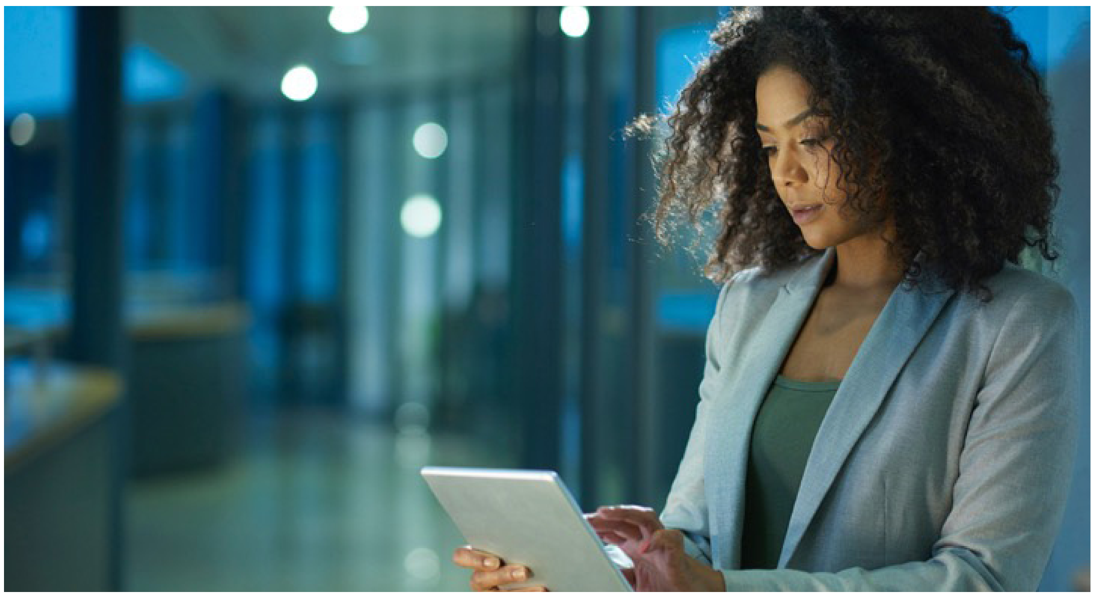
The Evolving Budgeting and Forecasting Needs of Financial Institutions

Four Factors Driving Change

The traditional budgeting and forecasting process for financial institutions is evolving. The process was once an annual task that tied organizations to fixed numbers. Now it is becoming part of a business strategy that provides flexibility in the allocation of funds and allows for a current prediction of financial and operational performance.



The banking environment is pushing institutions into an "all hands" approach to surviving and thriving. Accordingly, finance teams are transitioning from being reporters of financial results and performance to being proprietors of critical analysis and insight. Rather than looking at the past, they now set the stage for their institutions to make strategic decisions about the future and quickly adapt to the market.

As part of this transition, financial institutions are investing in budgeting and forecasting technology that enables improved access to relevant information, creates more flexible budgets and accurate forecasts, and enhances strategic decision-making with detailed plans and risk models.

Here's a closer look at some of the factors driving financial institutions to adapt a more progressive approach to budgeting and forecasting:

1 Need for Greater Efficiency

Traditional budgeting processes consume enormous amounts of time and resources and produce unreliable results. In addition, reliance on legacy systems and spreadsheets leads to inefficiencies, including the high probability of human error and bad data.

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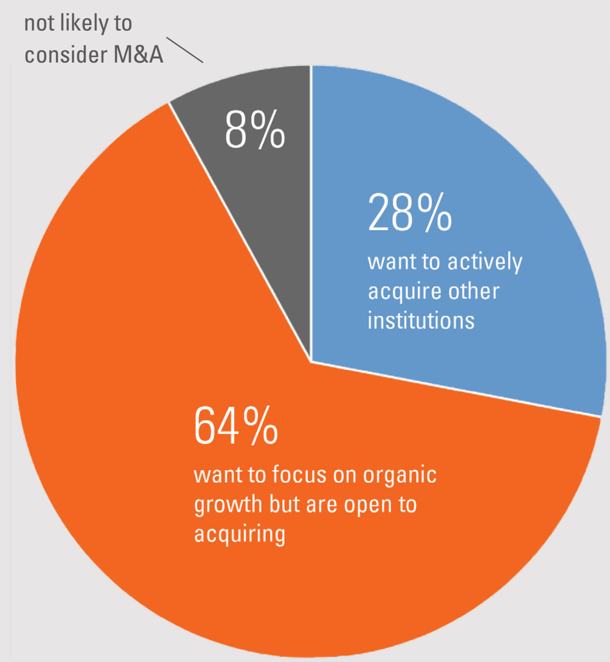
With a more efficient and flexible budgeting and forecasting process, organizations can adapt quickly to market and industry fluctuations. As finance teams adopt more advanced tools, they will become more strategic and more focused on planning rather than reporting. Technology is key as it can free up much of finance's time and eliminate repetitive tasks that are not value-added.

U.S. banking executives believe that the current environment for M&A is favorable.



Source: [2018 Bank M&A Survey, Bank Director]

2 Acquire or Be Acquired

Budgets and forecasts are often used to measure performance – a leading indicator closely scrutinized by all parties during mergers and acquisitions (M&A). Unfortunately, while most are built on variable assumptions, they are not adjusted accordingly when things change. For example, the economy may have been stronger than expected, so a positive variance might not mean that the institution performed exceptionally well.

For financial institutions that want to acquire or be acquired, a budgeting and forecasting process that is dispersed and agile will provide more accurate and transparent results. The process will stand up better to the scrutiny of regulators, board members and investors and make the institution a more attractive option for both buyers and sellers.

3 Shifting Consumer Expectations

Consumer behaviors and expectations have changed in ways that require financial institutions to encompass both digital innovation and traditional values in order to meet consumer needs. To stay competitive, the cornerstone of any financial institution's strategy must be delivering the experiences that consumers want and expect.

In conjunction with transforming consumer experiences, financial institutions need to ensure that internal operating models and processes allow them to keep pace in a dynamic environment.

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For example, it is important to be able to adapt the budget and forecast to changing market circumstances. An ideal budgeting and forecasting process easily allows for adjustments based on the most up-to-date information. It also gives institutions flexibility to use resources in whatever way deemed necessary in order to respond to shifting consumer expectations.

4 Preparing for the Future

It’s hard to imagine that traditional banks could go the way of typewriters and landline phones; yet staying relevant in the future is a real challenge facing financial institutions. As a result, institutions are examining ways to develop new capabilities and use automation and technology to future-proof themselves.

Having an eye on the future also means adopting innovative finance processes – for example, moving away from a static, annual budgeting and forecasting process toward a more agile one with highly visible real-time data, scenario planning, flexible budgets and quick decision making. Being able to anticipate future conditions, investigate potential business scenarios and model options, and assess potential outcomes will become the most valuable financial skill.

New and advanced tools can influence the effectiveness of processes and the future performance of the institution. To prepare for the future, finance teams should look for:

- A platform that lets you view critical data in multiple contexts and links strategic initiatives with proper resources
- A forecasting engine that supports financial modeling and helps you create forward-looking insight
- A solution integrated with your financial accounting, risk management and profitability processes
- A selection of tools that empowers managers to take responsibility for budgets and manage profits across products, branches and lines of business
- A comprehensive system, supplying stakeholders across all areas of the business with access to the same data – one version of the truth – and the means to build models and visual analytics to reveal patterns within it

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