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White Paper

How Financial Institutions Can Prepare for the Unexpected

Pandemic Highlights Need for Agile Strategies in Planning and Budgeting

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Flexibility and vision are crucial when financial institutions look to the future for planning and budgeting. But the traditional processes can be cumbersome and limiting, as the pandemic has shown, and can prevent financial institutions from keeping pace with constant change.

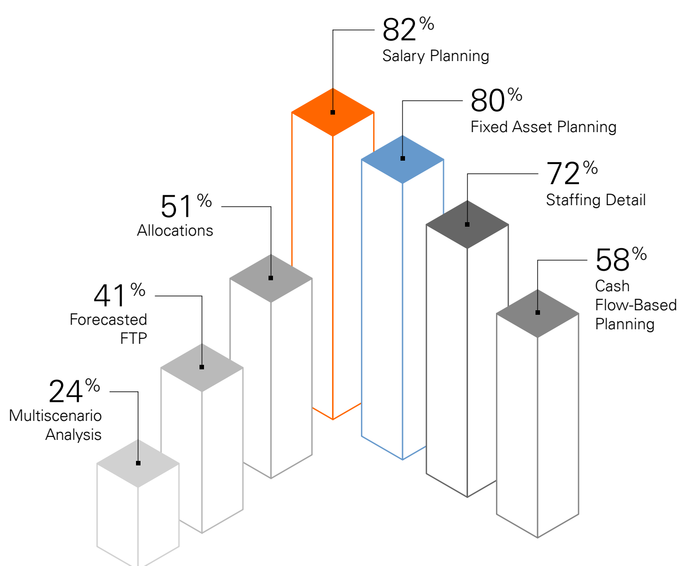
COVID-19 prompted in-the-moment budget adjustments, fast-tracked emerging risks and added unforeseen challenges. Financial institutions were forced to shelve existing strategies and adopt new ways to deliver financial products and services.

The pandemic highlighted and intensified existing problems. It accelerated financial institutions' need to deeply understand the relationships between products, services and profit and to adeptly respond to changes along the value chain.

Financial leaders understand that steering their organizations out of such challenging environments and toward high performance, resiliency and growth requires agile and connected planning methods. Change is constant and flexible planning should be too.

Still, only 24 percent of financial institution leaders use multiscenario analyses to build their budgets, and only 41 percent include forecasted funds transfer pricing, according to the "2020 Outlook for Financial Institutions: Addressing Economic Uncertainty and Competitive Pressure" report by Syntellis Performance Solutions.

Items Included in Financial Institution Budgets



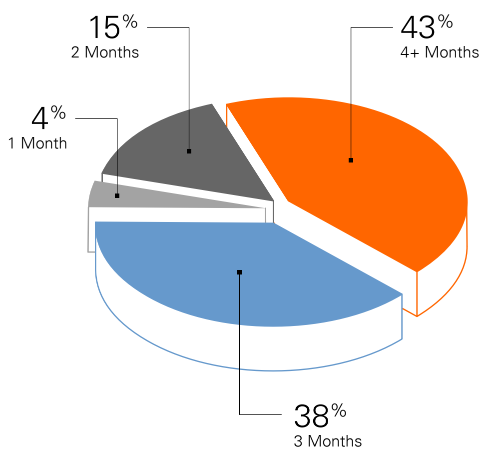
Source: "2020 Outlook for Financial Institutions: Addressing Economic Uncertainty and Competitive Pressure," Syntellis Performance Solutions.

Playing Catch-Up

Since the pandemic started, chief financial officers have been asked to quickly and accurately model business responses to different recovery scenarios. But not every CFO has the right process or tools to fulfill that task.

According to the Syntellis report, 81 percent of CFOs said their annual budgeting process took three months or longer to complete. Even in "normal" times, many financial institutions are already behind by the time their strategic plans and budgets are set. Key inputs can be out of date, possibly by months and assumptions can lack testing. And when markets change, it's difficult to adapt.

Length of Budgeting Cycle



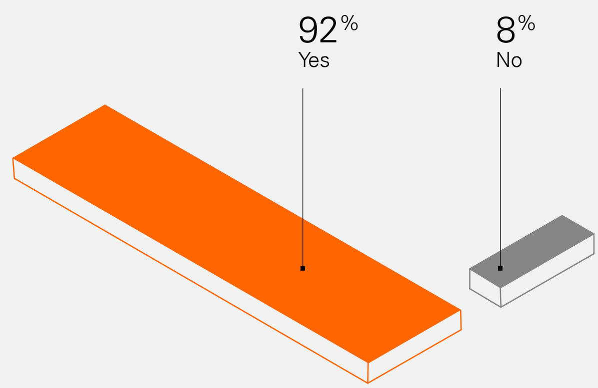
Source: "2020 Outlook for Financial Institutions: Addressing Economic Uncertainty and Competitive Pressure," Syntellis Performance Solutions.

COVID-19 drove home the importance of a more data-driven and agile planning model, one that leverages up-to-date technologies and workflows to quickly respond to market events.

Data-driven planning enables financial institutions to make effective decisions faster. Analytics embedded in the planning process allow for testing, improve decision making and enable strategies to be defined and executed throughout the year.

Ninety-two percent of CFOs surveyed for the Syntellis report said they needed to do more to leverage financial and operational data as part of the decision making process. Ninety-seven percent also expressed greater pressure to link financial results to business strategy.

Do you believe your institution should be doing more to leverage financial and operational data to inform strategic decisions?



How to Gain Agility

Organizational agility requires data, but it must be supported by the right context, skills and practices. Here are the steps to creating a forward-looking planning process:

Collect the Right Data and Ask the Right Questions

There can be a gap between what CFOs say they need to measure and what they are actually measuring. For the Syntellis report, more than 90 percent of CFOs said it's important to monitor the relationship and customer dimensions of their organizations, but fewer than half were monitoring either.

Make sure the financial institution isn't just attacking the noisy parts of a problem. Use data to learn which dials affect performance and then focus on measuring, testing and improving.

Financial institutions with a central data repository can retain context and causation as they solve problems. They can simplify data retrieval, investigation and reporting for finance teams and CFOs.

Build a More Comprehensive, Multidimensional Budget

There's not one right way to build a budget, so CFOs don't have to limit their budget planning to just one approach. Comprehensive budgeting can increase CFOs' understanding of performance drivers and offer deeper insights into what's working and what's not. But strategy and planning aren't "set it and forget it" tasks.

Periodic forecasts are one way to apply long-term financial data to the planning process. Forecasts, cash flow-based planning, profitability analysis and scenario-based planning are other methods that can be combined to build future-proof, or at least more adaptable, plans.

Test Drive the Plan

Financial institutions can model and test strategic directions before they become decisions. Without the ability to test "what if" scenarios, it's difficult to create budgets that remain relevant in unexpected or rapidly changing conditions.

To advise their organizations well, CFOs can shift from descriptive analytics (what happened) to predictive (what will happen) and prescriptive analytics (what we should do).

Using such analytics, CFOs can investigate what's happening, why it's happening and how performance will be affected if conditions change. Modeling tools help CFOs test-drive strategic decisions, establish tipping points for contingency plans and execute strategies with confidence.

Monitor Effectiveness and Results

According to the Syntellis report, 60 percent of financial institutions struggle to monitor the financial effect of capital projects after their completion. Lack of measurement can cascade into other problems. Thirty percent of CFOs surveyed also said it's hard to determine which projects to approve and fund, and 49 percent said it's hard to track the progress of projects.

Budgeting and planning tools can help CFOs measure for success and drill down into root causes of performance. Key performance indicators that are meaningful for the institution can be set, ranked and trended, and variance analyses can help executives learn and adjust. Without data-driven feedback, it's difficult for financial institutions to accurately evaluate outcomes, learn from the past or improve decision making and planning.

Forecasting is a best practice that can inform budget and strategic planning. With regular forecasting, CFOs can monitor results before the official budget cycle and make important corrections at the most effective times, even proactively.

Clearly Communicate Financial Information

CFOs can use visualization and reporting tools that make it easy for stakeholders to digest and act on information as well as understand how they're responsible for meeting budget expectations. That information can be accessible daily or on demand.

For most CFOs, that's easier said than done. In the Syntellis report, 64 percent of CFOs said pulling data from multiple sources into a single report is a top challenge, while 62 percent cited challenges with creating better dashboards and visuals. Lack of data is rarely the problem. Rather, it's the ability to merge disparate data, format it and translate it for decision makers.

Seamless data integration can help ease the reporting burden on CFOs, allowing them to spend more time analyzing and applying data than gathering and preparing it.

Align Incentives to Strategy

Budgets and forecasts can be a means to a profitable end, rather than the ends themselves. However, traditional measures incentivize executives to work toward volume goals, which may not necessarily achieve profitability targets.

Instead, executives can incentivize long-term value creation by linking compensation programs to initiatives that advance the institution. Profitability analysis tools can help executives gain a better understanding of how to measure profitability and its drivers in current market conditions and how to adapt them based on changes.

Sufficient Resource Planning and Analysis Functions

In the Syntellis report, 69 percent of CFOs said resource constraints affect their planning and analysis effectiveness. What resources do they need?

Comprehensive financial planning tools, digital analytics talent and supportive processes can help financial institutions plan for tomorrow. CFOs want to capture data in meaningful ways, and they need people, systems and time to apply insights to their planning and decision making.

Robust analytics, planning and reporting capabilities can help CFOs uncover value, communicate financial information clearly and make strong decisions quickly.

Having finance associates who think like data scientists, as well as accountants, can help CFOs apply historical and predictive data analytics.

Automate Repetitive Tasks

Speed is a critical part of agility. CFOs can accelerate planning and shorten budget cycles overall by automating tedious, time-consuming tasks. Instead of losing hours on data collection and validation, tracking down approval statuses or distributing reports, CFOs can spend more time on high-value strategic analysis and planning.

Keep Moving Forward

In today's environment, CFOs rely on being able to continually adjust plans and make time-sensitive decisions with up-to-the-minute data. That's not going to change.

No matter what the future brings, being able to quickly find, test and forge profitable strategies can give financial institutions an advantage in a competitive market.

Connect With Us

For more information about
Axiom Planning and Profitability

800-872-7882

getsolutions@fiserv.com

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

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