services in four professional areas–audit, tax, consulting and financial advisory services and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu" or other related names.

Designed and produced by The Creative Studio at Deloitte & Touche LLP, London.

Item #6106.

Deloitte
Touche
Tohmatsu