Over the past 20 years, the role of the finance function in banks has evolved considerably. The economic climate, technological innovation, offshoring, regulatory pressures and the global shift in political and economic power have all had repercussions for the finance function.

The financial crisis, the speed of change, uncertainty and transparency have also increased pressure to implement enhanced reporting, governance and controls. This has been to satisfy regulatory requirements, address a reduction in public trust and to control costs.

For those in – and especially at the top of – the finance function, the focus has also shifted. New capabilities and responsibilities (not to mention the Senior Managers Regime) have accelerated the shift from a traditional role of reporting historic numbers, to analysing trends, providing commercial insight and driving strategic decisions in a timely and effective way. As banks’ need for agility keeps growing the demands on planning and forecasting are also ever increasing.

The old duties haven’t gone away. Accuracy, probity and accountability are still essential hygiene factors. So how are best-in-class banks making the most from their planning, budgeting and forecasting to deliver both accountability and strategic drive? And what are the best ways to “get it right” given the current climate?

**Context: finding the balance between internal and external forces**

Banks must be able to rely upon their PB&F processes if they hope to survive and quickly respond to emergent needs in this increasingly competitive ecosystem. The issue for banks looking to develop their PB&F processes is that they must do so in an era when resources are at a premium and often targeted to be reduced. At the same time, both internal and external challenges demand increased attention or action.

<table>
<thead>
<tr>
<th>Internal challenges</th>
<th>External challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost cutting pressure</td>
<td>Brexit</td>
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<tr>
<td>Shrinking finance headcount and new skill requirements</td>
<td>Political uncertainty</td>
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<tr>
<td>Expectations to harness greater data availability</td>
<td>Ring-fencing</td>
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<tr>
<td>New technology implementation and outdated/legacy infrastructure</td>
<td>Accounting and regulatory changes (e.g. IFRS 9, MIFID II)</td>
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</table>

For the CFO, the solution to these issues lies in taking a more holistic view of the different processes – knitting together the planning, budgeting and forecasting processes with richer data from enterprise performance management (EPM) systems; constant dialogue with senior leadership and key decision-makers; and rigorous feedback mechanisms that ensure forecasting is accurate, planning realistic, budgeting incentivises and the strategy is meeting the long-term needs of the business.

**The common problems**

The simplest summary of the issue facing bank CFOs is having to do more with less. In a 2016 global survey of more than 370 CEOs commissioned by KPMG International, The View from the Top, two-thirds of financial services respondents said they expect the role of their CFO to increase in significance over the next five years, the highest percentage among all c-suite executives.

Looking specifically at the planning, budgeting and forecasting processes, we can see that the interaction of the various internal and external challenges, at a time of high levels of uncertainty and change, leads to some widely shared problems:

**One process for all**
- Confusion around the purpose, roles and responsibilities of PB&F.

**Mismanaged tools**
- An ineffective use of tools especially apparent when having to respond to outside influences such as Brexit, ring-fencing or interest-rate fluctuations.
- An expectation that PB&F has the skill to harness, analyse and gain insights from an increasing volume and variety of data.

**Lack of trust in data**
- A generalised distrust of data in standalone departments resulting in multiple versions of the truth between the business and functions.
- A lack of transparency creating an apathetic budget holder culture.
Finance is at a cross roads facing both internal and external challenges

- CEO has greater expectations for the CFO:
  - More agile in response to external change
  - More insight from greater volumes of data
- Pressure to decrease resources and costs

However finance is not geared up to face these challenges due to three key problems keeping it busy:

**Problem 1: One process for all**
Planning, budgeting and forecasting are treated as a single process often resulting in confusion around purpose as well as roles and responsibilities.

- How does the role of finance differ in each process: own, run and maintain or facilitate?
- How should each process be run: top down, bottom up or from the middle?
- What level of precision and speed does each process need?
- What is the outlook for each process: 12 months to 5 years?

**Problem 2: Mismanaged tools**
There is an increased requirement for agility but responding to external change is extremely difficult if manual processes constrain PB&F. It’s not uncommon for banks to waste their finance talent on data entry.

- Banks must empower their staff with the right tools to make the generation of accurate, insightful and strategically relevant data as easy as possible.
- Teams need the ability to quickly generate multiple scenarios and assess them across organisational dimensions.
- PB&F teams must also have the skills to harness, analyse and gain insights from an ever-increasing level of data.

**Problem 3: Lack of trust**
- A lack of trust in planning data results in two versions of the truth between the business and functions.
- A lack of transparency in allocation processes creates an apathetic culture since budget holders feel that they do not control all of their performance.
Problem 1 – One process for all

In many banks planning, budgeting and forecasting are treated as a single process. This often results in confusion around the purpose as well as roles and responsibilities for each process. The sequencing of PB&F means a delay in one process can create a bottleneck. Each process requires different ownership, accuracy, granularity, political buy-in and capabilities. Confusing the purpose of any of these processes creates inefficiencies and a suboptimal allocation of skills. See the below table for a requirement and purpose comparison.

<table>
<thead>
<tr>
<th></th>
<th>Owner</th>
<th>Role of finance</th>
<th>What</th>
<th>Political buy in</th>
<th>Speed versus precision</th>
<th>Outlook</th>
<th>Capabilities</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group Planning</strong></td>
<td>Group Finance</td>
<td>Own</td>
<td>Top down</td>
<td>High speed</td>
<td>5 years</td>
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<td>Scenario based - Roughly right principle</td>
<td>Support strategic agility ...................................................................</td>
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<td>To set targets grounded in market reality</td>
<td>To set targets grounded in market reality ........................................</td>
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<td>Challenge budgets and investments</td>
<td>Challenge budgets and investments ................................................</td>
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<td>Ensure organisation is in line with strategy</td>
<td>Ensure organisation is in line with strategy</td>
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<tr>
<td><strong>Business planning</strong></td>
<td>Business Units</td>
<td>Run and maintain</td>
<td>Middle down</td>
<td>High speed</td>
<td>1-5 years</td>
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<td>Light touch and fast to produce - Agile (e.g. driver based) -</td>
<td>To meet gap between target and latest forecast ..................................</td>
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<td>mid precision</td>
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<td>Compatible to directly feed into other processes</td>
<td>To meet gap between target and latest forecast ..................................</td>
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<td>To feed into capital planning and stress testing</td>
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<td>To enable commercial decisions like pricing and marketing</td>
<td>To enable commercial decisions like pricing and marketing</td>
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<td><strong>Budgeting</strong></td>
<td>Budget Holders</td>
<td>Facilitate</td>
<td>Bottom up</td>
<td>Low speed</td>
<td>2 year detailed</td>
<td></td>
<td>Detailed and functional - Push-down functionality from middle up plan so</td>
<td>To create granular enough numbers that can be used to measure budget</td>
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<td>high precision</td>
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<td>not a blank start</td>
<td>holder performance against targets</td>
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<td>To control costs</td>
<td>To control costs</td>
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<tr>
<td><strong>Forecasting</strong></td>
<td>Group Finance</td>
<td>Own</td>
<td>Top to middle</td>
<td>High speed</td>
<td>Up to 12 months</td>
<td></td>
<td>Accurate - Fast to produce - Same dimensions as targets</td>
<td>Brutally honest and independent ...................................................</td>
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<td>mid precision</td>
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<td>Use to judge how the business is performing against targets</td>
<td>Use to judge how the business is performing against targets ................</td>
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<td>Inform decision making</td>
<td>Inform decision making</td>
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</table>
Problem 2 – Mismanaged tools

It’s not uncommon for banks to waste their finance talent on data entry. Banks looking to succeed must empower their staff with the right tools to make the generation of accurate, insightful and strategically relevant data as easy as possible. Remember that stakeholder demands will only increase as the availability of data increases. Those in PB&F will find that they are expected to produce more insight, faster and with fewer resources.

Changes like Brexit, ring-fencing or interest-rate fluctuations mean that multiple scenarios must be quickly generated and assessed across organisational dimensions. This is extremely difficult if manual processes constrain PB&F. If multi-dimensional and driver based tools are not used effectively any changes require large amounts of manual spreadsheet work. Outputs are not produced fast enough to provide maximum value for decision making and manual effort to reflect different hierarchies increases the chance of errors.

Another issue is an expectation that those in PB&F have the skills to harness, analyse and gain insights from an ever-increasing level of data. If there is no adequate talent management and training strategy this will become a shortcoming in the future.

Problem 3 – Lack of trust in data

Leaders must not allow for multiple versions of the truth between the business and functions. Nor should they allow a lack of transparency to create an apathetic and dysfunctional budget holder culture.

While the benefits of data analytics are widely accepted, it is often the case that individual teams do not understand – or trust – planning numbers. This may be due to a lack of transparency in allocation processes (e.g. capital or cost). But also because the final data is often so different that it does not appear to tie back to numbers that a team recognises.

This lack of trust means that business teams often keep their numbers offline, especially the budget which is most integral to their performance measurement. It means that finance holds a separate view to the business. Significant amounts of time and energy are in turn spent challenging numbers and allocations, and the overall result is that budget holders feel that they do not control all of their performance.

Summary

All too often planning, budgeting and forecasting is treated as a single process. Tools are frequently misused, and that means people do not trust the numbers. These problems need to be addressed if the CFO, along with the finance function, is to rise to new challenges and meet the expectations of the CEO. Solving these issues will help finance to partner with the business and together drive profitable growth. Planning can build trust leading to lower buffers, forecasting can help the bank respond to emerging demands and budgeting can incentivise the business – all helping to improve bank-wide returns.

Authors:

Aris Kossoras
T: +44 (0)7827 843 405
E: Aris.Kossoras@kpmg.co.uk

Minochehr Vania
T: +44 (0)7342 085297
E: Minochehr.Vania@kpmg.co.uk

Andreas Wille
T: +1 416 777 3264
E: Awille@kpmg.ca

Givarn Ramsundar
T: +44 (0)7771 783 1716
E: Givarn.Ramsundar@kpmg.co.uk

Contributors:

Grace Baiju
T: +44 (0)7551 134975
E: Grace.Baiju@kpmg.co.uk

Next steps

In the near future we will publish a white paper on best practice in strategic planning, what leaders are doing and why.