FINANCIAL SERVICES

Driving change in the financial services and insurance industries

Five key requirements that every CFO should know

Finance and insurance organizations are operating in a period of unprecedented transformation, delivering services against the background of constantly shifting goalposts. From managing growth and coping with reorganizations, divestments, and acquisitions to dealing with new markets, accounting regulations, and compliance laws, financial executives in these industries face a host of challenges.

Compliance issues are especially trying. A succession of regulatory updates like Basel 2 and 3, Solvency 11, Dodd Frank, the Financial Corrupt Practices Act, and a swathe of new international accounting standards such as IFRS Insurance Phase 11, suggest that finance executives will have their hands full for several more years, simply accommodating changes already in the pipeline.

Approaching complex transformation

The scale of transformation sweeping across the financial services industry demands greater internal agility and leadership. Change management must be institutionalized across your entire organization.

Let's face it—the financial industry isn't known for embracing change; it is, after all, a risk-averse industry at its very core. You can find hundreds of articles imploring banks and credit unions to be more innovative. "Innovate or die!" is the choral refrain. But historically, the leadership teams at financial institutions have not had the highest levels of confidence in their ability and capacity to embrace change.

Faced with unprecedented levels of transformation that seem to balloon in complexity and scale every year, Accenture says financial institutions must make big cultural adjustments and do so rapidly. Given the diversity, volume, and force of the drivers involved, it is not hard to see why change is so pervasive and has become one of the biggest challenges facing those in the financial services industry.

Constant transformation is the new reality, which is why Accenture says its crucial leadership teams focus on change management as a core competency. Financial services leaders simply must cultivate a sense of institutional agility.

One of the biggest hurdles is—predictably—the regulatory environment. Most financial services institutions gripe that they waste 60% to 80% of the energy they spend managing change, just trying to wade through a roily pile of new regulations. Some require financial institutions to significantly retool their IT systems, processes and culture, impacting nearly every aspect of the organization. This consumes resources they could be applying in more interesting and productive areas. But these changes are mandatory; there are deadlines and painful consequences for not managing regulatory change.

Compounding the problem, many institutions still wrestle with a stubborn disparity between a high fixed-cost structure and sluggish revenues. They are also facing increased pressure from neobanks, fintech startups, and other challengers that are attacking lucrative parts of the value chain. To retain (much less grow) revenues, financial institutions must train themselves to pivot, to be responsive, and react much more quickly than they ever have. If they don't figure out how to transform the customer experience, roll out fresh value propositions, and master digital channels, someone will be in a position to steal their business. All this requires updates so massive, it can make any financial exec squirm in their seats.

When it comes to managing complex transformation, the importance of an organization's financial management system cannot be underestimated.

Systems that are strong yet flexible enough to allow business processes to be adapted on the fly are critical, as they provide easy access to the information and tools needed to effectively manage such a dynamic environment. Yet, many modern-day systems are architecturally constrained, difficult to update, and rooted in outdated concepts designed for the needs of a different generation.

So why is the tail being allowed to wag the dog? Finance and insurance companies can no longer afford to be constrained by their financial management systems, knocked off course by every regulatory update, and left exposed to the enormous cost and disruption of implementing change. They need to lighten the burden of managing complex industry requirements and ensure financial management systems enable growth rather than obstruct it. The big question is how.

This paper explores how well financial services and insurance organizations have coped with regulatory demands and examines strategies for leveraging technology to establish an enduring platform for dependable decision making in a climate of regulatory and business uncertainty.

Which technology strategies are businesses using to cope with new demands?

Mid-market finance and insurance companies have a variety of options available for meeting their financial management needs. Often, in fact, the choices can be too plentiful, making it difficult to thoroughly assess the benefits and downsides of each approach.

However, the process can be simplified by classifying financial management technology strategies into the three broad categories outlined below. These strategies will inevitably evolve along with technology, although companies can easily become locked into systems that are unable to adapt as the business evolves and grows. That's why it is so critical to choose a strategy that can accommodate your needs both now and over the long haul. Whether you're starting from scratch or replacing a key piece of your overall technology puzzle, making the right decisions now can ensure that your financial management system is an asset to long-term growth and profitability.

Option 1: The big ERP approach

Enterprise resource planning (ERP) systems have long been a challenge for mid-market finance and insurance companies. They offer name-brand credibility, promise robust functionality, and often seem like a safe choice in a sea of options. However, the promise of a large-scale ERP system for the mid-market has rarely lived up to reality. A primary source of ERP's failure to meet expectations in the mid-market is the one-size-fits-all approach that big ERP companies take—and that size is large. Mid-market companies that choose this route often find themselves with solutions that are expensive, inflexible, unnecessarily complex, and ultimately unable to meet their industry-specific requirements.

While ERP systems have much to offer, finance directors in the mid-market often look to other options that are more adaptable, far more cost-effective, and more closely aligned with their specific business needs.

Option 2: The line-of-business approach

Line-of-business applications can be defined as systems developed to address a particular business process or need (e.g., claims processing), but they frequently have broader functionality (e.g., financials) built in. These systems can be vendor-provided, homegrown, or some combination of both. Line-of-business applications are chosen for their focus on complex, industry-driven business needs that broader systems may address at only a superficial level. They have typically been developed over time, and provide deep functionality and industry expertise in their given area of focus.

However, the strength of line-of-business applications is also the source of their weakness, particularly when it comes to financial management. Precisely because they are so focused, line-of-business applications rarely provide robust functionality outside their area of expertise. Often, companies will start using whatever financial management capabilities are provided when they are small and their needs are basic. Within a very short time, however, most outgrow the limited financial management functionality and find themselves stuck with a system that is unable to adapt or grow.

The bottom line is that line-of-business applications have much to offer and can be an asset, particularly in the complex finance and insurance industries. If the challenges posed by poor integration can be overcome and strong financial management capability incorporated, these applications provide an attractive way forward.

Option 3: Best-in-class financial management system plus line-of-business application approach

Best-in-class applications can be defined as systems that address a single, core business area (for example, financial management) that is common across industries. These solutions have typically been developed from the ground up to address their area of focus, rather than added on to other applications to create a packaged offering. While there is no official classification, best-in-class solutions are those that have a singular focus and strong functionality that broader-based solutions cannot match.

For mid-market finance and insurance companies, a hybrid approach that combines a best-in-class financial management solution with line-of-business applications has been shown to generate very positive results for the simple reason that everybody wins. Financial executives get a highly flexible system that can keep pace with business needs that can shift overnight, while others get the systems they need to manage complex, industry-specific business processes. Best-in-class financial management solutions put the power in the finance department's hands, providing the flexibility to adapt without the assistance of consultants, application specialists, or even IT. This is especially welcome in mid-market enterprises, which very often have limited IT resources and skills at their disposal.

So, what's the catch? The downside of best-in-class solutions has historically been the difficulty to integrate across other applications. Businesses can end up with a host of solutions loosely tied together, with different interfaces, reporting styles, and in some cases, overlapping functionality. However, this is an area where technology is coming rapidly to the rescue. A major trend in the enterprise software industry is the development of common technology platforms that allow disparate systems to be easily integrated and given a common user interface.

Five requirements for success

- **Requirement 1: A unified ledger**
  Simplifies multi-source transaction processing, while simultaneously opening up the possibility of more sophisticated analysis.
- **Requirement 2: Smart transactions**
  Flexibility to define unique transaction types and then analyze them in a user-defined "smart" way without IT.
- **Requirement 3: Integration**
  Securely incorporate data from other systems—whether on-premises or cloud-based.
- **Requirement 4: Robust reporting capabilities**
  Ability to reach across the data model of your entire organization, allowing users to produce meaningful reports on their own.
- **Requirement 5: Global capabilities**
  Provide excellent global finance capabilities, while delivering all the other core functionality required.

Five requirements for success

Mid-market finance and insurance companies are increasingly finding that best-in-class financial management solutions paired with line-of-business applications deliver the strongest capabilities and the greatest flexibility. Still, finding a system capable of operating effectively in such a dynamic and complex environment can be a challenge. To ensure you get a system capable of meeting your needs, look for the five criteria (plus one "really nice to have") outlined below. A system that can adhere to these standards should put you firmly on the road to success.

Requirement 1: A unified ledger

A unified ledger is an essential requirement for a financial management system because it simplifies multi-source transaction processing, while simultaneously opening up the possibility of more sophisticated analysis. Among the many benefits it provides is the ability to reduce complexity and eliminate unnecessary integration, since all transactions are physically recorded in the same environment. It also reduces interface costs, and a single ledger means that users don't have to interface with different sub-ledgers in different formats.

In addition, a unified ledger can leverage "smart transactions" (see Requirement 2) allowing rich analysis to be added on demand and maintained in one place (that is, without the need to move detail to sub-ledgers). As a result, you get an adaptable and dependable core that enforces common standards of control (through consistent data validation), is infinitely extensible, and is easy for users to understand.

The unified ledger has also proven to be particularly valuable in the context of IFRS and multi-GAAP reporting regimes, as it can provide significant flexibility around the length and segmentation of account codes. It can allow multiple analysis codes to be held at the level of an account, greatly simplifying the accommodation of multiple GAAP and adjustment accounts. The ease with which analysis codes are added, coupled with their implementation within a single ledger, means that users can readily pull out complex multi-GAAP reports and show the transition (comparatives and adjustments) between one basis of reporting and another.

This flexibility of the unified ledger also has profound implications for segmental reporting, which may vary between different GAAP regimes and possibly between management and statutory reporting.

Multiple analysis codes at the account level allow items to be segmented one way for the purposes of local GAAP and another for IFRS or internal reporting.

The analysis structure also provides the basis for dealing with some of the complexities of Solvency II, which is more demanding about which assets can back which classes of liabilities, together with capital requirements that are different from those under current solvency rules.

When evaluating financial management systems, you must get beyond today's needs and keep an eye on what's coming, both in terms of your organization's needs and market trends. The right decision will put you in control and ensure that you have a finance department with the tools and resources to handle anything that comes its way.

The ability to "tag" and match different asset and liability classes is not typically available in traditional systems that artificially segregate accounts into different sub-ledgers.

Finally, a unified ledger accommodates multi-company structures (entities) within the unified database (each configured to suit different geographies as desired) or multiple entities within one entity.

Requirement 2: Smart transactions

Smart transactions are a type of analysis that provides a deeper level of granularity, allowing your business to add dimension and context to transactions that are important in performance management and vital to aspects of regulatory and compliance reporting. Not widely available in traditional financial management systems, smart transactions are nevertheless becoming a must for companies that face complex regulatory requirements.

With smart transactions, transaction types are not rigorously prescribed, which means you can define your transactions (financial or statistical) from scratch (for example, accounts posted and validation logic, calculations, and allocations applied). The flexibility to define unique transaction types and then analyze them in a user-defined "smart" way without IT intervention and without compromising control is extremely potent. The ability to add additional analysis to transactions without practical limit also helps to "future-proof" financial management systems from unexpected changes.

Requirement 3: Integration

For mid-market companies that want to leverage the capabilities of a best-in-class financial management solution, the key word is integration. As mentioned above, the ability to integrate the system across other core business applications is critical to its ultimate success. The rising popularity of cloud technology is compounding these concerns. With more and more companies allowing at least some of their business systems to reside in the cloud, integration across systems takes on an additional level of complexity.

To be effective, your financial management system must be able to securely incorporate data from other systems—whether on-premises or cloud-based—or link to a unified database, all while preserving the same level of control for other organizational systems.

The good news is that integration options are expanding. Technology that delivers simple integration between best-in-class and line-of-business components is rapidly evolving, allowing you to take advantage of superior functionality without compromising on the overall ease of operation.

Requirement 4: Robust reporting capabilities

All financial executives understand the criticality of reporting, but capabilities of financial management systems vary widely in this area. Nearly every system will provide some standardized reports that can be generated quickly and easily; however, reporting capabilities tend to drop off quickly beyond that.

Finance departments must routinely depend on the IT department to develop new reports, which severely limits their ability to access critical business data in a timely fashion. This is especially challenging for financial services companies. An effective financial management system will ideally be able to reach across the data model of your entire organization, allowing users with relatively modest IT skills to navigate through data and produce meaningful reports on their own. Tight links to the Microsoft® Office environment are also beneficial, as they put a variety of familiar tools at the disposal of users, for example, reporting and dashboarding. Access to integrated performance management tools (budgeting, planning, forecasting, and consolidation) is also a major plus.

Requirement 5: Global capabilities

If your company is not currently operating outside your own country's borders and you have no plans to do so, you may wonder why global financial management capabilities should be a requirement for your financial management system. However, with the business world continuing its progression toward becoming truly one world, there are precious few organizations that can say with absolute certainty that global financial management will never be required. Plus, systems with the capacity to accommodate a wide range of requirements (including global) are the most capable of effectively managing changes that may come in your own locale.

The worst outcome of a financial management system implementation or switchover is to discover in a few years' time that the system no longer meets your needs. For mid-market finance and insurance companies, options exist that provide excellent global finance capabilities while delivering all the other core functionality required. The best option is to take a strategic approach that allows you to handle the "now" and be prepared for what's around the corner.

When evaluating global financial capabilities, look for a solution with the global essentials, including:

- Multi-currency, ideally up to four currencies at the transaction level
- Multi-language
- Multi-calendar
- Multi-company, independent locales (meaning the ability to create as many companies as required within one installation)
- Multi-tax
- Parallel chart of accounts
- Parallel books for different accounting treatments
- Localized reporting
- Global access

Nice to have: Common user interface

A common user interface across applications has long been greatly desired, but largely unattainable. Given the way that both technology and companies evolve, it's very rare for an organization to have a single, company-wide system, and, therefore, a single user interface.

The push to make the common user interface a more achievable goal can in part be credited to the online consumer world. As users have become accustomed to sophisticated user experiences in their personal lives, they have come to expect (and now demand) the same in their professional work environments.

The enterprise software industry is working rapidly to develop easy-to-use integration platforms that pull all systems together and deliver a consistent user experience.

Because a limited number of systems have this capability today, it can be classified as "nice to have," but it will likely become a requirement in short order. User interfaces do far more than just deliver a positive user experience. They increase productivity, reduce errors, and make it easier to get a single view of data organization-wide. This combination of usability and bottom-line impact will lead to the common user interface being de facto for enterprise software applications, leaving us to marvel one day at the way things used to be.

Find the right approach

In recent years, the financial services and insurance industries have been subjected to continuous changes in the global economy, regulations, and compliance. In the face of this turbulence, traditional ERP systems have proven inflexible, time-consuming, and costly to update. On the other hand, line-of-business applications, which provide specialized vertical market capabilities, are often held back by weak financials.

As a result, more and more mid-market financial services companies are deciding that a hybrid approach is the optimum way forward. By leveraging best-in-class financial management systems that have robust integration capabilities, they can leverage third-party applications without jeopardizing data accuracy, reporting, and control. The result is the best of both worlds—applications that are the best of the best for their specific business area, but able to work seamlessly together.

When evaluating financial management systems, you must get beyond today's needs and keep an eye on what's coming, both in terms of your organization's needs and market trends. The right decision will put you in control and ensure that you have a finance department with the tools and resources to handle anything that comes its way.

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