



# Board Leadership News



Cutting-edge insights on current topics to help board members face today's boardroom challenges.

**BOARD NEWS**

**AUDIT COMMITTEE  
NEWS**

**WOMEN ON  
BOARDS**

**NEXT  
GENERATION**

# Editorial



**RETO EBERLE**  
Partner, Member of the  
Board Leadership Center  
KPMG Switzerland



**H EL ENE B EGU IN**  
Partner, Member of the  
Board of Directors  
KPMG Switzerland

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BOARD  
LEADERSHIP  
NEWS  
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## DEAR MEMBERS OF THE BOARD OF DIRECTORS

To coincide with the launch of the Board Leadership Center, our center of expertise for members of boards of directors, we have revamped our newsletter. Compared to the previous Audit Committee News, its scope is much wider to include articles relevant to the board as a whole. We will continue to provide audit committees with specifically tailored pieces on accounting, reporting and auditing going forward. As we at KPMG are committed to supporting women in their career development, we will be publishing articles on the topic regularly alongside issues of interest to new members of boards of directors.

### THIS ISSUE COVERS THE FOLLOWING SUBJECT AREAS:

By now, the importance of digitalization for companies is undisputed. But: what characterizes companies that are perceived as digital leaders? What new role do IT departments play in this? Find answers to these questions and other relevant aspects in a study conducted by **KPMG and Harvey Nash**.



The **Swiss pension system** is a success story. However the system is under severe strain because of demographic trends and the muted outlook on the capital markets. The proposals for reform currently bandied about are a hodgepodge. What is necessary to make a reform sustainable in the long term? Read a critical take on the matter.

**Private banks** are still facing major challenges: The inflow of new funds virtually dried up in 2018 and profitability fell even further. How does this affect private banks, particularly small ones? Is it likely to result in more M&As or is there another way? To find out, we took a closer look at 87 private banks and present the key findings.

KPMG has once again conducted a survey with 1,300 **audit committee members** around the world this year. Apart from financial reporting, what other issues are audit committees (ACs) grappling with? How significant is compliance and anything cyber? Is risk management meeting expectations? Do ACs have sufficient resources at their fingertips to handle upcoming challenges? We share these and other results with you in the summary of our AC study.



**IFRS annual financial statements** have become (too) extensive. The IASB has launched its 'Disclosure Initiative' to make them easier to read and understand. What consequences will this have for the presentation of the elements of the financial statements, such as cash flow statements? What does the materiality concept actually mean in this regard. This short article not only answers these questions but also provides specific tips for AC members.

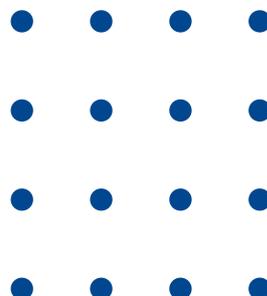
FINMA has issued new **rules on the regulatory audit of financial institutions**. What changes are afoot? Will all financial institutions still be audited every year in the future? What does this mean in terms of costs? Find the answers to these questions and other ramifications of the FINMA Circular 2013/03 that was revised with effect from 1 January 2019.

The Harvard Business Review has published an interesting article on the careers of **female members of boards of directors** and **women in CEO roles**: Does being a CEO first make it easier to become a board member? Or is it precisely the opposite way round? This article explores what the Harvard Business Review has to say on this topic.

A new feature being introduced in this issue is an **interview** with a figure from Switzerland's business world. We spoke with **Dr Monika Krüsi**, whose roles include Chair of the Board of Directors of Repower, about her experiences as a board member and the selection process for future members. Among other things, Dr Krüsi stresses the importance of a thorough appraisal – of the candidate by the company but also of the company itself by the candidate.

We hope that you find our expanded newsletter interesting. We welcome any comments you may have and any suggestions and improvements you wish to place. Incidentally, you will now receive the Board Leadership Newsletter three times a year.

Yours sincerely,  
Reto Eberle & Hélène Béguin



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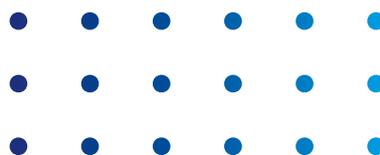
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# Digital transformation – a topic for the boardroom

## Harvey Nash / KPMG 2019 CIO Survey



In this article we will explain what digitalization is all about and why it is a relevant topic for the boardroom. Furthermore, we will present the most important results of this year's Harvey Nash / KPMG CIO Survey. You should definitely read this report if you want to:

- understand what digital transformation means
- benchmark your company with competitors and other companies
- understand what the characteristics of Digital Leaders are
- what you as a board member should do

### WHY IS DIGITAL TRANSFORMATION A TOPIC FOR THE BOARDROOM?

Digital disruption is changing the world which we live and work in. New technologies have created new markets that, in turn, create new competitors. And those competitors are driving new expectations. To succeed in the digital world, businesses must not only provide superior experiences for consumers, customers, employees and citizens, but deliver on their promises in a faster, more nimble way.

But what do we understand under 'digital transformation'? For KPMG, digital transformation stands for ongoing changes to business models, business processes and operations as well as customer interaction in connection with new information and communication technologies.

### HARVEY NASH / KPMG CIO SURVEY

In order to find out more about the digital transformation and current trends, Harvey Nash / KPMG conduct a yearly survey. Now in its 21st year, the survey is the world's largest technology leadership survey. With over 3,600 respondents from CIOs and technology executives across 108 countries, this year's focus is on the definition and role of Digital Leaders. What makes them stand out from the IT crowd, and how do they leverage technology to deliver tangible business value?

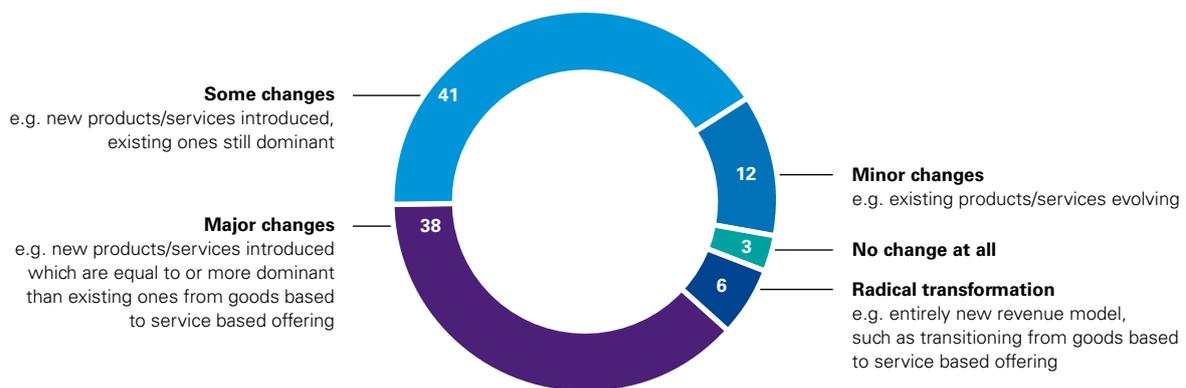




This is a clear sign that leadership in businesses across sectors recognize IT's pivotal role, not just in keeping the business functioning, but in enabling business change. Moreover, business-managed IT – where technology is managed by business departments themselves – is growing, especially in Digital Leaders.

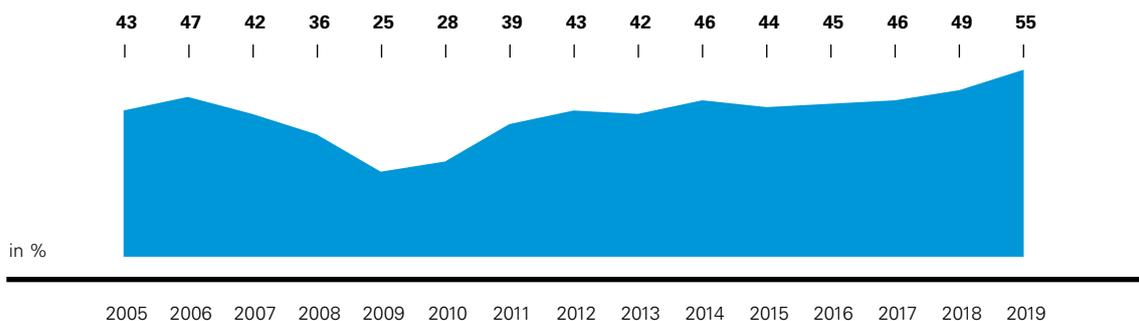
The most important findings are summarized below:

- **It's a time of massive change:** Forty-four percent of organizations expect to fundamentally change their product/ service offering or business model in the next three years. This is mainly due to digital disruption and the need to get closer to consumers. Transformation is becoming business as usual as enterprises strive to stay ahead of the game.



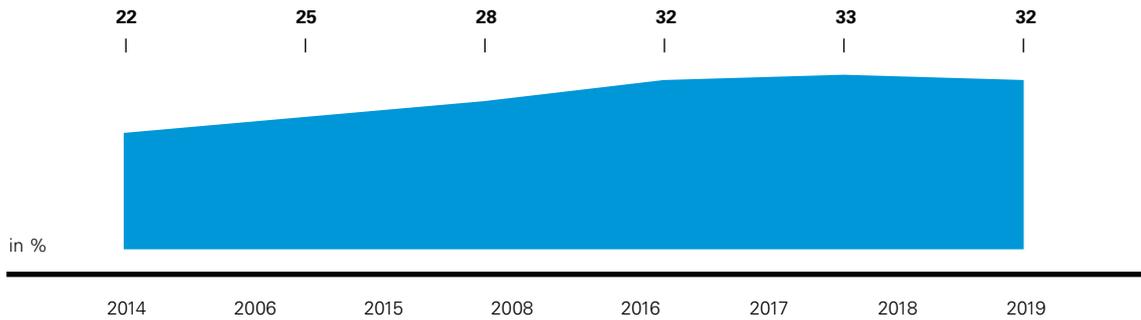
**Extent to which an organization's primary business activity will transform over next 3 years**  
in %

- **Biggest budget increases for 15 years:** We have seen the largest proportion of organizations increase their investment in technology this year. Even at enterprises that emphasize on efficiency and saving money, investment is growing. The driving force behind much of this investment is cyber security, data analytics, AI / automation and transformation.



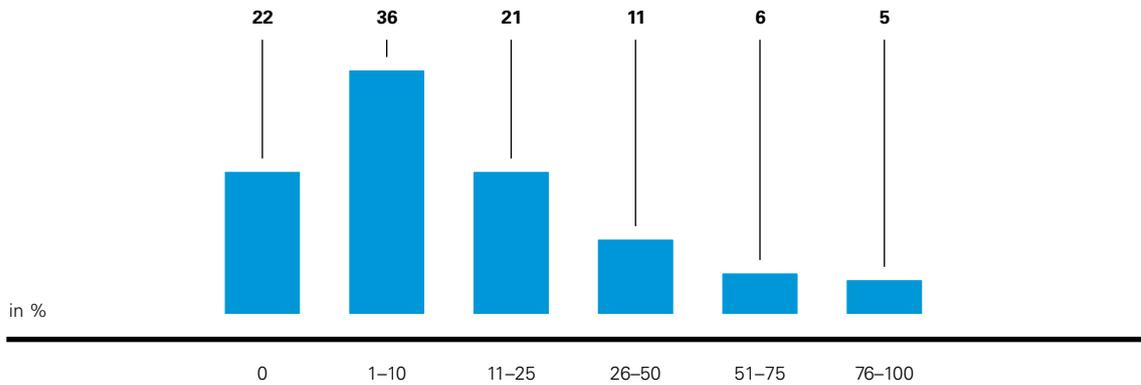


- **Technology doesn't stop evolving:** Over three-quarters of organizations are investing in cloud computing, with almost half adopting it on a wide scale. At minimum one-fifth of organizations have at least small-scale implementation of internet of things, on-demand platforms, robotic process automation and artificial intelligence.
- **Up to one in five jobs will go to robots:** Respondents expect AI and automation to replace around 10 percent of their company's workforce within five years. For one-third of respondents, that figure rises to 20 percent. Over time, organizations which don't invest in these areas can expect their cost base to be relatively higher than their AI-investing competitors. AI is expected to free up employees to perform work that requires more brainpower.
- **Relentless rise of cyber-crime levels out?** We've been tracking the growth of cyber-crime for many years, whereas confidence in dealing with the threat has been decreasing. We see the incidences leveling out for the first time this year, as confidence grows. The trend is subtle, but the size of our survey hints at it being more than a blip in the data.



**Organizations experiencing major cyber attacks in the last 2 years**

- **The rise of business-managed IT:** Almost two-thirds of organizations allow business-managed IT investment, and approximately one in ten actively encourage it. This requires a new relationship between business and IT. Those that get it right are likely to significantly outperform their competitors in a range of areas, from customer experience to time to market.



**Proportion of tech spend managed outside the IT department**

- **A new model of digital leadership:** Digital leaders are the 30 percent of organizations that are very or extremely effective at using digital technology to advance their business strategy. They distinguish themselves in the way their boards and CEOs prioritize value creation over efficiencies or their technology leader / CIO is more likely to sit on the executive team.
- **Ready for disruption:** In 2019 so far, job fulfillment is up slightly, budgets have grown, and salaries have increased. But technology is disrupting the role of the technology leader. Executive board membership, for example, is down. An explosion in new job titles and roles has occurred, from Chief Digital Officer to Chief Data Officer and beyond. Successful leaders are swapping control for influence, and stepping up how they partner with the business.



## CHARACTERISTICS OF DIGITAL LEADERS

In the digital age, all organizations are striving to harness IT to transform the business and drive better performance.

But there is no doubt that some are faring better than others. The Digital Leaders identified in this year's report are putting clear water between themselves and their competitors. On average, their time to market is better, their customer experience is superior and their operational efficiency is higher. As a result, both revenue growth and profitability are higher too.

But simply investing more in IT is not enough on its own. Along with it, a significant shift is needed in the way the IT function operates in and with the business. KPMG sees six key elements that the IT function must get right to deliver business value, and in this year's survey we see Digital Leaders outpacing their rivals in these important areas:

- 1. Market speed operating model:** Digital Leaders are more effective in implementing new technologies end-to-end across functions and geographies and changing ways of working to maximize the value from technology. They use cross-functional teams (IT and business staff) and ensure business leaders work collaboratively to deliver technology change.
- 2. Dynamic investment:** Digital Leaders are more effective in reporting business outcome-based metrics for technology projects, and scaling up projects quickly if successful or stopping quickly if not.
- 3. Modern delivery:** Digital Leaders are better at integrating core business systems with newer digital solutions and bring a long-term 'product' rather than a short-term 'project' mindset to technology implementation. They employ automation in software development and maintenance and use methodologies such as agile and DevOps to speed up project delivery.
- 4. Flexible IT workforce:** Digital Leaders are better at ensuring that non-IT staff have the right technology skills, and at using both internal and external resources to access the right skills.
- 5. Data as an asset:** Digital Leaders are more effective at maximizing value from the data they hold and maintaining an enterprise-wide data management strategy.
- 6. Customer trust:** Digital Leaders are better at identifying and managing the key security and privacy issues across technology development and operations, and in building customer trust through the service delivered to customers and end users.





### CALL FOR ACTION

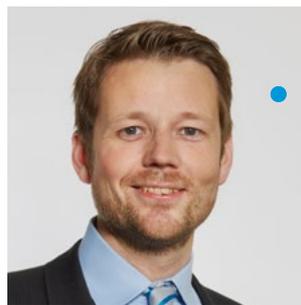
Digital transformation impacts all companies in all industries. It is crucial that board members understand what digital transformation means and its impact on the business model of their company. Digital transformation is a topic that should be driven from the board. Otherwise, challenges and opportunities of the digitalization will be missed.

KPMG would recommend the following steps for the board to trigger the digital transformation:

- As a first step the board should start familiarizing with this topic, e.g. through reading digitalization reports / surveys (e.g. Harvey Nash / KPMG CIO survey) or engaging in discussions with digitalization experts.
- Trigger the set-up of the digital transformation initiative through the company's senior management. Ideally, board members should be involved in the digital transformation initiative, e.g. through the participation of workshops.
- Continuously track and challenge the status of the digital transformation initiative.



**RENÉ KOETS**  
Partner, Head of Management  
Consulting  
KPMG Switzerland



**VEIT SCHULZ**  
Director, Management Consulting  
KPMG Switzerland

### SOURCE

<https://home.kpmg/ch/en/home/insights/2016/07/cio-survey.html>

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# Short-term thinking to save the intergenerational contract?

## Switzerland's pension system: A critical view and an outlook

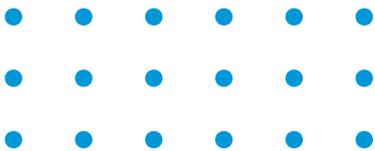


**Our pension system is being stretched to the limit because of demographic developments and the absence of interest rates. It is being stretched so hard that any further delay of reforms will seriously jeopardize the financial future of our country. Unfortunately, no serious longterm attempts to stabilize the pension system seem to be forthcoming. Quite to the contrary: a moral hazard situation is leading to further misdirected incentives that will saddle coming generations with even higher debt, threatening not only the sustainability of their pensions but also the intergenerational contract as a whole.**

This number alone should ring alarm bells – CHF 1 trillion in uncovered checks! That's the financing gap in Switzerland's Old-Age and Survivors' Insurance (OASI) system.<sup>1</sup> It's more than 1.5 times Switzerland's gross domestic product, five times our current public debt, and more than all of the current investments made by pension funds. It is also the basis for a financial tempest of hitherto unknown dimensions – at least in Switzerland.

The levers that can be pulled to counter this predicament are all equally unattractive: lower annuities, higher contributions, or a shorter benefit period. As numerous polls have shown, a large part of the population is ready to accept higher costs – provided they do not have to shoulder them. Measures that lower future (their own) annuities or reduce the benefit period by raising the retirement age are highly unpopular

<sup>1</sup> UBS 2019, "Wer zahlt die AHV-Sanierung?"  
(Who foots the OASI reform bill?)





### THE CURRENTLY SUGGESTED REFORMS

Various actors have recently outbid each other with suggestions of how to reform Switzerland's pension system. The following proposals are being discussed in particular:

		ANNUITIES	COSTS	DURATION OF RETIREMENT
<b>AHV 21</b>	<p>The Swiss Federal Council proposes:</p> <ul style="list-style-type: none"> <li>• Setting the same retirement age for men and women, in part compensating for the adjustment financially</li> <li>• Lowering the rate by which the annuity is reduced or increased when retiring before or after the standard retirement age → early retirement becomes more attractive, later retirement less attractive</li> <li>• Securing additional funding by raising the valueadded tax by 0.7 percentage points to ensure OASI funding until 2030 → this is on top of the CHF 2–3 billion per year already earmarked under the Federal Act on Tax Reform and AVS Financing (TRAF)</li> </ul>	0	+	+ <sup>2</sup>
<b>PENSION FUND REFORM</b>	<p>The Swiss Federation of Trade Unions (SFTU) and the Swiss Employers Association (SEA) propose the following:</p> <ul style="list-style-type: none"> <li>• Increasing contributions, reducing the coordination offset, increasing the insured salary</li> <li>• Lowering the mandatory conversion rate from 6.8% to 6.0%</li> <li>• Financing compensation measures through a pay-as-you-go system (contribution of 0.5% made by both the employee and employer) for all new retirees</li> </ul> <p>The Swiss Trade Association, which represents over 300,000 SMEs, opposes this vehemently with a counterproposal. The Association of Pension Funds, ASIP, also presented its own proposal.</p>	0	+	+ <sup>2</sup>
<b>BRIDGING PENSION (BP) FOR OLDER UNEMPLOYED PERSONS</b>	<p>The Swiss Federal Council suggests:</p> <ul style="list-style-type: none"> <li>• BP for unemployed persons older than 60 who are no longer covered by unemployment insurance</li> <li>• New benefits, indirect expansion of the retirement pension</li> <li>• The idea is that this group should not have to ask for welfare or early retirement</li> <li>• BP exceeds welfare payments</li> <li>• Various eligibility criteria</li> <li>• Funding by the Swiss Confederation, in part through savings in supplementary benefits and welfare payments</li> </ul>	+	+	+

+ = increase, 0 = unchanged, - = decrease

<sup>2</sup> Static retirement age in the context of higher life expectancy means an increase in the benefit period of about one month per year (based on pension fund tables)





### SUGGESTED REFORMS ARE TOO LOPSIDED AND TOO SHORT-TERM

All proposals have in common that the level of benefits is to be maintained or, by way of the bridging pension, even expanded; all is to be funded practically exclusively with additional earnings.

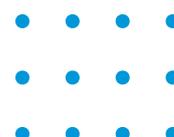
In the case of OASI, these additional earnings, which are to cover a financing need of CHF 26 billion, would last only about 10 years. However, even the Swiss Federal Council, in its dispatch on AHV 21, assumes that the really substantial deficits will not accrue until the 2030s. It does confirm that a further reform will be necessary by the mid-2020s. If the next reform will be based on the current draft, it will become exorbitantly expensive – and a subsequent reform will become even more costly. This will undermine the competitiveness of Switzerland and restrict the funding and design options for other public sector projects. Such short-term thinking is not amenable to the intergenerational contract.

With its compensation component, the reform of the second pillar championed by the SFTU and the SEA is fraught with financial, economic, and societal danger. For one, the compensations – extraneous to the system – are to be distributed indiscriminately. Moreover, they are to be financed by those pension funds which, having done their homework, are

financially sound. This is another misdirected incentive, compounded by the fact that obtaining such compensations will require little in return. A true reform of the second pillar should be driven by the conversion rate. The proposal suggests to lower this rate from 6.8% to 6.0%, when, from an investment point of view, the rate should be more like 5.0%. Again, there is a long way to go. From the point of view of many pension funds, it would be better to have no reform than this one.

As regards the proposed bridging pension, it is hard to know at present what it would bring. On the one hand, it could act as another safety net; on the other hand, the potential for abuse is huge. Not least because this system also includes misdirected incentives that could make older employees the chief target for redundancy in the event of a restructure. This would completely contradict the higher life expectancy and a possible upward adjustment of the retirement age, and it would run counter to the current aim of retaining know-how by keeping older employees in the work process

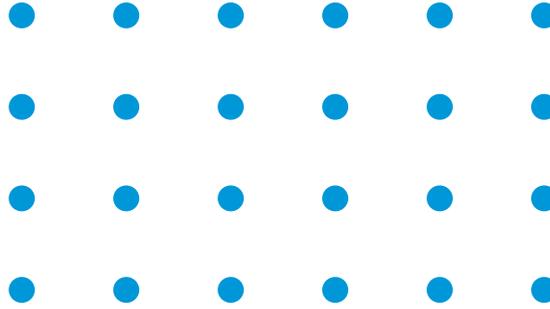
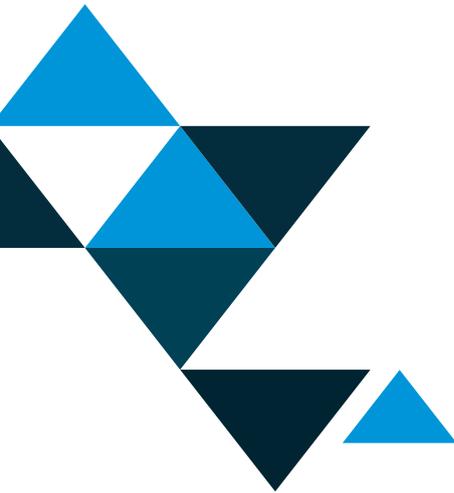
A sober look at the suggested reforms invariably leads to a negative assessment: the intended adjustments in the first pillar are mainly of a cosmetic nature, i.e., the problems of the future are merely deferred. The problems in the second pillar are comparatively smaller, but here the reform exponents stopped



thinking halfway through. The bridging pension would translate into a very generous handout with no time limit, and would divert funding from other public sector projects.

Seasoned observers are wondering why all these reform attempts are so half-hearted. After all, most numbers are known and insurance mathematics is a Swiss specialty. It seems that

today's decision-makers have too much to lose personally to advocate serious, impactful, and long-term changes. Not even the prospect of bestowing a much more robust system on future generations seems to outweigh the fear of personal losses. So, what we are seeing here is a classic moral hazard situation – the deliberate promotion of misdirected incentives that are running into the billions.



## Cornerstones of a lasting reform

Anyone wishing to save the intergenerational contract and a sustainable pension scheme will have to grapple with the following key issues:

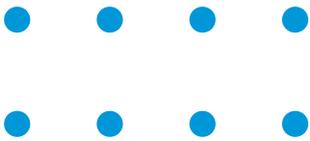
**SUCCESSFUL THREE-PILLAR SYSTEM.** So far, the pillars have been a success both on their own and in combination. Each pillar has its own advantages and disadvantages, which interact positively. The three-pillar system has proven its worth as a stabilizing force, and remains a suitable model for the future.

**OBJECTIVE APPRAISAL OF FACTS AND FORECASTS.** The demographic developments so far have been charted with high statistical exactitude, and the demographic forecasts are relatively robust. Along with other factors and assumptions, this allows for fairly reliable projections for the first and second pillars. Mathematics cannot lie, which is why mathematics could overcome political trenches and convince the voters.

**'LONG-TERM' AS OPERATIVE WORD.** Our pension system is under enormous pressure, with potentially painful consequences for earnings and expenditures. The current politics of (very) small steps will bring a short-term relief of symptoms but hardly a full recovery in the long term. This is not sustainable. Swiss voters are entitled to hear the truth in this case. The present Parliament has promised to act in a sustainable way. It should deliver on its promise and make sure that sustainability aspects are respected in our pension system, too.

**POLITICAL REALITY CHECK.** One of the features of Switzerland's political system is that no solution can be dictated from above. It has to be found through consensus. In order to contain the legitimate but often obstructive powers of those directly affected, the discussion will have to rely heavily on expertise and facts.





Thankfully, some of the proposed reforms could stabilize the pension system in the long run. For the second pillar, these include the recently announced initiative by the Young Liberals of Switzerland (Jungfreisinnige), which demands that the start of annuity payments be dependent on life expectancy. Another initiative, "Vorsorge JA – aber fair" (Pension schemes YES – but fair), launched by a broadly mixed liberal/center-right committee, would like to include current pensions in a reorganization of the system.

Regardless of which reforms will win the day, future generations cannot waive this legacy but will have to swallow hard and tighten their belts. It would be nice if today's decision-makers and experts would contribute in such a way that future generations still have enough leeway to make their own decisions about future challenges. It's what a fair and functioning intergenerational contract is all about.

**CONTACT**



**ERICH MEIER**  
Head of Pension Fund Competency Center  
KPMG Switzerland

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# Clarity on Performance of Swiss Private Banks

## What the future holds for Swiss private banks



**In KPMG's annual study, "Clarity on Performance of Swiss Private Banks", we analyzed 87 private banks in Switzerland and evaluated their performance and the main industry trends. Overall, 2018 was a very disappointing year for Switzerland's private banks. We saw Net New Money fall to almost zero, declining profitability, and cost income ratios hitting their highest levels ever. The result is that we have downgraded over one-quarter of banks and we now classify one-third of Swiss banks as Weak performers. What does this mean for the industry and will Swiss private banks be able to survive or is rescue already beyond reach?**

Up until last year, positive financial markets helped private banks to stay afloat, and even gave the impression that the industry was recovering. Performances seemed to be improving, and efforts to deal with legacy issues, Automatic Exchange of Information and cleaning up client portfolios suggested recovery was possible. A more challenging 2018 has exposed how weak banks really are. Most banks have made insufficient progress to enhance business and operating models or to adapt strategies and set-ups to ensure sustainable success. If markets take a downturn, most banks will suffer – many to the point of extinction.

### **M&A – NUMBER OF BANKS MAY FALL BELOW 100 BY THE YEAR END**

2018 set a record high for the number of M&A transactions involving Swiss banks and in the past 18 months we saw the number of banks in Switzerland shrink from 108 to 101. Eight banks exited the market. Meanwhile Mbaer became the first new private bank to be granted a banking license by FINMA since Zähringer entered the market in 2015.

Of the 19 transactions in 2018, seven were Swiss banks acquiring abroad. Large Swiss banks were a key driver of this activity. Large banks also exited businesses abroad that were no longer considered strategically core (three transactions). Small and medium banks rather embraced opportunities to grow within the Swiss market, mainly by acquiring Independent Asset Managers.

The past 18 months have also shown a trend towards mergers. Three of the four mergers in this period were Swiss banks joining forces with a counterpart from a different region of the country to increase scale, strengthen their respective local presences and expand activities in the other region. All banks involved in these recent mergers had Assets under Management (AuM) below CHF 5 billion and were Weak or Lower Mid performers in 2017 and 2018.



We expect consolidation to accelerate in the near future. As M&A is on the rise, it remains to be seen whether 2019 will produce a transformational deal.

### **SIGNIFICANT DOWNGRADES MAKE WEAK PERFORMERS THE BIGGEST CLUSTER**

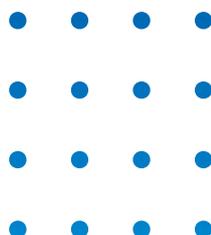
To assess the performance clusters, we used the cost-income ratio as key profitability metric. As the inverse of gross profit / operating income, the cost-income ratio measures gross profitability.

Based on this metric, we determined that banks with a traditional, pure play, offshore model – typically small and medium-sized banks – are facing increasingly difficult times, even if they have a clear focus on selected markets. Banks with this business model saw their operating income margin fall and were downgraded the most.

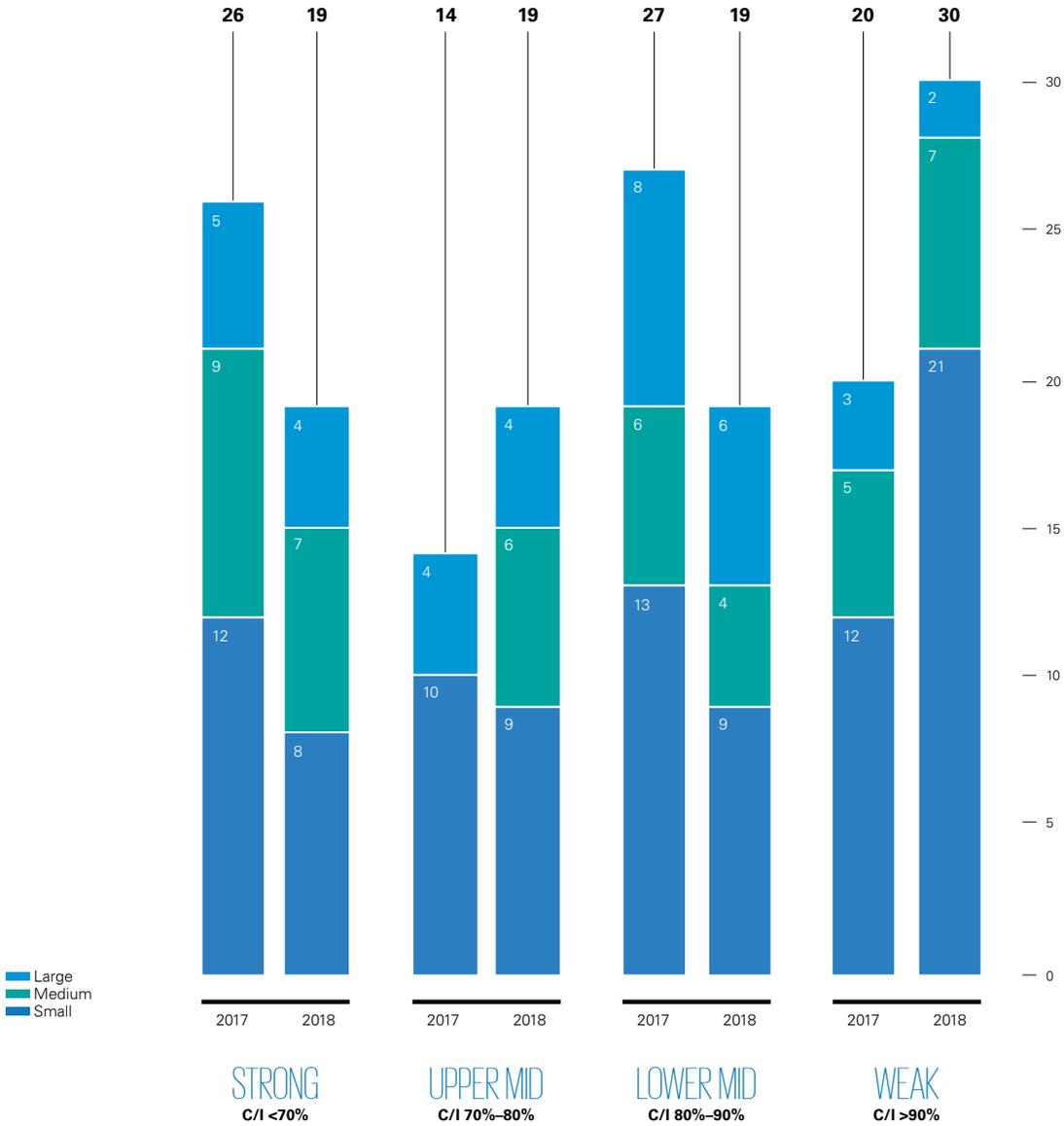
Overall, 24 banks were downgraded by at least one performance cluster and only nine upgraded. The Lower Mid cluster is where the most significant changes took place. While five banks were upgraded to Upper Mid, 12 were downgraded to Weak. Eight of the 24 downgraded banks were Strong performers that are now classified largely as Upper Mid performers. These significant downgrades make Weak performers the biggest cluster at 34% of banks and show a picture of an unhealthy – and worsening – industry.

### **KEY PERFORMANCE INDICATORS CONTINUE TO DETERIORATE**

Even though global wealth is growing, Net New Money (NNM) at Switzerland's banks is stagnating. After years of regulatory changes and the clean-up of client portfolios hindering the generation of NNM, an increase in NNM could have been expected in 2018 but did not happen. However, the median NNM actually fell to 0.2%. Fewer than half of banks were able to improve NNM growth. This shows that the key issue in recent years was not the loss of clients. Rather it was – and still is – the fact that most private banks are unable to attract new clients to compensate for the ones they are losing.

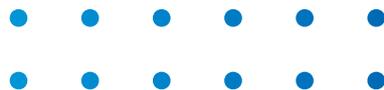


**NUMBER OF BANKS BY PERFORMANCE CLUSTER, 2017 AND 2018**



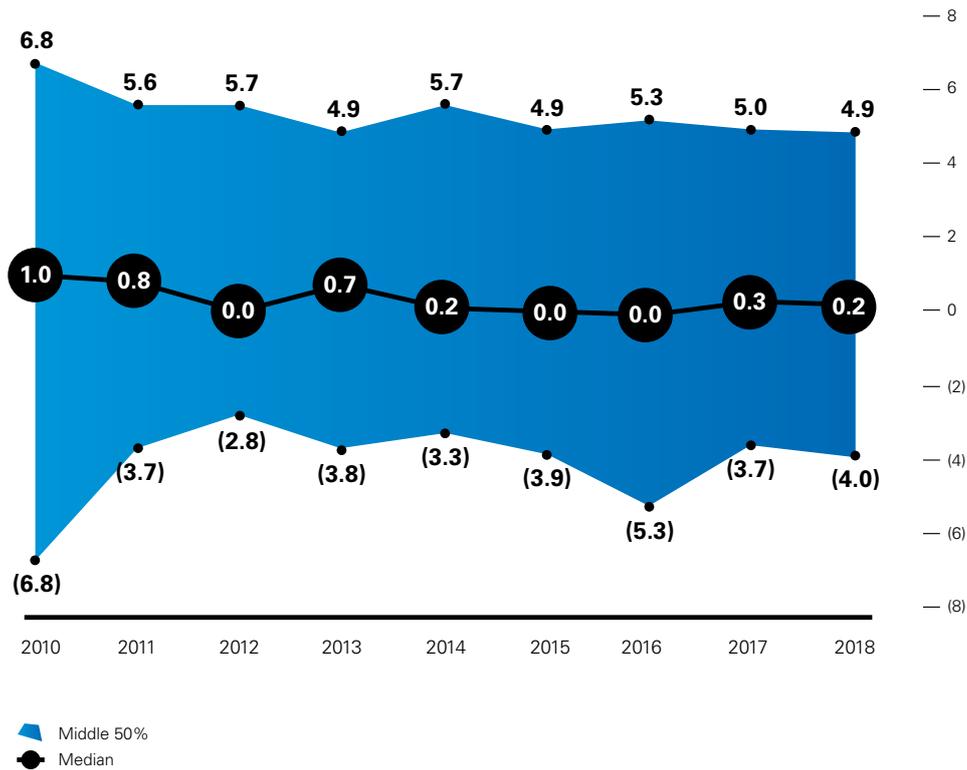
Only one-third of banks improved their cost-income ratios in 2018, as the median cost-income ratio rose by 1.9 percentage points to 83.6%. This is the highest level ever and is mainly driven by small banks and Weak performers. It is the opposite of what could reasonably be expected following resolution of most legacy topics and the clean-up of client portfolios. We found that cost-income ratio depends on bank size. Large banks were able to improve their cost-income ratio by 2.8 percentage points in 2018 to 79.1% from 81.9% in 2017. This is due to income growing faster than expenses. Medium banks operated at a median cost-income ratio of 78.3% (75.1% in 2017) and small banks at 86.3% (82.4% in 2017). This development demonstrates the considerable increase in pressure on small banks over the past 12 months.

The negative trend in return on equity (RoE) continued in 2018, with more than half of private banks seeing their RoE decline. The median value for the analyzed banks came to just 4.1% for the past year, thus nearly on a par with that of previous years. As a result, RoE fell short of approaching a reasonable return of about 8-10% (close to the cost of equity). Large banks stood out as those able to improve their RoE last year: The median RoE at large and medium-sized banks improved by 2.0 and 0.8 percentage points respectively. By contrast, the median RoE of small banks fell by 0.6 percentage points to 3.1%.



## NNM GROWTH DEVELOPMENT

in %



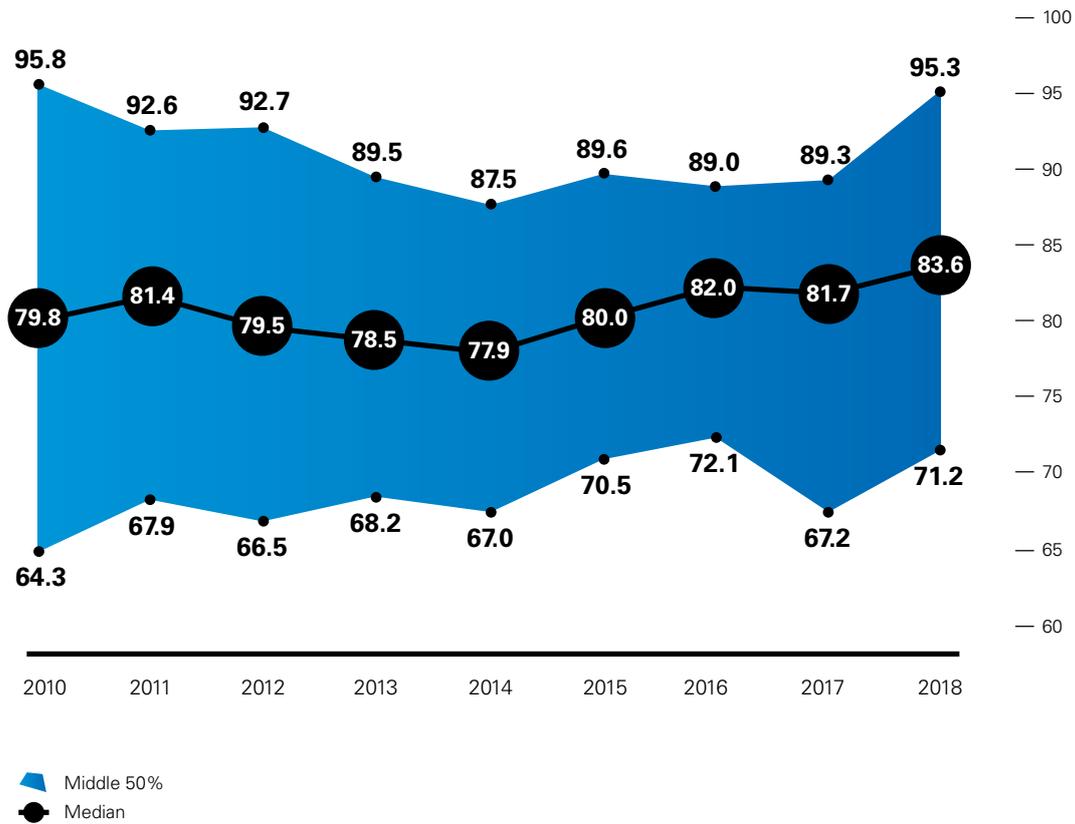
### WHAT ARE THE IMPLICATIONS FOR THE INDUSTRY AS A WHOLE?

As banks' performances continue to worsen, we believe consolidation will re-center the industry around two models: Fewer, Swiss-owned large banks that have the necessary scale and smaller subsidiaries of foreign-owned banks that use the Swiss entity as a booking center. We have identified AuM of CHF100 billion as the critical mass. These larger banks generally have an international physical onshore network, also in emerging markets. This provides greater resources to invest, develop business, leverage the Swiss wealth management brand, and achieve operating efficiencies. It gives them the advantage in an industry where expensive onshore presence is necessary for expansion in the world's high potential markets.



**COST-INCOME RATIO DEVELOPMENT**

in %



**TIME FOR A REALITY CHECK AT SWISS PRIVATE BANKS**

Despite the challenges set out in this article, we are optimistic about the future of the Swiss private banking industry. There are cold, hard facts that need addressing, but Switzerland has a number of advantages that can help its banks regain ground globally. These include its economic stability, reputation for service quality, and a broad service offering. However, banks will succeed only once genuine improvements are made to underlying profitability and performance.

Boards of banks should objectively assess their situations and be realistic about the chances of survival of their bank. They need to look closely at what can be done to turn around the bank’s fortunes – including changes to the business and operating models, mergers and acquisitions. Consequently, fresh perspectives are needed to deal with changing competitive dynamics, emerging technologies, and wealth creation in new markets.



**CHRISTIAN HINTERMANN**  
 Partner, Head of Financial Services Transformation  
 KPMG Switzerland

**SOURCE**

**Clarity on Performance of Swiss Private Banks**  
 Bigger is better in the quest for success, August 2019:  
[www.kpmg.ch/pb](http://www.kpmg.ch/pb)

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# What is keeping audit committees around the globe awake at night?

## KPMG's 2019 Audit Committee Pulse Survey knows the answers



For this year's survey, KPMG asked more than 1,300 audit committee members worldwide for their input. The final results of the survey "Keeping pace with disruptive risk and digital transformation" show that despite some regional differences, ultimately, the main tasks are the same: financial reporting integrity and audit quality. However, the influence of technological developments also means that risk management and internal control systems are becoming more significant.

### 1 KEY TAKEAWAYS FROM A EUROPEAN PERSPECTIVE

- **Maintaining high-quality financial reporting:** Two-thirds of the audit committees are concerned about the capabilities the finance department should have. On the one hand, the topics of concern are data analytics and artificial intelligence, on the other hand how robotics and the cloud are influencing the future of finance departments.
- **Regulatory compliance, focused internal audit and cybersecurity as top challenges:** Beyond the common risks of financial reporting, audit committees are also grappling with the topics compliance, internal audit and cybersecurity. In comparison to the survey conducted two years ago, cybersecurity has become a more pressing issue.
- **Capture of "disruptive risks" by the current enterprise risk management processes:** Slightly more than half of audit committees are of the opinion that their company's risk management system is robust. However, only about a fifth thinks that their company adequately addresses disruptive risks, such as technological risks. Nonetheless, the survey also found that risk management is inspiring more confidence than two years ago, which indicates that relevant investments have been made in that area.
- **Maximizing the role of internal audit's value:** Apart from a planning that specifically targets the company's risks, the flexibility to adjust the audit planning at short notice to new risks is of the utmost importance. Of interest is that nearly a third of audit committee members feel that it would be a good idea to include environmental, social and governance (ESG) issues in the audit or make them the subject of a separate audit.



## 2 A DEEP DIVE INTO SELECTED TOPICS

In answer to the question which were the greatest challenges related to the oversight role, the audit committee members answered as follows:

### GREATEST CHALLENGES CORE OVERSIGHT ROLE



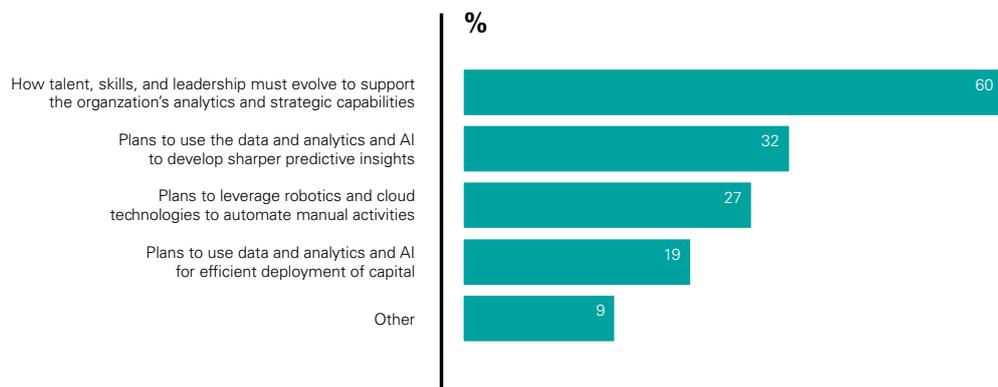
It is not further surprising that the annual financial statements themselves and the related controls are mentioned first. Looking ahead, it seems to be more and more difficult to find sufficient and well-qualified finance department staff. Moreover, audit committees are also struggling with the risk of fraud and the quality of the audits delivered. Unexpectedly, not much attention has been given to the new reporting formats and the key audit matters contained therein.

*„The board and audit committee need absolute clarity as to their respective roles and responsibilities.“*

#### BOARD CHAIRPERSON

Apart from the question of human resources, audit committees are also dealing with the impact of technological transformation on the company's finance department.

### ASSESSING THE IMPACT OF TECHNOLOGY TRANSFORMATION ON FINANCE DEPARTMENT



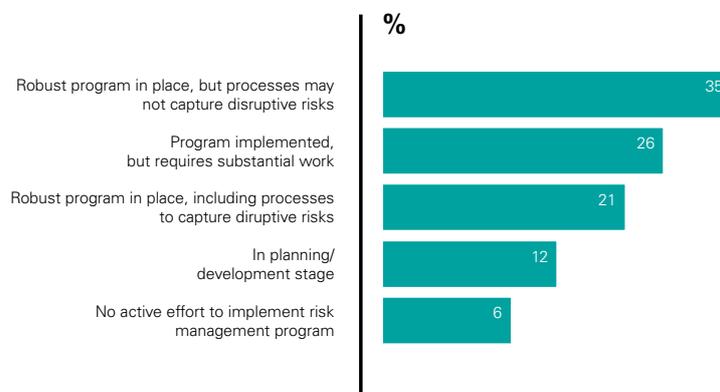


Audit committees are closely monitoring and analyzing the new possibilities offered by data analytics, artificial intelligence and robotics. Having said that, it is less their specific deployment but rather how the finance organization’s skills and leadership must evolve to be able to support the deployment of these technologies.

According to one chairperson of an audit committee, it’s all about having access to the “right information.” The above mentioned technologies could play an important role in this.

In general, the significance of risk management for corporate management cannot be stressed enough, this is especially true for the financial reporting. Concerning the maturity of risk management programs, there seem to be great differences. A little more than half of the respondents agreed that their company’s risk management program was robust; but only about a fifth thinks their program covers risks stemming from disruptive technological advances.

#### STATUS OF RISK MANAGEMENT PROGRAM



In comparison to 2017, the situation has improved as risk management programs qualifying as robust have increased. At the same time respondents indicated that their enterprise risk management programs requiring substantial work has decreased. Both points are good indicators that important investments were made in risk management systems in the recent past.

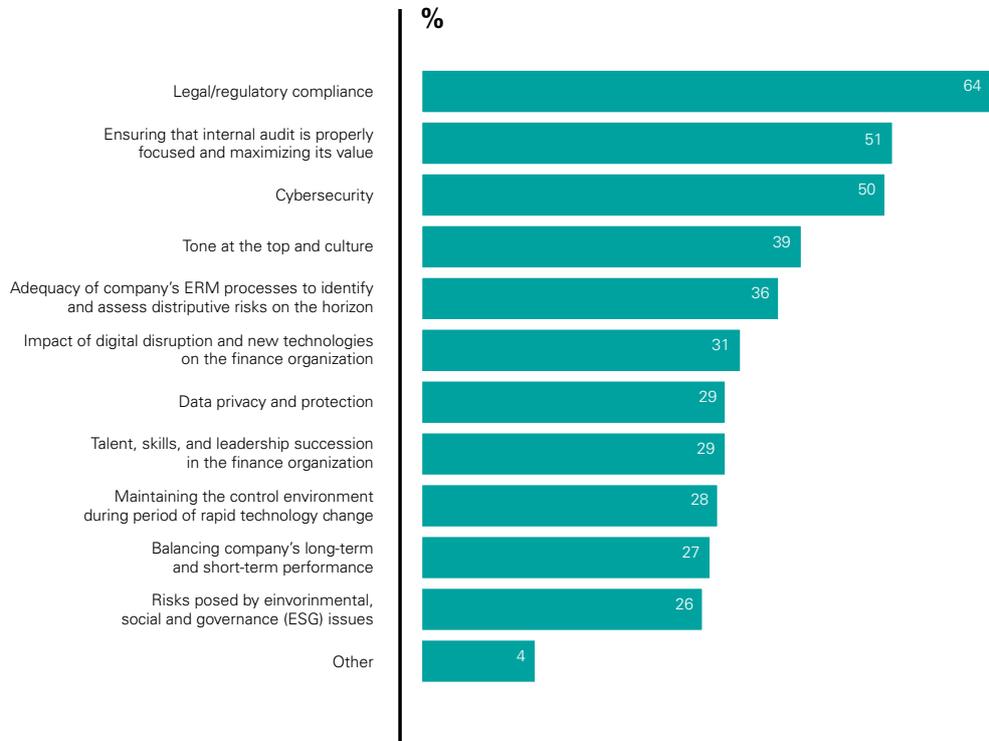
*„Good risk management and governance can be compared to the brakes of a car. The better the brakes, the faster the car can drive.“*

**AUDIT COMMITTEE CHAIRPERSON AND FORMER CHIEF RISK OFFICER**

Apart from the risks in connection with the financial reporting and the already mentioned risk management, audit committees also have to deal with compliance, environmental, social and governance (ESG) issues and cybersecurity.



### OTHER TOP PRIORITIES, ASIDE THE CORE OVERSIGHT ROLES



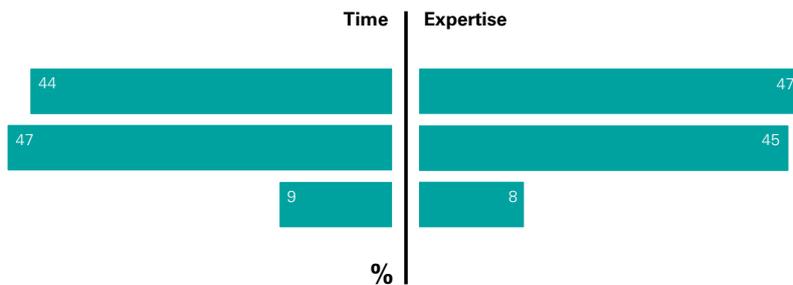
In Europe, the USA and Canada, cybersecurity is even the most-mentioned topic (64%, 59% and 50%, respectively). Even if the awareness for cybersecurity has improved greatly, audit committee members still see gaps in the awareness within their organizations for such risks and they criticize the fact that cyber risks are perceived to be IT problems rather than business risks.

*„Good cyber security is not just about a really strong wall on the outside, but also some kind of immune system within.“*

**CHIEF INFORMATION OFFICER**

In view of the ever increasing number of risks and their increasing complexity, it is low hanging fruit to delve a bit deeper into how this has impacted the activities of audit committees. Questions on the availability of time and expertise are generally answered positively. Nonetheless, just about half of all respondents indicate that both are becoming an ever increasing challenge.

### TIME AND EXPERTISE

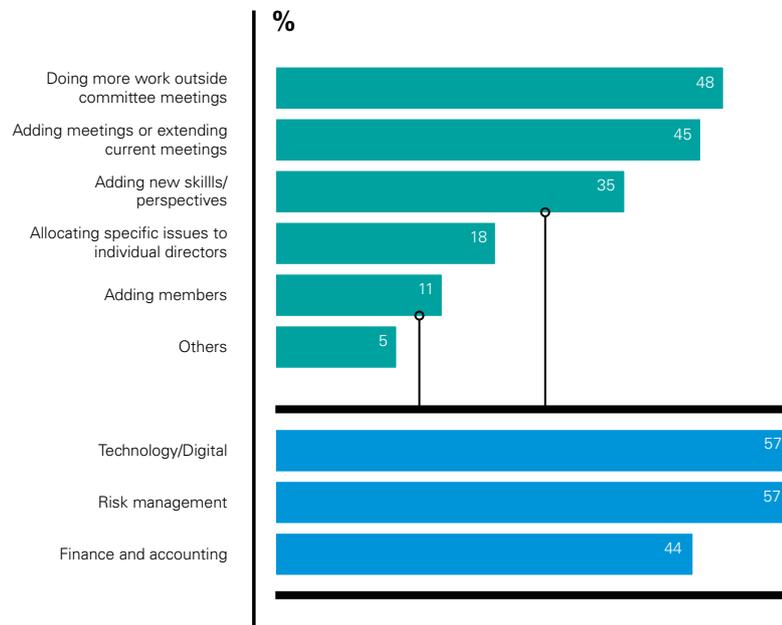


Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities?



Audit committees solve this by performing certain tasks outside the actual meeting, planning extra meetings and by extending already planned meetings.

### WORKLOAD

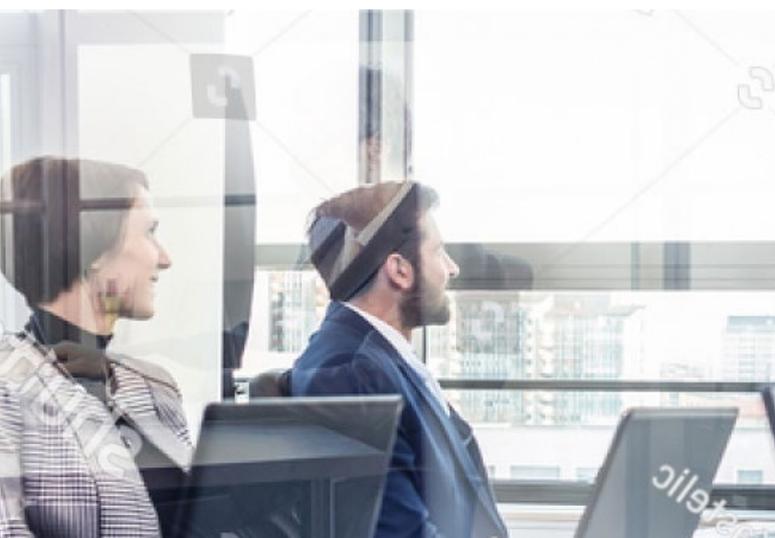


What are you doing to handle the expanding workload?  
(Select all that apply)

Very often, they strive to address the new duties of digitalization and risk management by adding new audit committee members.

*„Be mindful of increasing the committee’s workload and don’t accept responsibilities that rightfully reside with the board as a whole or that cannot be reasonably achieved. Learn to say no.“*

**AUDIT COMMITTEE CHAIRPERSON**





Upon asking what could be done to improve one's own activities, the topic "understanding the business" won hands down.

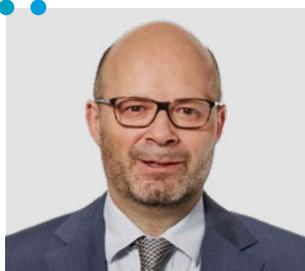
#### IMPROVING OVERALL EFFECTIVENESS



This is certainly normal since only a profound understanding of the business activity will enable the identification of relevant risks. This includes on-site visits and contact with employees and customers, as some answered.

It is only upon expanding topically into the forays of technology, but also M&A and by allowing diversity in the wider sense that Management's decisions can be questioned critically.

Last but not least, time is also a factor that is very much needed to familiarize oneself with new developments. This time is sometimes hard to find in busy audit committees' calendars. The wish to hold in-depth conversations more frequently in order to share knowledge and experience between the members of audit committees should be granted. It is the duty of the chairperson of the respective board of directors but also of the entire board to foresee the necessary room for such discussions in the meeting agenda.



**PROF. DR. RETO EBERLE**  
Partner, member of the Board Leadership Center  
KPMG Switzerland

#### SOURCE

All graphs and citations come from the study, "Keeping pace with disruptive risk and digital transformation – 2019 Audit Committee Pulse Survey", published by the KPMG-Board Leadership Center in August 2019.

# How IFRS financial statements become more relevant

## The concepts of the IASB's Disclosure Initiative



**Investors have told the International Accounting Standards Board (Board or IASB) that because financial statements according to International Financial Reporting Standards (IFRS) are often poorly presented, it can be difficult and time-consuming for them to identify useful information. As a means of making communication of information in financial statements more effective for the primary group of users, the Board's 'Better Communication in Financial Reporting' initiative was launched some years ago and highlights the importance and common themes of a number of projects.**

The Board – via interviewing senior managers of corporates and stakeholders of financial reporting – identified the following key principles of effective communication for all this holistic initiative. These principles already provide a useful starting point for companies that aim to improve the impact of their financial reporting.



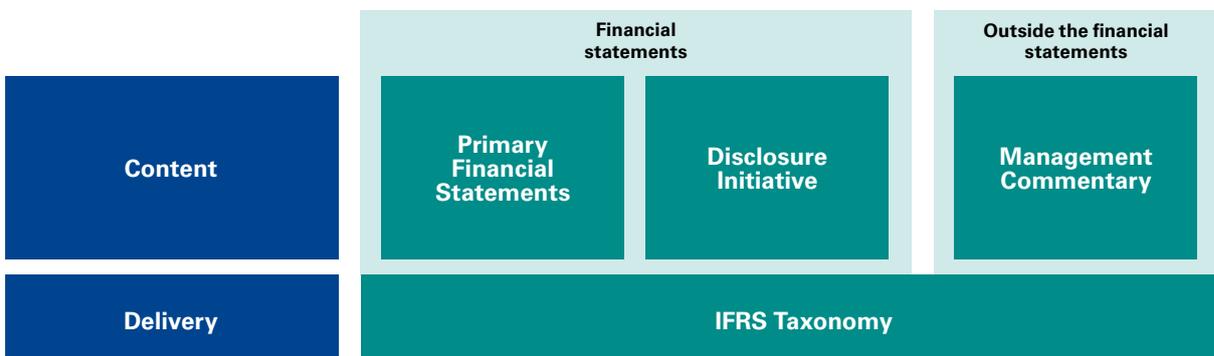
## PRINCIPLES OF EFFECTIVE COMMUNICATION SUGGESTED IN THE DISCUSSION PAPER

<b>Entity-specific</b>	Tailoring information to a company's own circumstances.
<b>Simple and direct</b>	Using simple descriptions and sentence structures without omitting useful information.
<b>Better organised</b>	Ranking pieces of information to help users of financial statements understand their importance.
<b>Better linked</b>	Linking information to help users of financial statements understand the relationships between pieces of information.
<b>Better formatted</b>	Selecting a suitable format for the type of information companies provide.
<b>Free of duplication</b>	Avoiding unnecessary duplication that obscures communication.
<b>Enhanced comparability</b>	Disclosing information in a way that enhances comparability among companies and across reporting periods without compromising its usefulness.

(Source: <https://www.ifrs.org/-/media/project/disclosure-initiative/better-communication-making-disclosures-more-meaningful.pdf>)

These projects underlying the initiative are designed to help make financial information more relevant and improve the way financial information is communicated to users. 'Better Communication in Financial Reporting' has been a theme underlying much of the Board's work for the last and probably also next few years. The initiative identified a number of projects that will support better communication in financial reporting. Making information in financial statements more relevant and less cluttered is one of the Board's key focus areas.

## BETTER COMMUNICATION IN FINANCIAL REPORTING



(Source: <https://www.ifrs.org/projects/better-communication/>)

For the remainder of the article, we will focus solely on the Disclosure Initiative because of its already well-developed state. The Disclosure Initiative explores how disclosures in IFRS financial statements (excluding primary financial statements) can be improved.



## CURRENT STATUS OF THE DISCLOSURE INITIATIVE

The current status of the projects that form part of the Disclosure Initiative is as follows:



### Completed

#### Amendments to IAS 1 *Presentation of Financial Statements*

Encouraging management to apply professional judgement in determining what information to disclose in their financial statements.

**Effective 1 January 2016**

#### Amendments to IAS 7 *Statement of Cash Flows*

Requiring new disclosures that help users evaluate changes in liabilities arising from financing activities.

**Effective 1 January 2017**

#### IFRS Practice Statement 2 *Making Materiality Judgements*

Facilitating management's judgements on applying the materiality concept to the financial statements. It builds on the Amendments to IAS 1.

**Revised practice statement effective since issue in September 2017**

#### Amendments to IAS 1 and IAS 8 *Definition of Material*

Refining the definition of materiality and clarifying its characteristics.

**Effective 1 January 2020**

#### *Principles of Disclosure (PoD)*

Identifying disclosure issues and developing a set of principles for disclosure in IFRS to address them.

**Project summary published March 2019**



### Ongoing

#### *Materiality Judgements on Accounting Policies*

Developing guidance and examples to help entities apply materiality judgements to accounting policy disclosure.

**Exposure draft issued August 2019**

#### *Standards-level Review of Disclosures*

Identifying targeted improvements to disclosure requirements in existing IFRSs and developing guidance for the IASB to use when drafting disclosure requirements in new or revised IFRSs.

**In progress**

(Source: <https://home.kpmg/content/dam/kpmg/xx/pdf/2019/08/disclosure-visual-guide.pdf>)

As of today, five projects were completed and two projects are still ongoing. We take a closer look to the results of some of the completed projects in the following section.

## COMPLETED PROJECTS

- *IAS 1 (effective since 1 January 2016)*

Already by the end of 2014, the Board issued its amendments to IAS 1 Presentation of Financial Statements as the first completed part of its Disclosure Initiative. The amendments clarified some requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation. Some of the IFRS companies used these amendments as the starting point to restructure their financial statements to improve the readability.





- *IAS 7 (effective 1 January 2017)*

Early 2016, the Board issued its amendments to IAS 7 Statement of Cash Flows which required a disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These disclosures provide useful information to the investors about the entity's financing activities during the year.

- *IAS 1 and 8 (effective 1 January 2020)*

In October 2018, the Board issued the amendments to IAS 1 and IAS 8. The amendments clarify the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. With these amendments, the Board encourages companies to apply materiality judgements.

- *Principles of Disclosure*

In March 2017, the Board published a Discussion Paper to obtain feedback on possible approaches to address the disclosure problem. After reviewing the evidence gathered, the Board decided that improving the way how disclosure requirements are developed and drafted in IFRS Standards is the most effective way it can help to solve the disclosure problem. Consequently, the Board decided to prioritize its targeted Standards-level Review of Disclosures project (see ongoing projects below). The Board also decided to address research findings about:

- accounting policy disclosures (see ongoing projects below);
- the implications of technology on financial reporting as part of the IFRS Foundation's broader work in this area; and
- the use of performance measures in financial statements in its Primary Financial Statements project.

The Board decided not to pursue the remaining topics in the Discussion Paper at this time. The Project Summary published in March 2019 completes this research project.

#### ONGOING PROJECTS

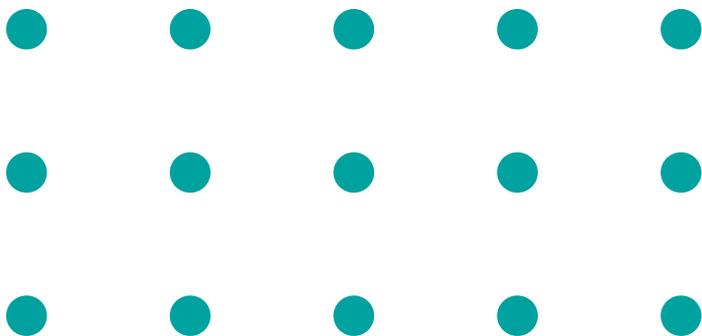
This section includes a short discussion of the ongoing projects of the IASB.

- *Materiality judgments on accounting policies*

In August 2019, the Board published a draft of proposed amendments. The proposals require IFRS companies to disclose their material accounting policies rather than their significant accounting policies to clarify the threshold for disclosing information. At the same time, the Board is also proposing to make use of the 'four-step materiality process' to accounting policy disclosures. With the proposed amendments, the Board is striving to end the 'checklist' mentality by encouraging companies to use greater judgement in disclosing accounting policies.

- *Standards-level Review of Disclosures*

In March 2018, the Board added a project to perform a targeted Standards-level Review of Disclosure requirements. In this project, the Board is mainly developing guidance for itself to use when developing and drafting disclosure objectives and requirements in future.





### OUR RECOMMENDATIONS FOR YOU

The completed projects of the Disclosure Initiative provide IFRS preparers with tools to make their financial statements more useful for the users. One important point is to declutter the financial statements from unspecific boilerplate language. This reduces the volume of the financial statements which in turn means that more focus is given to relevant information. We suggest that in your role as board member you should challenge the finance team to understand how these opportunities were embraced in order to make the financial statements more relevant.

For the ongoing projects of the Disclosure Initiative it seems that the proposals with regard to accounting policy disclosures could be helpful for IFRS preparers in deciding which accounting policies to disclose in their financial statements. So we recommend that your company already considers which of the information presented in the accounting policies section provides solely generic language and should be potentially eliminated in the future. The aim is to have entity-specific information to the most extent possible which at the end provides the readers the relevant information for decision making.



#### MARTIN STEVKA

Director, Co-Head Accounting Advisory Services for Corporates  
KPMG Switzerland



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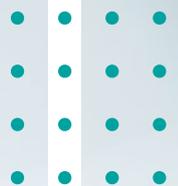
# New rules covering the regulatory audit of financial institutions

## FINMA circular 2013/3



**Switzerland has a unique system of supervision of the financial sector, where audit firms perform supervision duties on behalf of the regulator – FINMA – also known as the “dual system”. The value of this well-established system has been recognized and confirmed over time. In recent years however, criticism have risen both at an international and national level, mainly related to the lack of clear instructions from the regulator to auditors, and a certain inability of the supervision system to identify and prevent major issues affecting the marketplace, despite the increasing efforts and costs associated to the regulatory supervision. In response to those challenges, FINMA has first issued a circular on audit activities in 2013, which has been revised in 2018 affecting audit periods starting on or after 1st of January 2019.**

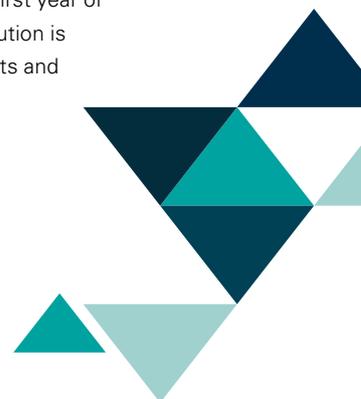
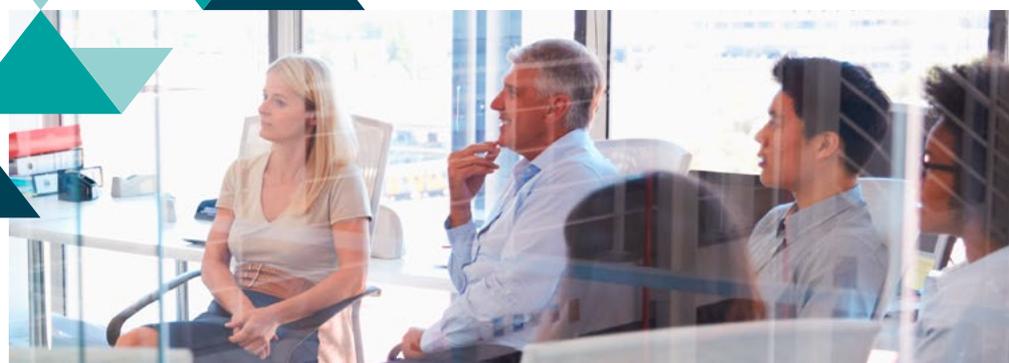
The main driver of this revision initiated by FINMA is to further align regulatory risks with audit activities covering financial institutions, and improve the efficiency of the dual system. With this revision, FINMA also aims to benefit from “...audit procedures with a sharper focus on substantive issues [which] will maintain an appropriate level of protection and improve the quality of audit findings. Regulatory audits will be adapted to the risk situation of supervised institutions and, in a forward-looking manner, to the prospective challenges that these institutions could face in the future”. These ambitious goals have also to be looked at in parallel with the strong message communicated by the regulator, which is to reduce the supervision costs of the financial sector up to 30%.





Among the changes the new circular includes, we can highlight the fact that, while the general audit approach is valid for all banks and collective investment schemes, it has been further differentiated according to the size and complexity of the entities. Systemic banks will have a continued and enhanced direct involvement of FINMA both in defining the audit strategy with the audit firm, as well as having direct audits from FINMA. This is not the case for smaller banks which do not have a higher risk profile or material weaknesses in their organisation and will benefit from less frequent audits. FINMA's more focussed approach also translates into less frequent audits: according to the perceived level of risks, certain activities of the banks will never be audited, or only every 6 years, while areas with a high risk will be audited every 3 years and only the very high risk areas will be covered by an annual audit. There are however certain exceptions to this general rule, for example for anti-money laundering or IT related areas which will be covered more often according to the perceived risk by the regulator. FINMA also counts on an enhanced coordination with internal audit of the banks, also easing the restrictions introduced in the previous version of the circular. Finally, FINMA has simplified reporting formats and has further increased digitalisation of its reporting processes with the introduction of its digital platform "EHP", for both the supervised institutions as well as the audit firms.

The first experiences gathered with this modified approach show that the changes are not as simple to apprehend and implement as initially foreseen. Firstly, the transitory dispositions, which require an audit to be performed for areas where the last intervention was a critical review in the last 3 years, create volatility. As a result, the expected reduced coverage does not necessarily materialise in the first year, or if it does, there generally is a catchup to cover remaining audit areas in 2020 and 2021 depending on the past coverage. This volatility is expected to stabilise in year 2022 and onwards but this may affect the sustainable cost reduction goals expressed by the regulator. Also related to the newly reduced coverage, it is now possible for management companies of collective investment schemes, as well as custodian banks, that based on the rotation of the audit areas and the risk appreciation, there is no audit work performed for a given year. This is a particular challenge, as the specific setup of the collective investment schemes in Switzerland involves various parties which also rely on the results of existing regulatory audits for their own supervision. In the absence of regulatory audit for a given year, will counterparties and clients accept the absence of assurance, or will this create a specific need of assurance? Experience shows that for the first year of implementation, the "annual coverage" solution is preferred in the area of custodian bank audits and management companies.





Another very important change for the stakeholders, is that the level of assurance obtained through the external audit firm, will be reduced over time, sometimes even not having any coverage to rely on, compared to what they used to obtain in the past. This reflects FINMA's ambition to reinforce and clarify the role of the external audit firm as FINMA's "prolonged arm" for supervision tasks, and not necessarily for other stakeholders. For Board members, this means that they will have to clearly understand the level of assurance they will obtain from the regulatory audit, and should they want additional coverage (to a comparable level as in prior years) they will have to anticipate and organise additional assurance in areas of importance to them, either through their internal audit or by appointing the external audit firm for additional work to obtain appropriate assurance. In that respect, the coordination between internal and external audit is even more important as in the past, so that governing bodies have a clear understanding of the coverage they will be able to rely on.

The digitalisation efforts of FINMA, through the use of its EHP platform, are still at an "early days" stage. While the platform offers a stable transmission and archive solution for providing FINMA with various documents, it still necessitates numerous manual inputs with no capabilities to export or import data into the FINMA

required documents. The submitted documents can be extracted by users from the platform, unfortunately they are not in a user-friendly format and require additional work to meet the quality standards expected by governing bodies and executives of the supervised institutions. By so doing, FINMA has transferred part of the administrative work of data collection to the Banks and external audit firms, unfortunately this does not really serve the objective of increasing efficiency of the supervision and brings additional risks of error to the process.

In conclusion, FINMA's efforts to modernise and improve the quality and efficiency of its supervision system are understood and broadly welcomed, considering the pressure and transformation ongoing in the financial services industry. The current reform was largely driven by FINMA, with a lead and a pace which contrasts with what we have experienced in the past, and this was probably necessary to change a well-established practice. First experiences however show that the new system has many areas of improvement and will have to be further worked on in order to achieve the ambitious goals set by FINMA. To this end, the key to a successful and fast transformation is to re-instate the dialogue and to bring all parties to work towards improving the system together.



**OLIVIER GAUDERON**  
Partner, Financial Services  
KPMG Switzerland



# A path that pays off: Why women on boards improve female CEO participation



Female CEOs make up a tiny 4.9% of major company heads worldwide. In Switzerland, the post is even more male-dominated, with 97.9% of companies listed on the SMI Expanded led by men. Given that CEO posts have traditionally been filled by applicants with previous CEO experience, the lack of female candidates at CEO level is a self-perpetuating problem. Or at least, it has been. Shifts in women's leadership career paths are making way for a new generation of female talent at the top of the corporate ladder.

## THE SCENIC ROUTE

An analysis published in the Harvard Business Review (HBR) found that females were significantly more likely than men to have risen to their CEO role after serving on a public company board (59% for women compared to 42% for men). Almost twice as many women (23%) as men (12%) had served on a private company board.

In those cases where CEOs were recruited from outside a company, over half of men (52%) had already held CEO positions, while just 18% of women had. Aspiring female CEOs should seek out board positions early in their career. It appears that a growing number are already doing just that. The 2018 U.S. Spencer Stuart Board Index found that women make up

40% of incoming board directors (up from 36% in 2017).

This takes the total number of female directors to 24% – an unprecedented level. In the next-gen group (directors aged 50 or under), 53% are women. It is an exciting indication that the potential CEO ascension pool could explode with female talent if companies – and female candidates themselves – would seize on the board-to-CEO route as a common and viable pathway.

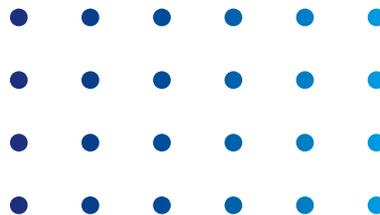
It is interesting to note that while typical career paths of men and women CEOs differ, there are similarities elsewhere. For example, the average age of a Fortune 500 CEO is 51, regardless of gender: In the HBR analysis, other demographics and company indicators also matched. This is an encouraging sign that oft-cited female penalties such as motherhood do not inevitably translate into slower career progress.

## FROM PATHWAY TO SIGNPOST

These findings are an interesting snapshot of the current reality, but they also offer valuable insights into how companies can actively assist high-potential women on their way to the corner office. After all, there are excellent reasons why companies should actively seek to foster female development at board level – regardless of quotas or ultimate career outcome for female executives.



The correlation between women at C-suite level and firm profitability has been demonstrated repeatedly. In 2016 the Peterson Institute for International Economics conducted a global survey of 21,980 firms from 91 countries. Their analysis confirms the positive effect of women leadership on firm performance. Interestingly, the impact was most significant at companies with a higher share of female executives, then those with the most female board members. The presence (or absence) of a female CEO did not have a statistically significant effect. The key takeaway for business leaders: embracing gender equality at every level is likely boost company performance, whether or not those females subsequently rise to CEO level.





## INTERNATIONAL STRENGTH – THE SWISS PERSPECTIVE

Although Switzerland has one of the lowest percentage of female CEOs (2.1% among firms listed on the SMI Expanded), women are occupying more leadership roles in general. Since 1996, the share of leadership roles and positions with direct reports taken by women has grown slowly but steadily from 29.4% to 36.1%.

International experience appears to be a particularly valuable asset in CEO candidature in Switzerland, where 74% of appointments go to leaders with cross-border experience, rising to 94% for candidates not promoted within the ranks of their current company. Switzerland also stands out for its high number of non-Swiss nationals in CEO roles – more than half come from other countries. International female talent may be encouraged by these trends, despite the currently low level of female representation overall.

## MORE MENTORING

Experience is not just a collection of concrete practice examples, it's a mindset. Women with CEO ambitions, like their male counterparts, should seek out opportunities to exchange experiences and transfer knowledge. Mentoring has been shown to improve performance across a range of subject areas and scenarios. Female peer mentoring of women students in science, technology, engineering and mathematics (STEM) during early college was found to increase women's positive academic experiences and retention, even past college years and onto the career ladder.

Generalizing these findings to the business world, women with leadership ambitions should look out for suitable mentors early on. Of course, these can – and often are – men, but as in

the example of STEM students, female executives may benefit from the female mentorship that protects “women's belonging and confidence” in a traditionally male-dominated sphere. Women in the upper echelons of business can also do their bit to embrace female talent at board level and in the C-suite by actively offering their mentoring services to high-potential candidates earlier in their careers.

Ambitious, motivated women may find networking useful in the search for appropriate mentors of either gender. KPMG's Board Leadership Circle – a closed group within the Board Leadership Center – brings together selected high-caliber board members to discuss future board issues or challenges as they arise. Participation in networks like this raise the profile of talented future leaders and even directly improve career prospects by helping women tap into the experience of others and discover career opportunities.

## PROMISING OUTLOOK

Securing a pipeline of female managers is a valuable strategy in itself. Forward-looking firms should capitalize on emerging career patterns for female CEOs by embedding female board membership in their succession plans now.

It will be interesting to see whether the number of female CEOs increases over the coming years at companies required to maintain female board membership quotas. Germany, for instance, with a mandatory female participation of 30% at board level currently has one of the lowest percentage of female CEOs at DAX and MDAX firms – just 1.2%. If board participation is the female route to CEO, we can look forward to a more diverse CEO ascension pool and more female voices at the very top of top management in coming years.





At the same time, it's important to note that the Harvard Business Review findings are just a snapshot of the current trend. While women – and men – may be encouraged by the figures supporting alternative paths to the CEO chair, talented business leaders will find their own route to the top. Whether that's board to C-suite or C-suite to board is far less important than the fact that the right talent and experience is available to lead corporate success. In the workplace of the future, we can also hope that quotas will cease to be relevant as companies realize the short and long-term business benefits of actively seeking out female talent at management and board level. It means women with their sights set on the CEO seat will find it easier to secure relevant experience and enjoy a rich and varied executive career. Gender equality means business.

## CONTACT



### H EL ENE B EGU IN

Partner, Member of the Board of Directors  
KPMG Switzerland

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# Career goal: Member of the Board of Directors

## Interview with Ms Monika Krüsi, Chair of the Board of Directors, Repower

**KPMG:** You gave a speech at the first-ever Women’s Board Award ceremony entitled “From Operational Manager to Chairwoman of the Board”, which focused on learning at every stage of a career and in a variety of roles. Were you speaking from personal experience?

**Monika Krüsi:** Yes, indeed. This is true for myself as much as for other board members’ careers that I have observed. Becoming chair of the board is a step-by-step process that involves constant learning and gathering the broadest possible experience as you go along. Of course, having a degree is a good starting point, but experience comes from working in a range of different positions and functions.

*You sit on various companies’ boards, one of which you chair. Was it ever your career goal to become a board member?*

Doing what you truly enjoy and excel at is more important than pursuing a particular career goal. This is a good basis for developing your track record. Working as a consultant gave me an early insight into the world of corporate boards, and this is what inspired me to seek a role in strategic management, namely that of a board member. It allowed me to amass experience, finding out what motivates boards, how they function and what ultimately matters most, all of which made becoming a board member easier.

*How do you choose which company’s board you want to join? Were you asked to join a board?*

My situation was a bit different. I was a full-time investor, so I slid into this role acting as a representative of investors. If you can’t do it as an investor, it would definitely be a good idea to consider starting your career as a board member with a start-up. Start-ups are generally very keen to benefit from the knowledge and experience of proven experts. Being in a smaller company also allows you to grow into the position and the responsibility. It’s a great learning experience, but you should also keep asking yourself what you bring to the table and how you can help to drive the company forward.

*How important is it to understand the industry in question when starting out as a board member?*

Industry know-how is certainly helpful, but I don’t see it as an essential prerequisite. In my opinion, there are two types of board members. On the one hand, you have the experts, such as accountants, lawyers and HR or communication specialists. On the other hand, you have the all-rounders who are experienced in leading a business and understand a company’s complex processes. The latter definitely need to have industry experience. When it comes to the boards I sit on, I try to strike an ideal balance between these two groups.

**DR. MONIKA KRÜSI**

1962, Dr. inform., lic. oec. publ., University of Zurich, Chair of the Board of Directors, Repower AG

**Further activities and duties:**

- Chair of the Board of Directors, ACP Advanced Circuit Pursuit AG
- Member of the Board of Directors, Burckhardt Compression AG, CP Pumpen AG, Energie 360°, Signal AG and Suhner AG
- Board Member, Technopark Luzern
- Partner in the management consultancy, MKP Consulting



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*In your experience, how is a successful board of directors put together, and what role does the chairperson play in this regard?*

As chairperson, you have two main tasks: to set up a board that's an ideal mixture of professionals and to find the best possible CEO – perhaps even the whole executive board. The individual board members' profiles depend on the company's medium to long-term strategy. Where do you want to take the company over the next ten years, and which skills and resources do you need to achieve that?

*How important is diversity for this?*

A good mix of cultural backgrounds, professional experience, nationalities, genders and age groups is a big plus in a board of directors. Having said that, the more international a board is, the more of a challenge it becomes for members to communicate with each other. It is important that everyone is on the same page when it comes to understanding and speaking. This is just as much a cultural challenge as a linguistic one. The process is probably harder with a highly diverse team, but the decisions that come out in the end are generally better and more broadly supported.

**MONIKA KRÜSI**



*There could be more women on boards. Should there be a quota, or are voluntary initiatives, such as the Women's Board Award, the right way?*

If quotas represent the ambition you're aiming to achieve, then I think they're a useful means to an end. However, strict quotas that are all about ticking boxes and nothing more aren't very helpful. I welcome the fact that this issue is being raised and platforms like the Women's Board Award are being created. We have a lot of very capable women in this country, and the more we talk about it, the more people become aware that boards should and indeed could include more women. The potential is there – far beyond the 20 or so names that are already known and that we keep on seeing.

*To what extent do you think that boards should become younger and include rising stars, for instance, with digital transformation expertise?*

That's a difficult question. Let's look at the annual agenda of a typical board member. Generally, the topics revolve around investment requests, budgets, staffing, structural changes in the company, risk management, etc. The topic of digital transformation might be raised once or twice in the context of a strategy discussion, but most investment requests tend to involve it indirectly as well. Every member of a board of directors has to have a basic idea of how digital technology can be deployed and what its pitfalls are, but I'd question the need to have digital expertise specially represented. On the contrary, in fact: this expert would also need to have the requisite life and professional experience to assess the traditional financial and risk issues. The same is true for other experts, such as lawyers or communication specialists. They can be consulted in an advisory capacity as needed without having to be permanent board members. A board that's too big is very hard to manage.

*You talked about learning step by step in a range of different roles. What did you take away from your time in executive management that was useful once you became a board member?*

In my earlier executive management roles, I learned to deal with many different topics simultaneously and to play an active part in a team. Executives have to make decisions, take risks, set a framework, define the company's targets and strategic orientations. This mechanism also plays out a step higher up, i.e. between the board of directors and the executive board. The board of directors establishes the framework within which executive management has to work. Two things I learned in particular as an executive manager were making decisions and concentrating on things that matter. As a director, it's your job to define the company's focus. This is something that has to come from the very top, namely the board of directors.



*A Harvard Business Review study featured in our current Board Leadership Newsletter states that board experience is helping more women get CEO jobs. Do you agree with this assessment, or do you think the opposite is true?*

In my opinion, you can only switch from a directorial mandate to a CEO role if you have previous managerial experience. That said, every board of directors should have at least one or two members who have the technical expertise and managerial experience needed to lead the company for a limited period of six to eight months in an emergency – and who can spare the time, of course. This is very important.

*You've touched on an interesting topic there: time. It's been our impression that many members of boards don't have the time to deal with any unexpected increase in their workload.*

That's right. While it's not the case that every member has to be able to give 100% commitment at all times, the board of directors has to step up in a crisis situation. This means making time. Members who are also directly involved and in charge of another business or organization naturally have a harder time doing that, which is why it's so important to have a good mix.

Try to make  
your first steps  
and gather  
experience in a  
small company  
or a start-up



*These days, finding board members has become an industry in its own right. Headhunters identify potential candidates and contact them directly. How can you get on their radar?*

This is a question people ask quite frequently. I hardly know any men over 50 who don't want to become a board member... My advice is always that you should have a track record, be a person of integrity and know what your specific strengths are. How can you add value to the company? Also, you should be proactive and not sit at home waiting for a call from a headhunter or a chairperson. As I said earlier, try to make your first steps and gather experience in a small company or a start-up.

*What's the fascination with being a board member?*

Many think that becoming board member means they've made it, but you have to realize that it's very hard work. There are clear duties that require a defined profile. Men probably have a stronger desire to be board members, whereas women are rather more realistic and relaxed about it.

*Is being a board member a prestigious job?*

It's a combination of prestige and a fascinating job, paired with a certain degree of freedom and responsibility. This is what makes it such a fulfilling job for me.

*Once you have made it, you're chosen to join an existing board. What does this mean? What kind of experiences have you had in your new role?*

First, let me say something about the selection and appointment phase. The company or the headhunter names you as the preferred candidate following an in-depth selection and due diligence process, but it's just as important that you do your own due diligence on the company and its board. What is the company's strategy? How can you contribute to it? Who are the other directors and executives? How are decisions taken? What is the company's shareholder structure? If something doesn't feel right or alarm bells start ringing, then you should be able to turn a mandate down. Of course, you're saying "no" to an opportunity, but you'll also save yourself a lot of trouble. A "yes" usually means committing yourself to the mandate for at least five to seven years. It's worth considering whether you really have the time and energy to invest in this particular company. Doing your homework beforehand will make your start a lot easier.

*Does this mean that you have said "no" to a mandate yourself?*

I was nominated to chair the board of a large and well-known company but refused for the reasons I just mentioned. This takes courage, but you have to stay true to yourself and your personal values.

*Let's say you get the mandate – what's the best way to start off on the right foot?*

It's like jumping on board a moving train. Deals and projects that have a long history are already in progress, so you have to prepare well and read up on them to make sure that you can add value and ask the right questions from the outset. In the beginning, everyone listens carefully to what the new person has to say, and you can ask more questions about each deal or project. Asking questions, playing an active part and thinking along (and therefore assuming responsibility) is good policy anyway.

*You are Chair of Repower's Board of Directors and thus one of the few women holding such a position. How did it appeal to you in the first place?*

I've always been fascinated by technology and technical processes. I also enjoy being analytical. This is probably why I studied business management and did a PhD in business IT. During my own selection procedure, I found out that, apart from being a sustainable company operating in a very interesting technical and strategic environment, Repower has been around for more than a century and always managed to evolve and adapt to a changing market. I was also impressed by my colleagues on the board and the CEO. This made for an easy decision.

The board of directors sets the tone as far as corporate culture goes, and every board meeting is a chance to shape this culture. As chairperson, I manage the meetings, which requires some talent as a moderator. I have to create a space in which each member can express themselves and participate in decisions. At the same time, I have to keep the discussion and decision-making processes as efficient as possible. Managing the executive team also requires the right balance between praise and criticism. I really enjoy this moderator role. The chairperson has to keep a very low profile as regards to contributing ideas, so I'm usually the last person to give my opinion on a topic so as not to influence others' opinions.





*Our impression is that there are too many items on the agenda, one expert after another takes the floor, and there ends up being far too little time left for the board members to actually discuss the topic at hand.*

It's always a question of how you structure a board meeting and how often you meet. My meetings always begin with a block where the board is alone and gets to discuss topics before the executive board, department managers or external experts join in and have a say. We formulate issues and questions so that subsequent discussions are much more efficient. However, it's important that no decisions are taken at this preparatory meeting, the sole purpose of which is to facilitate a productive and well-organized board meeting. It's sometimes necessary to call an additional board meeting so that we can clarify a particular issue to a satisfactory conclusion.

*Does a chairperson still need to keep learning new things? If so, what exactly, and in what fields?*

You have to continue to grow and evolve. The companies whose boards I sit on regularly review the work done by their board of directors. After almost every board meeting, we ask ourselves whether there's anything we could have done better. A healthy feedback and learning culture is vital at board level, too.

*How do you make sure you get a feeling for the needs of a company's employees?*

I actively try to maintain personal contact with employees. I'm keen to listen to people and to look into business processes. However, you have to be careful not to say anything in front of employees that they could misinterpret as a new decision – which should in fact clearly be the executive board's responsibility or which could contradict the latter's policies. That said, I find it important to develop a feeling for a company and to see what's going on at grassroots level. As a director, I help to define the company's culture, and that means addressing and solving problems together.



**PROF. DR. RETO EBERLE**  
Partner, Member Board Leadership Center  
KPMG Switzerland



**SANDRA STRAUSS**  
Manager, Board Leadership Center  
KPMG Switzerland

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