fiserv.

White Paper

Four Keys to Stronger Financial Planning

Nimble Internal Processes Can Help Financial Institutions Adjust to Sudden Change

the speed of life®

Sometimes, facing obstacles means finding a new path. As financial institutions review the challenges of 2020, they have an opportunity to reimagine their financial planning and profitability processes.

That starts with focusing time and resources on areas that matter the most and can bring the most growth. And as financial institutions assess their processes, four key areas rise to the top for concentrated strategic planning.

1 Project Noninterest Expenses and Income

2 Use Project-Based Planning

3 Devise a Comprehensive Balance Sheet Plan

4 Align Plans With Growth and Profitability Goals

01

Project Noninterest Expenses and Income

Start the financial planning and analysis process by identifying significant noninterest expenses and income. For example, salaries and benefits make up a significant percent of the U.S. banking industry's total noninterest expenses. As a result, many financial institutions project salaries, benefits and related payroll costs at the individual employee level.

That is the most accurate and flexible approach to payroll planning. It typically involves three key steps:

- Identify the drivers for employee groups' salary and payroll expenses, such as targeted global merit increases, bonus assumptions and payroll taxes
- Apply those drivers and key assumptions to individual employees, creating a detailed salary plan to accurately project salaries, benefits and their financial effects
- Account for any additional adjustments, such as employee transfers, early terminations or new full-time employee requests

Employee-level salary planning requires data and specific analytics tools. Financial institutions can evaluate whether the effort is worth the additional accuracy.

Banks and credit unions that pursue employee-level salary planning need appropriate security controls to protect employee data. Leaders must decide whether managers can adjust targeted merit increases or bonuses for greater accuracy.

Fee income is a focus area of noninterest income. Finance leaders can examine the best ways to grow income in the current margin environment.

Many financial institutions generated additional fee income during the pandemic from the Paycheck Protection Program and mortgage refinancing. However, those fees may quickly dry up, prompting the need to grow additional fee-based services to make up for continued margin compression.

Many financial institutions have room to improve their noninterest income planning processes. Some fees and expenses depend on account projections or drivers from other accounts.

Linking projections from other accounts increases understanding and buy-in from managers and increases accuracy across the organization. For example, new loan assumptions can help determine origination fees and expenses. Service fees for deposits and early withdrawals or wealth management fees can also be linked to projected growth in their respective areas. Start with a thorough analysis of historical relationships to see where fee-based income projections could be connected.

02

Use Project-Based Planning

Project-based planning is a best practice for noninterest income and expense planning. It's typically used for larger projects involving numerous related expenses, but it has usefulness in strategic and tactical planning.

Project-based plans consider all of the operating and capital expenses required for a specific project across various departments. The plan provides a complete picture of project expenses, allows leaders to approve or reject related expenses and facilitates easier expense tracking throughout the year.

The pandemic may have ousted yearslong strategic plans and annual targets, replacing them with more project-based, short-term and flexible goals. As such, project-based planning can be applied toward nearly any strategic objective.

03

Devise a Comprehensive Balance Sheet Plan

Many organizations are reconsidering the level of detail needed for balance sheet planning to support targeted balance sheet growth, net interest income plans and capital needs. Net interest income comprises a large percentage of total income for most U.S. financial institutions, making balance sheet and margin planning a primary focal point in overall planning.

A comprehensive balance sheet plan prepares executives, senior managers and business managers to develop better growth strategies and understand the plan's full financial and operational scope.

Most budgeting and planning tools support cash flow-based planning, allowing institutions to aggregate projected cash flows from existing business units to any level needed for balance sheet and earnings planning, including line of business, region, product or business unit. Cash flows from new income streams can be added over time and layered on top of existing business projections.

That approach enhances accuracy and agility for projections and allows financial institutions to analyze different scenarios or reforecast. The method helped many organizations navigate the effects of COVID-19; tightly calculated balance sheet data was adjustable for "what if" scenarios. They could see what was happening in their institutions more clearly and plan for what was happening around them.

The strategy calls for more sophisticated planning and modeling tools and saying goodbye to limited, spreadsheet-based planning.

04

Align Plans With Growth and Profitability Goals

Financial institutions can combine their more accurate and agile projections with noninterest income and expense forecasts to establish comprehensive budgets for each business segment. With the right profitability and planning processes and tools, leaders can analyze the budget and adjust toward their growth and profitability goals.

Line of business and business unit managers should be equipped with specific targets, such as net interest margin, in addition to traditional growth, yield/cost of funds and profitability goals.

Applying Lessons Learned

Now is the optimal time to reexamine the organization's planning processes and overall strategic and tactical plans. With strategic planning and profitability lessons learned from the pandemic, financial institutions can make significant changes and find the best course forward.

Connect With Us

For more information about Axiom Planning and Profitability from Fiserv:

800-872-7882

getsolutions@fiserv.com

fiserv.com

Fiserv is driving innovation in Payments, Processing Services, Risk & Compliance, Customer & Channel Management and Insights & Optimization. Our solutions help clients deliver financial services at the speed of life to enhance the way people live and work today.

Visit **fiserv.com** to learn more.

Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045
fiserv.com

fiserv.