Getting to the Heart of the Matter

Improving Profitability by Optimizing the Finance Function

The repercussions of expanding regulations and worldwide economic uncertainty continue to resonate throughout the banking and financial services industry and negatively impact the potential for improved profitability. To make strides in the current environment, financial firms need operating models that are designed to shave costs through enhanced efficiency and provide margin improvements through greater productivity. When determining where to focus efforts to optimize operations, some financial services organizations have discovered the greatest opportunities in the finance and accounting (F&A) function.

F&A is a critical component of any organization, and operational inefficiencies can significantly impact the bottom line. Core activities – including accounting, transaction processing, financial information management, tax, cash management and financial controls, as well as mid-level functions like general management and control, and strategy and risk – all provide ideal areas for optimization.

By reengineering or retooling current processes, implementing shared-services capabilities, or outsourcing, organizations can implement operating and business models that simplify work streams and deliver better results from internal data. These approaches raise productivity and enhance process efficiency, resulting in lower costs and improved operating margins.

Process Reengineering Improves Performance and Productivity

Measurable improvements in efficiency can be gained by reengineering existing processes to improve operational effectiveness. Assessing performance utilizing analytics-driven business intelligence allows organizations to identify gaps and inefficiencies, plan and model solutions and then determine the optimal methods to improve productivity and effectiveness while making the best use of technology enhancements and human resources.

The financial enterprises recognizing the greatest benefit from reengineering engagements have often employed Lean and Six Sigma methodologies to improve the reliability of performance outcomes. Data from current functions, such as accounts receivables, is collected and analyzed to reveal gaps and bottlenecks that lead to low productivity, long cycle times and errors. Comparing current process metrics to best-in-class standards isolates inefficiencies at a granular level, allowing for improvements that strengthen process effectiveness and generate greater process accuracy. Critical business process improvements, including automation of key steps, have accounted for a 20 percent increase in capacity for some organizations.

Tighter Process Performance Supports Compliance

As the remaining rules related to Dodd-Frank are finalized, it is increasingly important for controllers to have clear insight into their own internal data and be assured of accurate information to avoid issues with compliance. The traditional method for storing and processing information required for reporting often occurs in silos across banking product systems.

Transferring data from one finance repository to another can introduce inefficiencies and errors. To ensure data quality, continuous monitoring and multiple reconciliations are required.

Reengineering can eliminate informational silos and the process redundancies that drive up error rates, reporting cycle times and costs. Improved data access and tracking enables cleaner and faster close-to-report cycles and has reduced the delivery time on financial reports by up to 20 percent in some cases.

Optimizing core functions enables CFOs to make quicker and more insightful decisions regarding business planning and regulations. Tighter cost management through better resource allocation and stronger reporting to improve regulatory compliance will continue to deliver significant value to banks and financial services organizations in the years to come.

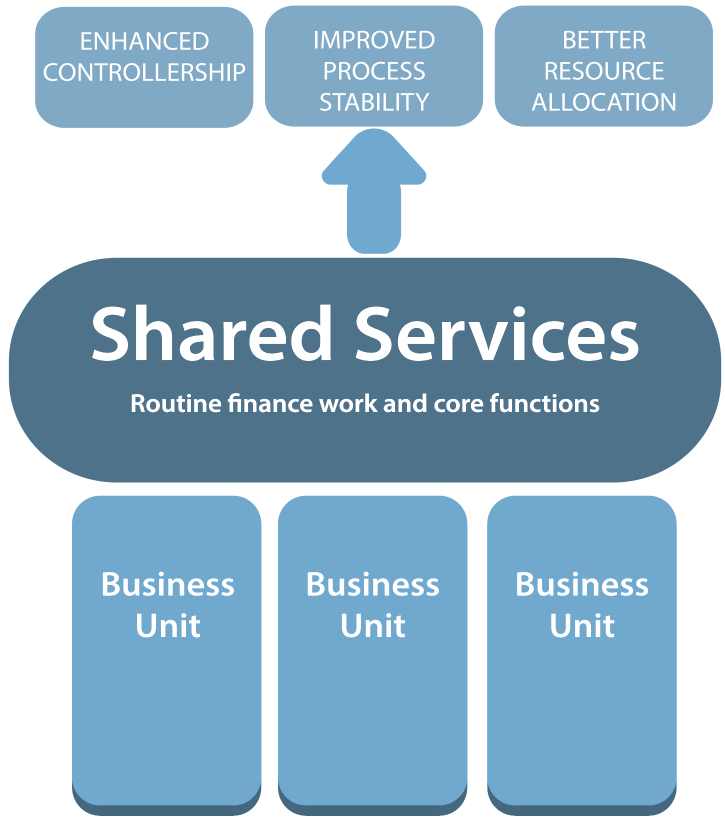
Shared-Service Models Prove Critical to Improving Operational Efficiency

In addition to reengineering, companies have generally tried one of two different approaches to improving operations – either external outsourcing or internal shared services. These methods help financial enterprises create a center of excellence to meet tactical requirements such as accounts payable, accounts receivable, collections, etc., leaving the core team free to focus on higher-level F&A functions that support the business and organizational goals.

Financial services organizations that move routine work to outsourced centers gain access to dedicated specialists capable of completing tasks more efficiently, thereby reducing errors and improving straight-through processing rates. The immediate advantage is seen in lower processing costs and stronger compliance, as well as in the added benefits associated with increased capacity across internal teams and the ability for CFOs to concentrate more fully on initiatives that drive growth.

Shared service centers (SSCs) offer many of the same advantages as traditional outsourcing, but are seen as a way to more efficiently manage core finance-related services as well. By providing F&A expertise to multiple divisions of the same company, the SSC delivers excellence in critical process performance as well as access to top-of-the-line technology at a reduced or “shared” cost. With a view across more than one function of the bank or financial services organization, SSCs standardize processes and can even make adjustments where necessary to better accommodate up and downstream functions in the operational flow. Improved operational performance allows CFOs to reduce their operating costs and better plan for improved profitability.

SSCs give global companies the opportunity to centralize components of their operations for faster and more efficient outcomes. Large financial institutions challenged with disjointed reconciliation practices across divisions and an uneven use of personnel benefit from the process standardization and staff consolidation that comes through the implementation of the SSC. Through improved skill matching, organizations are able to allocate resources with lower skills to perform more routine functions while highly skilled employees are tasked with analytical processes. As a result, some organizations have realized significant P&L impact resulting from enhanced controllership, process stability and

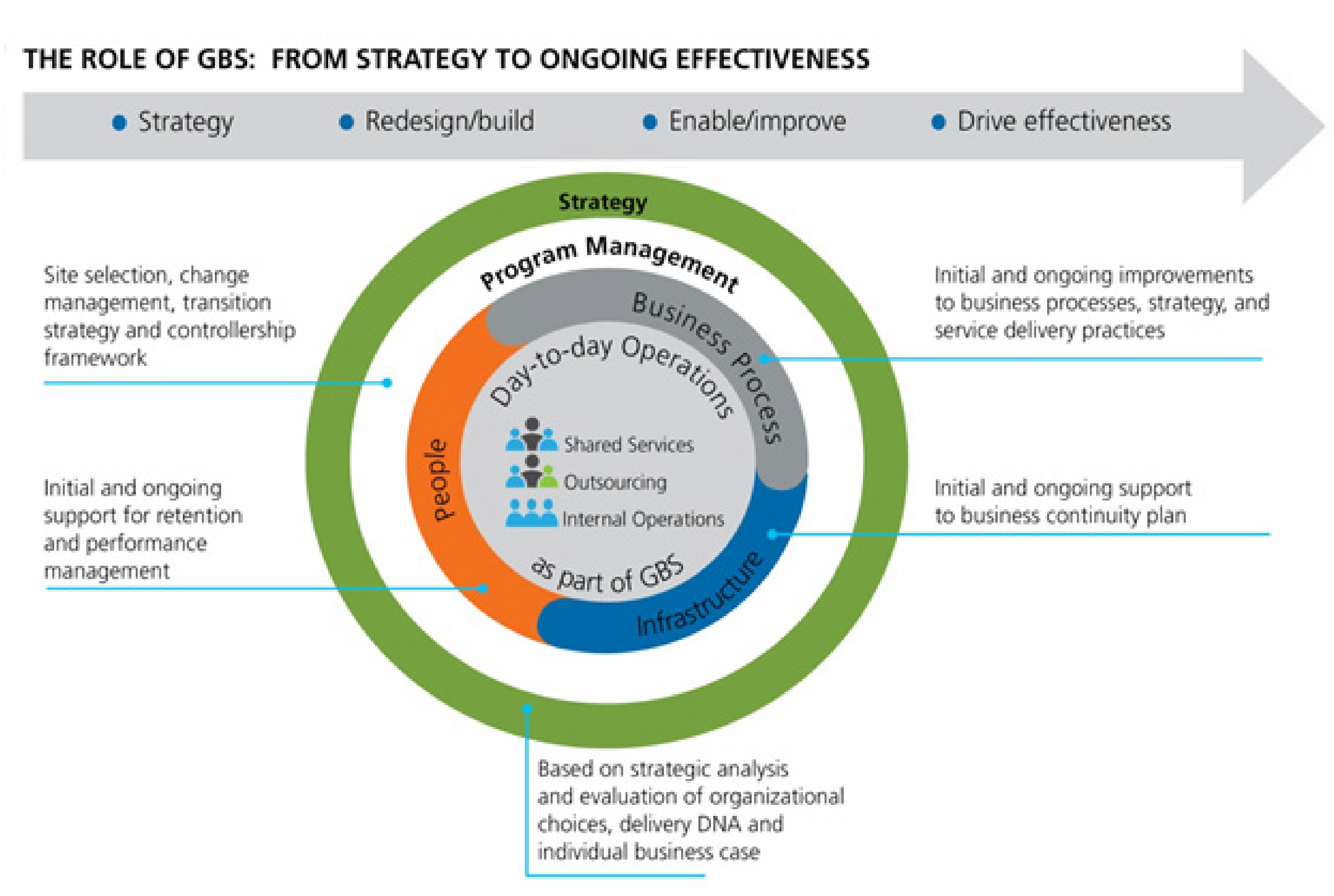


better resource allocation. These savings can then be used to generate growth in other areas.

Aligning Business Objectives and Reducing Costs through Global Business Services (GBS)

Initially, shared services and outsourcing delivery methods traveled down separate and distinct paths. However, during the past few years, many financial institutions have realized tremendous benefit through implementing a hybrid approach – referred to as global business services (GBS) – that exploits the best of both sourcing options. GBS uses outsourcing to harness the skills of F&A professionals who are expert at standardizing and transforming routine transaction processes, while employing shared services to transform and standardize finance-related processes that the company views as too risky or too core to outsource.

In a GBS, all F&A operations, including processes that are internal, outsourced and those operated by a Shared Service Center, are brought under one internal umbrella. This alignment can relate to a single business unit or incorporate multiple functions into its design such as human resources and F&A. The primary advantage associated with a GBS model is the ability to get an entire enterprise behind organizational goals and to implement process and technology improvements with an overview of the needs of the entire organization. The ultimate result is better alignment within the organization and with overall business objectives.



Because it is integrated into corporate strategies and shares a drive toward the same outcomes, an F&A GBS model receives superior collaboration from across the enterprise. While not yet as widely utilized as outsourcing and reengineering, those organizations that have mastered the art of global business services have realized dramatic outcomes. When aligned with the enterprise strategy, improvements in operational effectiveness of at least 15 percent have been reported, leading to cost savings of as much as 23 percent.[1]

Results like these are noteworthy in an era when financial institutions grapple with increasing cost complexities and slow revenue growth. The current regulatory environment, waning interest rates and changing customer habits all take a toll on an organization's ability to maintain market share and meet customer demands. A GBS model affords the opportunity to reduce costs and improve internal operating efficiencies across the enterprise. Through the support of an experienced management team and the implementation of clear goals, CFOs can help to gain a competitive advantage against continuing market challenges.

Achieving Transformation

While uncertainty still reigns over the economy as issues surrounding new and current regulations continue to play out, CFOs are taking the situation in hand by implementing improvements that allow them to operate more effective organizations while controlling costs.

F&A is critical to a bank or financial service organization's overall health, but needs to be optimized in order to receive the best benefits and the greatest returns. Companies should consider the pros and cons of reengineering and outsourcing as well as those related to implementing a shared services or GBS model. By making strategic decisions based on a thorough understanding of the expected results, financial institutions will be able to select the option most aligned to their operational needs and business goals. This will allow them realize greater profitability by transforming the F&A function.

[1] "Partnering for Successful Execution in Global Business Services," Genpact, 2013, http://www.genpact.com/docs/resource-/partnering-for-successful-execution-in-global-business-services.pdf?sfvrsn=2.