



Integrating risk and finance for data transformation

**Why banks must rethink the silo approach –
and how to do it**

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Banks are increasing the pace of operating model innovation to respond effectively to a challenging landscape. In an increasingly competitive environment with continuous regulatory scrutiny, new market entrants and sustained low margins, banks that do not pursue a transformation agenda risk being left behind by more agile peers.

KPMG's research suggests bank CEOs get it. Virtually all CEOs (95 percent) see disruption as more of an opportunity than a threat, and seven in ten feel personally prepared to lead the organisation through radical transformation. However, sticking points remain:

- It is crucial this investment in transformation does not fall on fallow ground. Banks will need to develop a higher technology and automation IQ within their workforce to be able to maximise the value of innovation. A cultural shift towards innovation and a rethink of skillset and capabilities is overdue
- Too few banks have adopted structures that can enable capability integration in order to drive value from data; instead, they operate with siloed functions that encourage inconsistency and prevent the emergence of holistic, enterprise-wide data management and insight. As such, there is still significant levels of untapped benefit due to lack of consistent data quality and process standardisation

Time is running out to address these challenges.

We believe a significant change is now necessary: this should start with the integration of key elements of risk and finance to create a new stand-alone capability that can deliver greater value to the organisation treating data as an enterprise asset and enforcing standardisation of process at the same time.

Key takeaways from this Point of View:



After a long period of talking about the integration of risk and finance, the imperative for banks to act now is compelling



A new pillar or function operating outside of traditional risk and finance can drive valuable benefits: quality, granularity, speed, control and efficiency



This new function could evolve to become the enterprise's go-to resource for high quality, standardised data, reporting and analytics

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An aerial photograph showing a serene landscape. On the left, a large body of water with a turquoise hue stretches towards the horizon. A paved road with white dashed lines curves along the right side of the water, bordered by lush green trees and vegetation. To the right of the road, a railway track runs parallel. A small wooden pier or dock extends into the water near the center. A few small buildings and parked cars are visible near the road. The overall scene is peaceful and scenic.

“ Seven in 10 CEOs, in the recent CEO Outlook survey we carried out, said they feel personally prepared to lead the organisation through radical transformation. ”

The imperative for change

Leading banks have been talking about integrating risk and finance operations with the aim of securing a single, consistent and multidimensional view of their businesses for more than a decade. But with a few exceptions, relatively little progress has been made. There are reasons for this: most importantly, until recently, banks have regarded their data management activities as an operational process rather than a potentially value-generative asset. In this context, individual functions have been allowed to remain entrenched in their own silos, building data structures that work for them but not for the enterprise as a whole.

Now, however, the pressure is mounting to move forward more rapidly with integration and transformation of risk and finance. In this prolonged period of low interest rates and tight margins, it is imperative for banks to drive value from all assets at their disposal, including data.

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This is not good enough. It should be a given that management decisions are taken on the basis of maximising returns on equity, exploiting all the data at the organisation's disposal; equally, banks should be able to seamlessly switch from a business unit view to a legal entity view, given that the underlying data is the same.

For a bank, the finance and risk functions are the natural venue for this work, given underlying governance, control and data transformation skillsets.

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Many banks are now reaching a tipping point and can no longer avoid what has been obvious for a while. Finance and risk need to join forces in order to finally add value to the business by helping them make better and faster decisions:

- risk and finance integration can deliver a much more consistent and standardised view of the risk-adjusted returns banks are achieving throughout their business;
- data transformation provides crucial insight into customer behaviours, enabling the development of better products and services;
- exploiting these gains will make it possible to allocate capital much more efficiently;
- integrated ways of working and a common infrastructure will not only improve control but should undoubtedly lead to elimination of duplication and efficiencies.

Realising these benefits will require investment in data and analytics tools that provide a rich new source of business intelligence and commercial advantage. But pursuing such investments piecemeal, within individual functions, does not make sense; instead, data transformation must be holistic.

The case for integration is further strengthened by the increasing regulatory demands for transparency. Banks must not only meet more demanding reporting requirements but also build understanding of the implications of their reporting throughout the business. This will ensure business leaders have a much clearer understanding of the impact on capital of their decisions. As the reporting regimes of finance and risk continue to converge, maintaining separate reporting structures is not sustainable.

These drivers underpin the case for now moving forward with transformation much more aggressively. The promise of integration is a step-change in the quality and granularity of data that is available to the entire enterprise, as well as an acceleration of the speed at which this information can be delivered. Efficiency improvements also have the potential to deliver significant cost benefits, even if these are not the primary motivation of banks embracing transformation.

Envisioning a new model for integrated risk and finance

Few banks have yet set out a vision of an integrated risk and finance function, let alone begun to move decisively towards it. However, it is possible to draw on the learnings of those organisations that have already embarked on the transformation journey to think about what an integrated function might look like.

This will be a significant exercise, carving out resources from both risk and finance – and augmenting those resources with new talent – in order to create an independent new function.

This function will have operational responsibilities to both risk and finance but will not report directly to either pillar.

The aim should be to create a shared service that is capable of providing data quality and data management services as well as integrated reporting and advanced analytics functionality to every other part of the enterprise: not only risk and finance but also treasury, compliance and middle and front office functions. The newly integrated function will be the bank's data management centre of excellence with a single underlying infrastructure.

Staffing the new function will require the relocation of key personnel from both risk and finance. But these individuals will need to have both the right skillset for their new roles and the adaptability to ensure a good cultural fit. Banks will also seek to recruit new talent from beyond risk and finance, securing new skills in areas such as data science and advanced analytics.

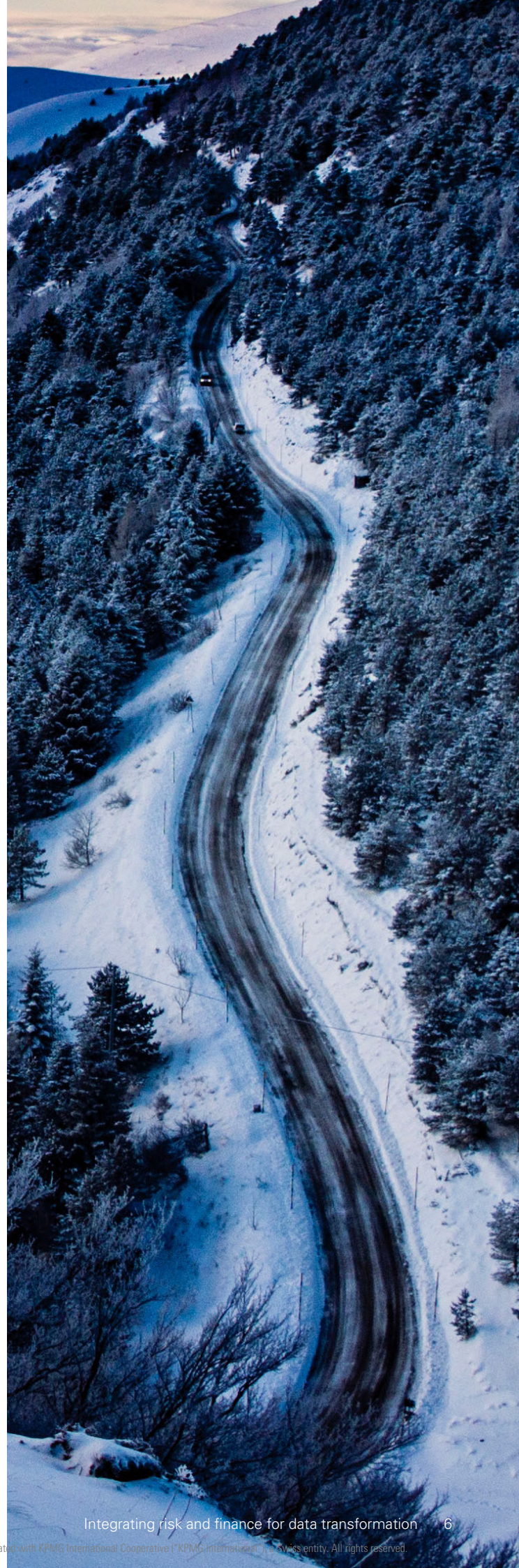
It will therefore be crucial to ensure such a function is widely regarded as an attractive place to work, both to persuade the bank's existing staff to consider transferring and to attract new talent.

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This imperative underlines the need to shift the narrative around data in banking. The bank's support for - and incentivisation of - staff employed in this data centre of excellence will represent the proof point for its claims that data really is now seen as an asset where value is created. This new function would be and should be seen as the “nerve” centre of the bank

Meanwhile, separate risk and finance functions will remain in place. These functions will be smaller and leaner than in their previous incarnations, but also more specialised. Empowered by the improved quality and granularity of the data insights available from the new function, both risk and finance will have opportunities to create additional value of their own.

For the organisation as a whole, this will be a profound transformation. The opportunity is to create an enterprise-wide asset that delivers greater actionable insight than existing functions could hope to create individually. Its activities will go to the core of the bank's operations and strategy, including its management of capital – far beyond work that could comfortably be procured from third-party providers or advisers. And for banks prepared to be ambitious in their organisational design and scope of work, the pay-off is exciting.





Making the transition

There will inevitably be challenges to face in the move towards risk and finance integration – both organisational and technical – but these can be overcome if clarity of vision and purpose is in place from the beginning.

Above all, this is a transformation project that will require leadership buy-in and support right from day one. Not only is this an enterprise-wide decision that must come right from the top of the business – the C-suite, including both CFO and CRO – but it will require strong leadership to keep the transformation process on track. The entrenched interests in existing structures and silos may be powerful; to prevail leaders will need to invest considerable energies in convincing the organisation that transformation is required.

It is also possible to build the case for integration at every level of the organisation, identifying “agents of change” of differing seniorities to make the arguments to their colleagues. Not least, transformation will create exciting new opportunities for employees in risk and finance – and beyond – but a hierarchical approach to change management focused on compulsion may obscure these advantages.

Infusions of new talent will also help to overcome cultural barriers to change. As new employees join the bank, in areas such as data science and engineering, for example, they will bring new skills and challenge traditional ways of thinking.



The key is to focus on the key benefits of transformation – greater quality and granularity of data insight, accelerated insight creation.



Meanwhile, banks will need to re-evaluate their data infrastructure to establish whether what's in place today will be fit for purpose following integration. It may be possible to augment the current infrastructure, building out new tools and functionality as required through experimentation and pilots; in some cases, however, more fundamental change – and therefore investment – may be necessary.

Equally, however, banks must be certain they can maintain business as usual – not least to meet their regulatory responsibilities, including reporting. They will need to communicate clearly and regularly with key stakeholders, including the relevant regulatory authorities, providing updates on the change process.

Conclusion

Integrating significant elements of risk and finance offers a springboard to the data transformation that leading banks now need to secure. Organisations with ambition and scale of vision must now seize this opportunity with both hands, overcoming cultural barriers to embrace change.

The key is to focus on the key benefits of transformation – greater quality and granularity of data insight, accelerated insight creation, and improved efficiency – to create an enterprise-wide resource that can generate significant new value.

Where clients get it wrong

If you can put a cigarette paper between C-suite leaders, think again

Just like any other major transformation, clients often do not build the right level of executive stakeholder sponsorship and alignment to see change through and get to a sustainable new model. The CFO and CRO need to hold hands in front of their people and form a bond with the CIO organisation. Risk and finance integration requires leaders to leave their egos at the door and think like owners – they will have to be prepared to give up large parts of their teams for the benefit of the enterprise as a whole. Their incentives need to be aligned.

Culture eats strategy for breakfast

Even if the case makes sense on paper, clients underestimate the challenge of integrating two already fundamentally different cultures in finance and risk with new skillsets in data engineering and data science. Selecting the right cultural agents from each legacy vertical is crucial. Use data as the common language for the bank and data / engineering disciplines to fuse the new cultural construct together

Making the new integrated organisation and destination of choice

A new organisation means new career paths. The integrated risk and finance integration is and should be branded as the heart of the new bank. It will be a place where future leaders and multi-disciplinary professionals can thrive, learn and innovate

Commit and execute ruthlessly

Once the decision has been made, there is no looking back. But some organisations fail falter – without a mentality of agile execution infused by traditional programme management discipline, they will fall short. Statements such as “we know what to do but how do we start – how do we maintain momentum – how do we overcome institutional perma-frost without watering down design principles” are common, even from organisations with internal change delivery teams

How KPMG can help

We can embed multidisciplinary teams of change, operating model, data & technology and deep functional knowledge to work shoulder to shoulder with your teams to:

- build a compelling business case for risk and finance integration that anchors on quality and control with a tangible benefit flight path;
- help you define the functional model, delivery model and organisational structure using the latest thinking, benchmarked in the market;
- help you define the appropriate underlying data model and infrastructure strategy leveraging the latest thinking around intelligent automation;
- define the underlying capability model and associated cultural transformations as you mesh together accountants, risk professionals, data engineers, business architects and bots to create a new, culturally unified workforce;
- structure your change management journey and ensure that communications do not run ahead of the operating model transformation;
- run the programme with discipline and a passionate focus on business outcomes.



The entrenched interests in existing structures and silos may be powerful; to prevail leaders will need to invest considerable energies in convincing the organisation that transformation is required.



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