

「 SNAPSHOT 」

Finance: Driving Business Performance

Adding value;
not just adding up





How are finance functions changing across the industry?

Finance has come a long way from the lingering stereotype of accountants creating trial balances in closed rooms. Whilst elements of the Finance function still do and must continue with these activities, front office increasingly expect much more from Finance.

Since the early noughties, and following the financial crisis in particular, this evolution has been driven by three key factors.

Firstly, improvements in technology (e.g. further system assisted consolidation and aggregation) have reduced the burden of some of Finance's more routine activities. Now, with the advent of newer technologies like Robotics Process Automation and Machine Learning, there is significant potential for further efficiencies. Finance are using their newly freed time to perform more value-adding activities, such as business partnering.

Secondly, the culture of data. Banks are finally starting to realise the potential of the data they hold and the explosion of Big Data, Visualisation, and Modelling technologies is enabling storage and faster interrogation of increasingly large data volumes. As a 'back-end' recipient of data from across the organisation, Finance functions are uniquely placed to integrate and utilise data sets from across the bank to help drive business value.

Thirdly, a persistently pressurised commercial environment. Whilst interest rates across the G20 are finally on the rise, they've been at sustained historic lows for years, compressing net interest margins. Meanwhile, stricter regulatory requirements are driving banks to hold more capital and depressing return on equity. In this environment, banks are applying far greater scrutiny to returns at product, segment and even customer level to optimise their financial resource deployment.

Combined, these changing dynamics are leading Finance to take a stronger role in driving the overall performance of the

organisation, a fact perhaps best encapsulated by the following statistic: 40% of CFOs now spend a majority of their time on non-traditional finance activities - particularly strategic leadership, organisational transformation and performance management.

How are BCS's clients managing this change?

The evolution of Finance responsibilities to incorporate strategic business partnering is not a new phenomenon; a quick Google search will yield a wealth of returns dating far back that prophesise this shift. Nevertheless, Finance departments have not yet realised this long-held vision.

Part of the challenge is that genuinely driving the strategy of a complex and highly regulated business is a daunting task requiring significant planning and preparation. However, in our experience, Finance functions have often tried to jump straight from 0 to 60mph.

Our view is that by breaking the problem down into logical components - starting with getting the fundamentals right - Finance functions can start to make significant strides forward. For example, by getting cost and revenue allocations right at a granular level and correctly distributing the money a given organisation earns down to its products and customer segments, Finance can illustrate which areas of a business are truly most profitable and capital efficient.

Once banks are confident that they really understand returns across their portfolio, they can begin to model, plan and visualise their performance more effectively and enable better informed management decision making.

Unfortunately, getting the fundamentals right across complex matrix structures can be hugely difficult. For example, effective allocations rely on a single, universally understood and accepted organisational structure, maintained at a very granular level

(e.g. cost centre / individual), for the relevant costs and revenues to be distributed across. In reality, there are often multiple, sometimes conflicting, views of the organisation, maintained and used in different places and for varied purposes. By contrast, the challenge with better modelling, reporting and planning is often consolidating and homogenising data from across the organisation and coordinating across sprawling organisational footprints.

Fortunately, as an independent third party with a depth of experience in Finance, Technology and Project and Change Management, BCS are well positioned to help.

How can BCS help Finance functions to 'Drive Business Performance'?

There are four key areas where we can help your organisation's Finance function to better drive business performance:

1. Cost and revenue allocations ('Measuring Performance'): Banks need revenues and costs allocated across their organisation at a granular level, to enable true views of product and segment profitability. We have designed and implemented allocation policies, methodologies, processes and systems to ensure the financial performance of our clients is universally understood.
2. Financial modelling ('Modelling Performance'): It is imperative banks understand what 'moves the dial' on returns and supplement management judgement with modelled projections of performance. We can help organisations design and implement driver-based financial models that connect operational levers (e.g. number of salespeople) with financial outcomes (e.g. revenue generated) to project forward looking performance whilst managing model risk.

3. Annual plan design and execution ('Planning Performance'): Banks must complete annual operating plans which are aligned to strategy, financial targets and organisational risk appetite. We have a depth of experience in the design and execution of annual planning and forecasting processes to ensure optimal allocation of scarce resources.

4. Visualisation and MI Design ('Visualising and Analysing Performance'): Banks need to present management information faster and in a more intuitive and actionable way to enable effective decision making. We can define MI strategies, implement visualisation tools and operationalise reporting to meet existing and new disclosure requirements.

We have the necessary skills and experience to help our clients address these challenges which, collectively, will help banks future-proof their Finance functions for the modern world.

Who should you speak to about it?

Please contact **Erkin Nosinov at Erkin.Nosinov@bcsconsulting.com** or **James Smith at James.Smith@bcsconsulting.com** to find out more about how we can help your Finance function.



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