Balancing cost, control and quality

Tech-enabled finance operating models help banks manage competing demands

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While bank finance departments have pursued ambitious and often highly-targeted transformation projects over the past decade to satisfy competing regulatory, management and shareholder expectations, they have struggled to keep up with ever-shifting demands. But best practices among global banks, revealed in the *KPMG Banking Finance Operating Model 2017 — A Comparative Analysis*, suggest that there is no single path to success. Rather, a combination of complementary strategies can shape flexible finance operating models, enabled by emerging technologies that help finance balance its governance, value preservation and value creation obligations.

The buck stops with finance

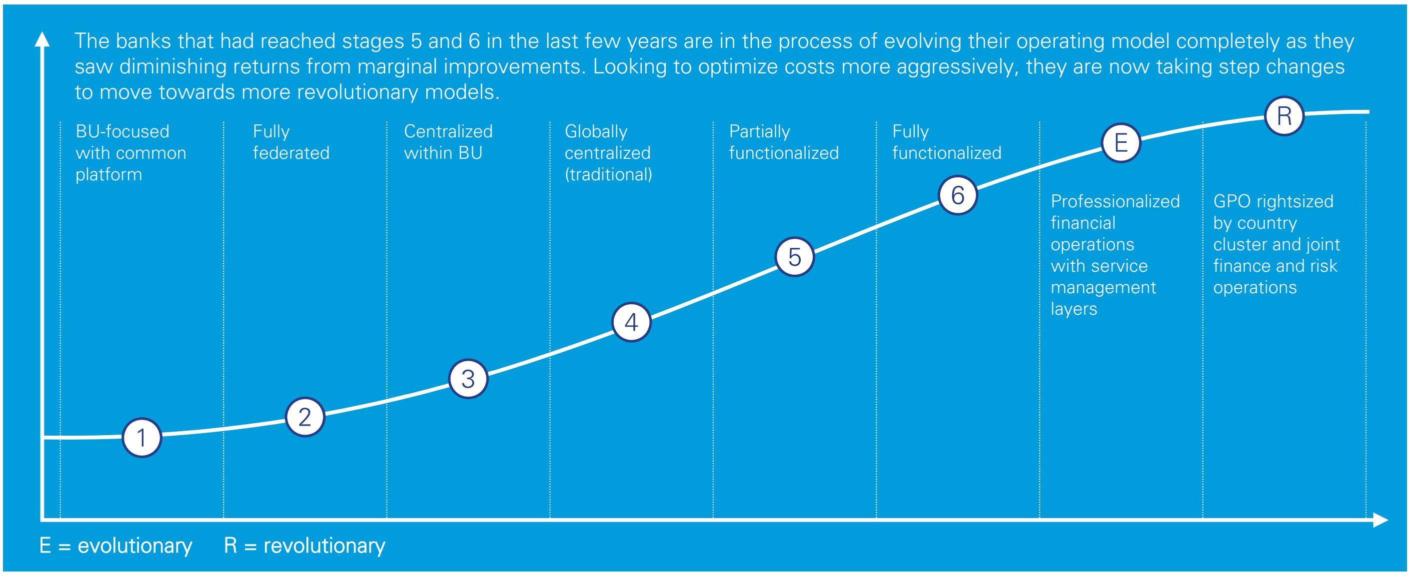
A 2014 KPMG survey of top CEOs globally across all sectors revealed how senior leaders increasingly expect their CFOs and finance teams to help create a global competitive advantage for their organizations, leveraging forward-looking data and analytics to deliver value-added insights, beyond traditional finance deliverables.[1]

This is certainly the reality facing bank CFOs and finance departments that, after years of helping deliver impressive profits and bold acquisitions to become global or universal banks, suddenly faced new challenges post-2008. Sweeping new regulations required bank finance teams to perform both intensive local, regional and global compliance activities. In tandem, challenging market conditions pressed the banks to operate more efficiently and reap the benefits of globally-integrated structures, putting large finance departments under scrutiny to do more with less.

In response, bank finance functions shifted from their traditional federated operating models to create more standardization across the business units that finance serviced. They ramped up their investment in back-office capabilities, with the aid of transformation initiatives such as establishing centralized offshore units and introducing global process owners to improve consistency and efficiency across end-to-end processes, while maintaining control.

While these initiatives have provided the banks with a boost in efficiency, many have reached the point of diminishing returns. Or, upon implementation of these multi-year transformation projects, finance leaders discovered that the planned results are no longer relevant to their shifting operating landscape and bank priorities. They are also finding it hard to understand — let alone keep pace with and appropriately leverage — technological innovations that are revolutionizing ways of working.

[1] *The view from the top: CEOs see a powerful future for the CFO*, KPMG International, 9 December 2014, https://home.kpmg.com/xx/en/home/insights/2014/12/the-view-from-the-top.html.



As a result, KPMG's 2017 survey revealed that leading banks continue to target efficiency and productivity gains through several main approaches:

Striving to align data and operational aspects of finance and risk organizationally.

Substantially extending the centralization of finance operations capabilities and by formalizing global process owners into 'business-as-usual' (BAU) structures.

Increasingly investing in key areas such as data, people and intelligent automation.

Survey respondents shared a desire to reduce or keep finance costs as a percentage of total operating costs between 2 percent and 3 percent. Most banks surveyed have either achieved or are close to achieving this but they have taken very distinct journeys to do so. Front-runners are now dropping below the 2 percent threshold.

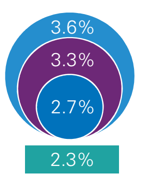
We also see a new focus on building a more flexible and agile operating model that can meet local demands without losing the benefits of global integration. To do so, rather than attempting to reach a fixed end-state for the finance function, they are investing in key capability pillars, creating a flexible framework and making change management part of the BAU culture.

Automation is no silver bullet to reduce cost of finance

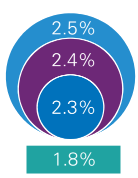
Most global banking organizations are nearing or have already reached a level of saturation using the offshoring model and lean methodologies. Many finance functions have also embraced automation as the tonic to their challenges. While there has been

Cost of finance (average by category)

Cost of finance as percent of operating expenditure



Direct cost of finance as percent of operating expenditure



Front-runners' strategy

Banks that have a lower cost of finance have invested more in integrating their data architecture, established true global process ownership and have an offshoring ratio greater than 40 percent.

What is critical to get right?

1. **Invest in capability.** A CFO must build finance teams with a fungible set of capabilities so that resources can be easily moved across value protection, value creation and governance activities as the bank's focus changes.
2. **Allow freedom within a framework.** When looking to balance strategy drivers across market and group finance, the model needs to make allowances for local flexibility but under a set of principles applied consistently across all regions and markets.
3. **(Global) process owners as arbitrators.** Align processing and quality control under horizontal process owners to drive end-to-end accountability, effectiveness and efficiency of processes between shared services, business units, and central group finance.
4. **Embrace disruption and concentrate on data.** Pivoting with advancing technologies, such as intelligence automation and cloud, to deliver operative data.
5. **Change management as a BAU capability.** Take the best people on the journey through change management strategy, which will look to develop and implement tools and operating models to successfully adapt to change.

considerable push and hype to introduce robotics process automation, front-runners in this space have consistently failed to deliver their desired outcomes, particularly in terms of achieving real cost savings.

The reason for these lackluster results? Most projects have concentrated on automating micro-processes and eliminating piecemeal individual tasks, rather than addressing the end-to-end finance process using a combination of technologies rather than just robotics.

Banks have usually run pilots to showcase how a single robot can work but they have not put sufficient thinking into the capabilities required to scale and industrialize effectively and efficiently. In finance, we see the benefits of introducing intelligent business process management (BPM) solutions to orchestrate and standardize the process before it is robotized, acting as a digital platform where different types of automation can be introduced to the process seamlessly, and performance of the process can be monitored and managed end to end. It is critical to monitor how human and digital parts of the process weave together and construct portfolio solutions that go beyond robotic process automation (RPA) and integrate rules engines, machine learning and analytics to solve complex issues.

Strategic automation is not a 'side of the desk' exercise, and it is not about building bots. New technologies such as robotics, machine learning and AI are here to stay and as such, the organization and each function needs to approach them strategically, in the context of the wider functional strategy.

Our survey shows that the banks that achieved the greatest efficiency gains have made sustainable and transformative 'lifestyle changes' to their finance operations rather than following basic 'liquid' diets to achieve short-term cost reductions. Such a sustainable diet includes a combination of 'courses' encompassing not only technology investments and automation but also process redesign, workload balancing, report consolidation and organizational restructuring, among other tactics.

There is a common theme among the surveyed banks that have achieved the greatest finance efficiency gains: they began by identifying their desired outcomes before diving into a specific solution, be it offshoring, outsourcing or introducing robotics.

Enhancing control by integrating finance and risk

New regulatory requirements and accounting changes, from stress testing to IFRS 9, are pushing the integration of finance and risk functions within banking.

Although the idea of combining the efforts of these separate departments can be traced back to the first waves of post global financial crisis regulation, progress in developing an integrated model has been slow. Resistance among the departments, doubts about data quality and challenges aligning incompatible systems often stunted those lofty goals.

Today, we see tangible efforts at a number of leading banks to consolidate finance and risk processes and data, through the creation of centrally-led networks, with concentrated strategy and governance and distributed operations, the creation of joint accountability held by finance and risk, and through the use of common data elements, such as the creation of common data and common process utilities under a common governance framework.

We have also witnessed how several best-in-class banks have established a separate organizational unit in which the finance and risk departments are 'customers' of the independently managed unit, ordering services as needed or accessing advice on demand. While the regulatory demands have hastened this shift, establishing these practices into business-as-usual is still evolving.

Driving strategic advisory capabilities in finance

As if the control and cost pressures are not enough for a bank CFO to confront, keep in mind that CEOs want their finance functions to provide greater

'Courses' for a sustainable diet

Process	Process standardization to enable cross-team resource pooling	Automation	Data input standardization and workflow
Process	Process redesign to eliminate waste and duplicative review activity end to end	Automation	End user computing (EUC) consolidation
Process	Upstream process/data improvements to reduce validation checks	Automation	RPA/cognitive automation
Capacity	Idle time analysis (leveraging workforce analytics data)	Organization	Spans and layers
Capacity	Workload and delivery timeline management to achieve smooth peaks	Organization	Utilities
Capacity	Load-balancing between processing locations	Organization	Structure integration between on/off/nearshore teams along global process owner (GPO) lines
Demand	Report consolidation	Sourcing/location	Stretch offshore coverage of quality control/detailed analysis
Demand	Report elimination	Sourcing/location	High-end outsourcing and bilaterals
Demand	Self-serving opportunities	Sourcing/location	Use of new locations within wider bank location strategy

value creation, to aid strategic decision-making, financial and investment planning.

Pivoting an established finance team to perform this value-added work is no easy challenge, in light of industry benchmarking data that suggest the number of finance business partners should be reduced, not increased, to achieve efficiency targets.

In addition, as indicated by our banking survey respondents, the majority of institutions believe that their business partnering, planning and analysis functions are less mature than their core controller and accounting functions.

These seemingly contradictory issues suggest that a sequenced, multi-phased approach must be taken to bolster finance value creation over time. For example, technology investments may be required to eliminate lower-value workload, to shift transactional work to finance shared services units or add more self-service and automated reporting functionality.

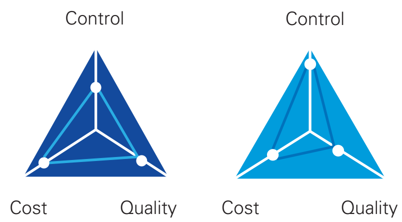
Since considerable human capacity could be freed up by these activities, the corresponding cost savings could be redirected to investments in intensified training to upskill finance professionals for advisory roles and sharpen their technology, communications and stakeholder management skills. Finance functions could also ramp up their efforts to recruit and retain top-notch, next generation financial talent with the requisite skills, based on in-depth target competency frameworks.

As with the earlier discussion of cost reduction initiatives, it's essential that these people development programs are accompanied by corresponding process re-engineering, workflow redesign and role mapping, based on the finance function's service delivery vision.

By doing so, the banks could transition many existing finance roles from transactional work focused on control and value protection to positions that emphasize strategic analysis, outcome-based planning, and specialist 'decision engineers' who gain recognition as real finance business partners.

However, it is noteworthy that one of the banks we surveyed has decided to go against the grain and refocus the role of finance on what it has traditionally done best, that is being the best they can be at value protection and control. They have made a conscious decision to hand business partnering, value creation activities back to the business. It is now up to the business to serve itself with regards to management reporting and analytics, after years of claiming they have been overcharged by finance. We expect that the business might quickly find it difficult to develop the necessary finance competencies and acumen at the right price point to justify this shift.

Drivers of finance strategy: A continuously evolving journey



There is a differentiation in the finance strategy of retail/commercial and universal banks. This will need to evolve as the maturity level of the banks change and as growth is seen across the global banking industry.

Key

▲ Retail/ commercial bank ▲ Universal bank

Technologies to balance cost, control and quality

Although the to-do list heaped upon bank CFOs may appear overwhelming, there is definitely reason for optimism. While the goal of simultaneously bolstering control, cost and quality seemed impossible just a decade ago, recently arrived technology means that the three points on the finance delivery triangle are no longer mutually exclusive.

Today, cloud-based technologies can be implemented much faster than traditional on premise installations that lasted multiple years and were hugely expensive with changing specifications. The cloud has lowered the total cost of ownership by addressing fundamental areas of the infrastructural cost of finance systems. This allows for an accelerated payback, making it possible to redeploy resources quickly to another area of the finance service triangle.

Although these efforts must be prioritized or carefully sequenced, balanced investments in people, data and information — under the umbrella of a flexible finance operating model — can enable a bank to advance each point on the finance triangle without compromising the others. Although our survey shows that there is no one formula to success, the emerging ability of CFOs to experiment with various data, technology, human and process levers indicates that it's an exciting time for finance, to help meet the banking industry's current and unfolding challenges. ■

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