Time to soar: CEOs of financial institutions expect more from their finance function

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Banking and insurance chief executive officers (CEOs) think it's time for their chief financial officers (CFOs) to shine. But many also have deep misgivings about whether the finance function — and its leadership — is ready to deliver real value to the business strategy.

Winds of change keep blowing

Anyone that thinks that the financial services industry has been slow to change has clearly not spent much time in the finance function. Indeed, the last decade — the past 5 years in particular — have been all about change for finance executives.

Change has been driven from all sides: new accounting standards, increased capital adequacy and/or solvency rules, heightened reporting requirements, new regulatory directives and the recent shift towards more integrated reporting are just part of the change sweeping through the financial services industry and flowing into the finance (and risk) functions at financial institutions.

At the same time, bank and insurance CFOs also need to support the organization and its business strategy. New products are being introduced, businesses are being sold or acquired, non-strategic assets are being divested and new markets are coming into scope. And with each change, the finance function has needed to respond.

Rise above the fray

While bank and insurance sector CEOs seem to sympathize with the plight of the finance function, most clearly expect their CFOs to rise above the challenge. In a recent global survey of more than 370 CEOs commissioned by KPMG International[1], 67 percent of financial services respondents said they expect the role of their CFO to increase in significance over the next 5 years, the highest percentage among all c-suite executives.

[1] *The View from the Top*, KPMG International

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The problem is that few of these CEOs seem to think their finance leadership is currently ready to take on this high profile role. The same survey found that just 53 percent of the financial services CEOs thought their CFO was viewed as a valuable business partner by the business. Only around a third of respondents believed that their CFOs truly understood the challenges they face as CEOs. Just 19 percent thought that their CFO was currently playing a critical role in supporting the CEO and the board. Simply put, the data suggests that CFOs of financial institutions still have a long way to go if they hope to live up to their CEO's expectations.

Taking an enterprise-wide view of performance

A number of CFOs at the top global banks and insurers are now starting to focus on developing and improving their enterprise performance management (EPM) capabilities. Essentially, they are starting to recognize that — by combining financial data with operational and customer data through the latest wave of integrated EPM solutions — CFOs can start to take a leading role in helping to dynamically manage the planning and execution of the business strategy.

EPM delivers benefits across the organization. At the finance level, improved EPM capabilities enable finance functions to optimize their finance operations and dynamically generate more value-adding reports, allowing the finance function to become a more vital business partner across the enterprise. It can improve the speed, relevance and access to the type of performance reporting and analysis that creates real business insights when and where it is needed most: in the business. And it can help create better alignment between the organization's diverse back-office functions (such as risk, capital management, compliance and operations) to drive better end-to-end decision making based on a single set of balanced key performance indicators (KPIs).

Improved EPM capabilities also allow the finance function to become a better — and more strategic — business partner. In some cases, this is achieved by driving valuable forward-looking analysis and planning through the EPM's integrated business and financial planning features. Using these advanced EPM functionalities enables finance functions to better anticipate and even predict business outcomes, leveraging sophisticated 'what-if' scenario-based analysis capabilities based on key business drivers, events and relationships. And, in doing so, it can help the finance function become more integrated with the organization's sales and operations planning processes.

This forward-looking EPM feature is especially important for financial institutions, as new accounting standards like IFRS9 for financial instruments and IFRS4 Phase 2 for insurance contracts (both life and non-life) forces them to disclose fair market values and net present value (NPV) calculations on their financial assets and liabilities. This, in turn, will likely make results more volatile and more transparent, which will lead organizations to demand even greater control than they have today.

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Questions to evaluate if your organization needs improved Enterprise Performance Management capabilities ...

1. Does your executive team have real insight into the group's true profitability by product, service/channel, country/region and customer?
2. Is your organization combining financial, operational and customer data to make better decisions and create a competitive advantage?
3. Are you able to anticipate future regulatory changes and use those insights to gain entry to new markets using innovative channels faster than your competitors?
4. Do you know which channels currently provide the best growth and profitability and do you have a plan for optimizing them?
5. Are you able to conduct collaborative planning across all of your business functions to optimize investment decisions and improve shareholder return while at the same time maximizing capital efficiency?

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Aligning the Risk and Finance functions of insurance companies with EPM

For insurers, one of the big benefits of EPM is closer alignment between the finance and the risk functions.

Creating this alignment is more important today than ever. The finance function is critical to measuring and reporting financial metrics such as gross premiums, investment returns, claims paid and overall profitability, while the risk function needs to estimate the technical reserves based on a complex array of actuarial models covering insurance, market and operational risks. Together, these two form the basis for the all-important equity and solvency ratios of the company.

The latest generation of insurance-specific EPM systems can bring both worlds more closely together. Not only are they able to generate the usual financial and certain regulatory reporting requirements, but they can also support the integrated business planning and management reporting needs of the company through innovate data cubes, on-the-fly dashboard generators and real-time analytical capabilities.

Many financial services organizations are also seeking to improve their end-to-end performance in key areas such as customer performance. Some have even defined new roles specifically to support improvements in their end-to-end processes. As a result, some organizations are finding that EPM helps deliver a consistent end-to-end framework that ensures consistency in definitions, improves connectivity to show correlations and encourages the reuse of data to improve reconciliation.

From discretionary to mandatory

Perhaps most importantly, a strong EPM capability can enable management to make better business decisions. It can help improve speed and access to information. Leveraging new technologies (such as those on offer at the KPMG Data Observatory), EPM can deliver improved visualization and analytics capabilities, thereby empowering the organization with competitive insights. And it can make sure everyone is looking at consistent data from the same source, improving decision-making confidence. Essentially, it can help management answer the big questions that they are struggling to answer today.

This is exactly what CEOs say they want from their CFOs. Indeed, when we asked CEOs of large financial institutions what their CFO could do to deliver more value, three initiatives boiled to the top:

1. applying financial data analysis to help the organization achieve profitable growth;
2. using financial data analysis to create and implement new operating models; and
3. finding ways to turn the regulatory environment into a competitive advantage.

All three can be achieved through improved EPM capabilities.

As a result, most CFOs are starting to recognize that investing into EPM is no longer a discretionary activity. It is a source of potential competitive advantage, a way to better manage regulatory requirements and a path to improved efficiency and cost savings. As such, EPM is quickly becoming a mandatory capability for finance functions in the financial services industry.

More than just a reporting tool

We have used words like ‘discipline’ and ‘capability’ when we refer to EPM, rather than ‘software’ or ‘solution’. That is because EPM is much more than simply a tool or software package that is ‘bolted-on’ to consolidate and analyze global data from existing ERP systems. In fact, the real value of EPM comes only when the organization — led by the finance function — starts to turn that data into real, reliable and actionable insights. And that requires a holistic approach to EPM that spans the enterprise and the whole operating lifecycle (as illustrated in Figure 1).

To start, organizations may want to consider flipping the historical ‘plan-do-check-act’ approach on its head. Indeed, creating a robust and appropriate EPM program requires finance functions to start with the ‘act’ (i.e. what insights does the business need in order to act), and then ‘check’ what information is required and whether it is available. Only then should finance functions move onto the ‘do’ of building the solution and, ultimately, the planning that can be achieved once the information is available. Once EPM programs are in full swing, finance functions can then go back to the traditional and continuous ‘plan-do-check-act’ lifecycle process and culture.

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Figure 1: EPM leading practices enable a continuous ‘plan-do-check-act’ process and culture

1 Articulate strategy

- Include leading indicators that depict trends and areas of opportunity
- Leverage BI and EPM solutions to visualize and analyze this information

2 Create a plan

Integrated Business and Financial Plan

- Prioritize resource plans and capital investments aligned with strategies, initiatives and targets
- Leverage dynamic planning solutions to integrate the business and financial plans focusing on key value drivers

3 Execute plan across all domains

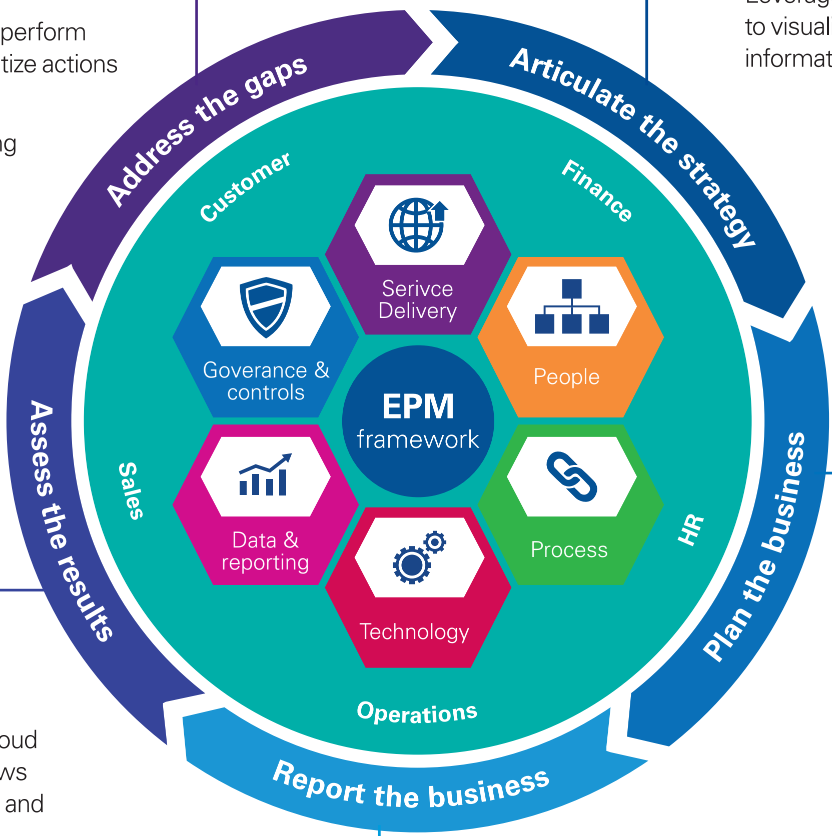
- Leverage analytic models to evaluate correlations and predict relationships and outcomes
- Drive the right operating rhythm
- Align performance targets with incentive plans

4 Report and analyze performance

- Leverage mobile and cloud solutions to provide views and insights on a timely and accessible basis
- Provide standard reports and views enabled with self-service capability (plan vs. actual, drill-down, root cause, trends, benchmarking, etc.)
- Analyze cost and profitability across multiple dimensions
- Report consolidated financials and comply with regulatory and disclosure management requirements

5 Adjust plans, strategies and actions

- Model driver and event impacts and evaluate root causes to take corrective or alternative actions to impact performance
- Evaluate scenarios and perform what-if analysis to prioritize actions and plans
- Define and update rolling forecasts to improve forecasting accuracy and reduce time and effort preparing annual budgets



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Bank CFOs leverage EPM to become more strategic

Most banking CFOs are already well on their way to moving from being a scorekeeper to becoming a business partner. But EPM enables CFOs in the banking sector to move one step further by allowing the finance function to combine multiple sets of data — financial, customer, risk and operational, for example — to provide the organization with deeper, more valuable and more strategic reports.

Our experience suggests that the ability to leverage and adopt new technology and approaches will be key. Some of the leading banking CFOs are already using data visualization and predictive analytics to collect, analyze and communicate key data sets. And early adopters are now investing into robo-advisors and other automated technologies that can reduce or eliminate manual intervention.

Become a value player: Solve the business' problems

Securing 'buy-in' from the business for a new approach to EPM is not easy; fatigue with new change programs is high and executives are competing fiercely for resources for their own programs. But buy-in is critical, not only at the executive level but throughout the business and across the enterprise.

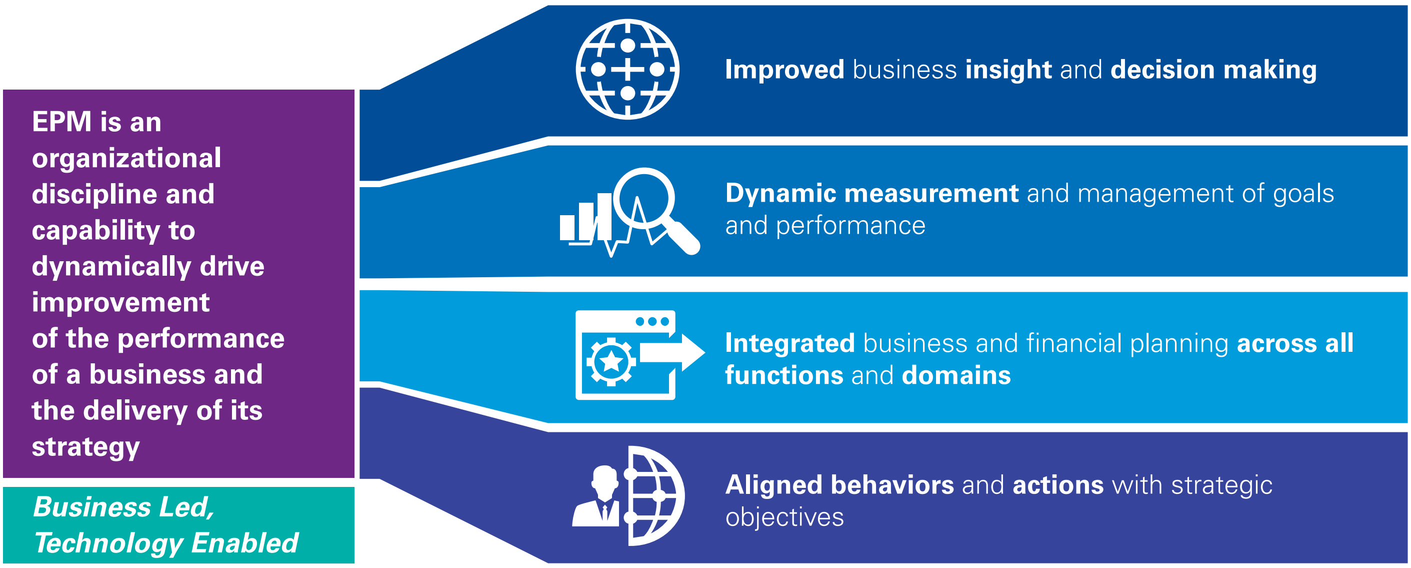
In this busy environment, CFOs may want to start by helping the business answer one specific (yet critical) management question: *"How can I best help you achieve your business goals?"* Maybe it's about finding the optimal pricing mix for their products and services. Maybe it's about identifying the right acquisition targets to drive profitable growth. Or maybe it's about identifying the most profitable customer segments and channels.

The key is in working collaboratively with the business to solve their problems and then using that opportunity and outcome to drive greater appetite for more advanced EPM capabilities within the business.

A business-led approach

When we work with banks and insurance CFOs to create stronger EPM lifecycle discipline and improve their EPM capabilities, we focus on creating a holistic enterprise performance management model and approach that recognizes the transformation that is required in process, people and technology to allow CFOs to drive real value from their finance teams.

In doing so, we lead our clients through a business-led technology transformation that instills the necessary EPM awareness, capabilities and skills across the enterprise and throughout the business, helping CFOs meet the evolving and increasingly sophisticated demands of their organization. ■



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Martyn has 10 years financial services industry experience, and 20 years international consulting experience, managing complex transformation programs in finance, risk and IT. He also leads the financial management practice for KPMG in ASEAN from his current base in Malaysia. Martyn specializes in serving clients on a wide-range of services including: finance strategy and transformation, enterprise performance management, finance process optimization, IFRS conversion and benchmarking of finance and risk functions. He has worked on large engagements throughout the Netherlands, United Kingdom, Switzerland, Africa, South America and Asia.

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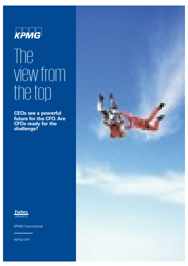
A Partner with KPMG in the UK, Peter has successfully delivered a wide range of advisory projects to investment banking, retail banking and insurance organizations. His area of expertise spans implementing front to back office control models, developing sourcing strategies and transition model development. Peter has extensive regulatory knowledge, and has worked with clients to build reporting processes (internal and external) for FINREP, COREP, integrated regulatory reporting and Basel 2. In addition, Peter provides his clients with expertise through reviewing, developing and implementing successful change programs across finance functions. As well as enterprise-wide through the development of governance and risk management frameworks.

To learn more about KPMG's approach to Enterprise Performance Management, please see our report:



The View from the Top
KPMG International teamed up with Forbes Insights to survey 549 chief executives, business owners and chairmen of large global companies to understand the expectations of a global CFO from the perspective of their CEO. 'A View from the Top' discusses the key findings and the rise of the 'Renaissance CFO'.

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