

White Paper

Road Map to Driving Finance Transformation in the Office of the CFO

Sponsored by: Oracle

Kevin Permenter Jerry Silva
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IDC OPINION

For financial services organizations, change is the only constant. Financial services organizations, including corporate and retail banks, wealth management institutions, and insurance companies, must all navigate a world that is full of uncertainty while under pressure to grow revenue and remain competitive.

IDC recently partnered with Oracle to study how financial institutions view the significant changes taking place in the industry and how these organizations are driving finance modernization among the CFO's office to compete in financial markets today and beyond.

About This Study

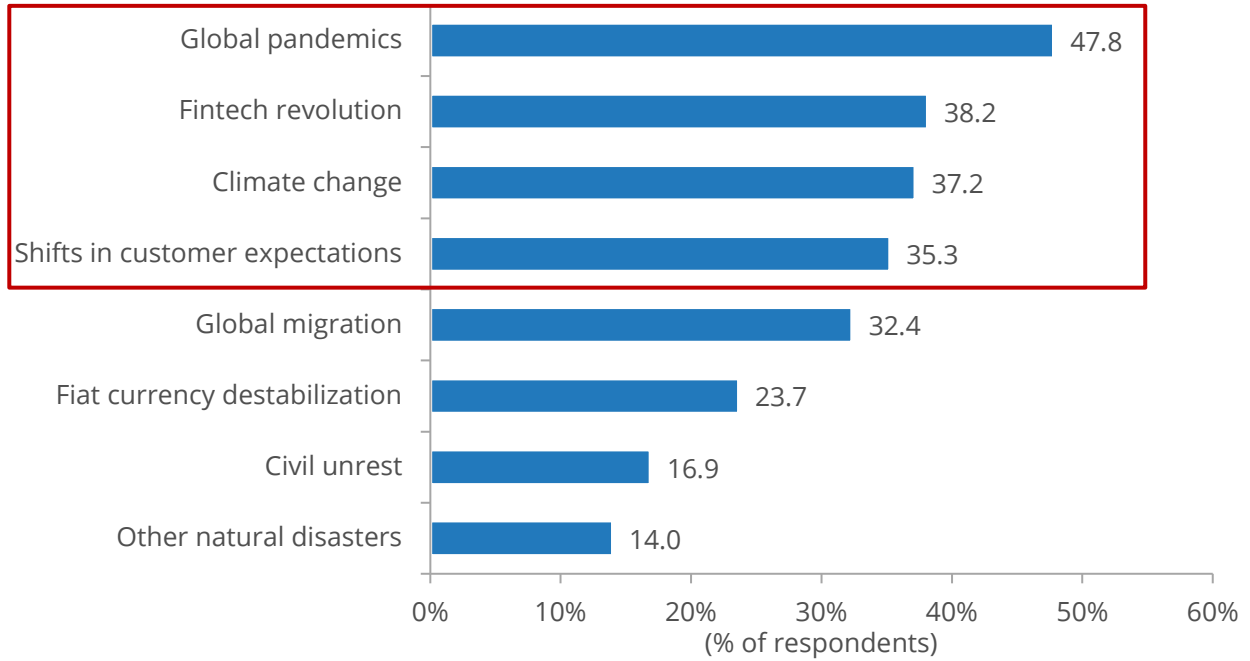
IDC's *Global Modernization of Finance Survey* is a web-based survey of 207 finance executives from 19 countries at financial institutions with annual revenue of \$1+ billion; the majority have assets greater than \$100 billion. The principal business activity of these organizations is insurance, investment banking, corporate banking, retail banking, or wealth/asset management. Respondents represented a broad range of job titles, with the majority being C-level executives (CFO, chief risk officer, and chief compliance officer) and director and above roles. The survey was conducted in December 2021.

INDUSTRY OUTLOOK FOR BANKING AND INSURANCE

Financial institutions are operating in an atmosphere of change and uncertainty that comes in multiple layers. Recent and evolving macroeconomic drivers have a profound impact on organizations, financial workflows, and procedures. Financial respondents identified global pandemics (48%), fintech revolution (38%), climate change (37%), and shifts in customer expectations (35%) as the top macroeconomic drivers expected to change the strategic role of the finance function in the next 24 months (see Figure 1).

FIGURE 1

Macroeconomic Drivers Most Expected to Change the Strategic Role of the Finance Function in the Next 24 Months



n = 207

Source: IDC's *Global Modernization of Finance Survey*, December 2021

Beyond these immediate factors, there are several fundamental drivers that are changing customer expectations and the strategic role of the finance function.

Global Market Volatility

Significant macroeconomic events continue to send shockwaves through the global markets that financial services organizations operate in. From the ongoing impact of the COVID-19 pandemic to supply chain and inflationary pressures to the fluctuating geopolitical landscape, today's global markets are more volatile than ever. Any one of these events would have significant repercussions and cause uncertainty for finance organizations. The fact that these events have occurred rapidly and collectively makes the need for financial agility and resiliency more important than ever.

For example, the Russia-Ukraine War has had a ripple effect on the global economy, and financial institutions are feeling the impact. Financial institutions with portfolios that are tied to the Ukrainian economy are taking a hit. Underwriters are braced for as much as \$5 billion in losses from the war, the biggest loss event for the industry since 9/11.

Furthermore, trade tensions, such as those between the United States, Canada, and Mexico, threaten to impact U.S. businesses. And global capital markets have also been volatile, with extremes not seen in more than a decade.

In the face of all this volatility, finance departments must shorten the time between these macroeconomic events and the availability of data-backed insights that enable executives and boards of directors to make strategic decisions. Quarterly forecasting is no longer good enough. Effective finance modernization helps the CFO manage accelerated forecasting schedules and deliver proactive balance sheet and liquidity management guidance.

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Threat of Fintech Shifts Competitive Landscape

The notion of "too big to fail" no longer exists in the financial services industry. Digital technology has lowered the barrier to entry into the banking world. A new class of neobanks, digital payment providers, digital asset exchanges, and other fintech organizations are having a profound impact on both the banking and insurance industries. Fintech companies have disrupted traditional business models by providing innovative products and services that meet the needs of modern consumers at a much lower operating cost. Large traditional banks and insurers find themselves sprinting to update their operations and services to better compete in the digital landscape.

While the rise of fintech has presented some challenges for financial institutions, it has also created some opportunities. For example, many banks have partnered with fintech companies to provide innovative products and services to their customers. These partnerships have allowed banks to stay afloat during the pandemic. Modernization of financial data and systems helps establish more efficient connectivity with these partners and accelerate go to market of new services. As a result, financial services organizations can improve profitability management and deliver better experiences for modern consumers, to stay ahead of the competition.

Regulatory and Accounting Change

Regulatory complexity is one of the top challenges facing insurance organizations today. Since 2020, we have seen the regulatory landscape continue to shift and become more complex, with new lease and insurance contracts accounting (Financial Accounting Standards Board's ASC 842 and 944 and International Accounting Standards Board IFRS 17), invoicing, and payment mandates throughout the various global markets. In fact, 2021 saw over 50 invoicing and reporting legislative changes. These new accounting standards have a material impact on an organization's data requirements, financial statements, and procedures.

Moreover, in the wake of the COVID-19 pandemic, there has been a renewed focus on risk management and governance, inspiring many jurisdictions to update their financial legislation. For example, new regulations focus on credit risk and accounting changes, including stress test requirements, LIBOR, and current expected credit loss (CECL) methodology. These changes have put pressure on financial institutions to improve capital and liquidity planning and to review and update their financial processes and systems.

While respondents identified environmental, social, and governance (ESG) issues as a driver forcing the finance function to take on a more strategic role, we also saw an avalanche of sustainability standards introduced by the International Sustainability Standards Board (ISSB) to help organizations manage their entire ESG impact. There is also growing pressure from investors for organizations to consider ESG factors in their operations. This trend is likely to continue as more investors prioritize ESG considerations when making investment decisions. As a result, financial institutions need to be increasingly aware of ESG issues and how they can impact their organization's financial performance. However, ESG standards can be quite complex and challenging to implement. Finance transformation can help improve visibility into ESG impacts across the organization and accelerate reporting that supports these new regulatory compliance requirements.

Changing Customer/Client Expectations

Modern consumers are more connected and informed than ever before. They have higher expectations for the brands they do business with and are increasingly choosing simplicity and convenience over price. Financial institutions are not immune to this, as customers now expect more from their banks and insurers, including faster mobile apps, digital-first experiences, and personalized service, at a competitive cost. Financial institutions need to focus not only on improving their customer experience (CX) but also on providing customized products based on attributes such as existing relationships, product performance, and consideration for new products to meet these expectations.

This trend has started to impact commercial banks as well. Customers demand a connected, digital-first service across all channels. However, commercial banks, hindered by legacy systems and processes that were designed for a different era, have been slow to change. To meet the needs of their customers, commercial banks need to modernize their financial operations.

The pandemic has only accelerated this trend. For instance, the uplift in claims and the need for new ways to gauge risk have put pressure on insurers. Insurers struggle to keep up with the demand for digital services and, as a result, must rethink their business models. Finance modernization aids in generating a 360-degree view of customers while enhancing profitability analysis and management.

Modernization of financial data and systems helps establish more efficient connectivity with these partners and accelerate go to market of new services.

Pressure to Grow Top-Line Revenue

While the need for business resiliency is clear in the face of macroeconomic challenges, finance leaders are simultaneously under pressure to grow top-line revenue. Customers increasingly expect targeted services, offerings, and digitization from their banks and insurers. These services add value, and customers are willing to pay for them. By adopting a customer-centric approach that focuses on delivering personalization and value at every touch point, financial institutions can grow their revenue opportunities. For example, connecting customer information to modern customer-centric digital banking applications allows banks to provide a higher level of service to retain customers via features like mobile/online banking and payments. These applications can also leverage innovative analytics to connect customer history and demographics to financial payment and credit information, leading to the creation of specialized programs and services that can greatly increase returns on equity.

Further, modern banking is attractive to the rising digital-first generation, who are quickly becoming today's financial business leaders. As such, investment in digital banking allows for potential rapid growth in the customer base among these nontraditional commercial and residential banking users. It is in this manner that the top-line impact of digitalization can be most easily seen within the banking world.

"The business objective is to meet the client's needs. Investment in modernization is meant to retain and build out the client relationships." – Vice president of Risk Management, multinational bank

DRIVERS FOR FINANCE TRANSFORMATION

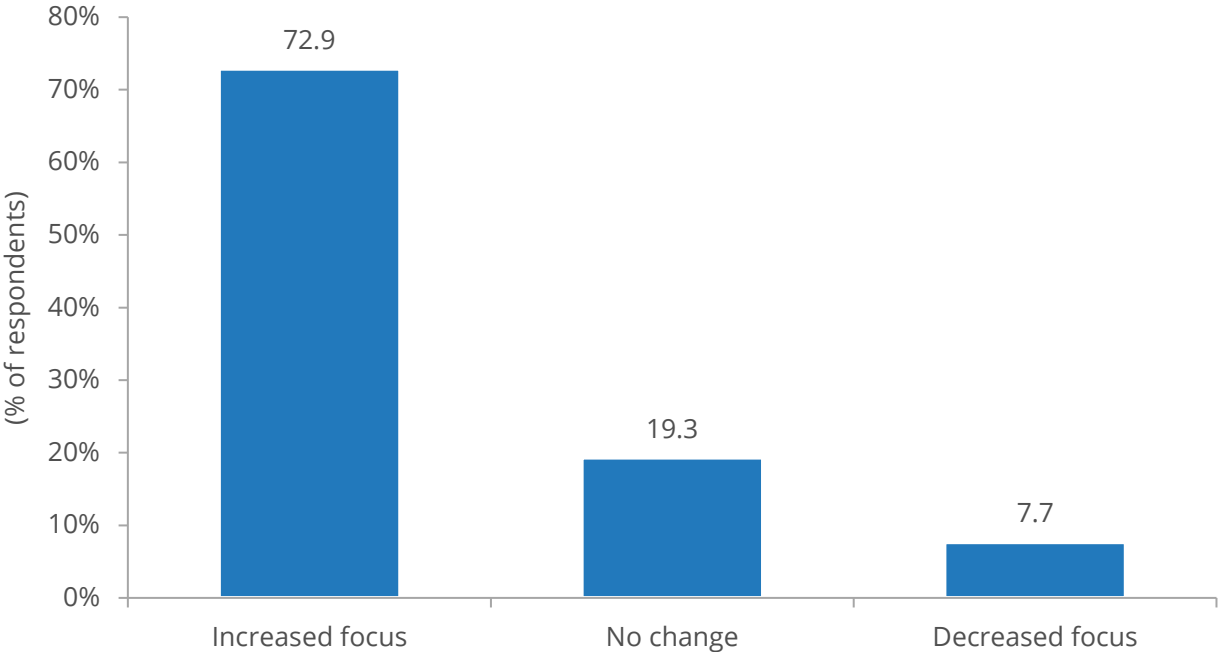
The industry trends and ongoing pressure that banking and insurance organizations have been experiencing have led to a desire for digital transformation within the finance function. This desire is driven by three main factors: the need for business resiliency, the problem of financial data management, and the competitive advantage that finance transformation can provide.

Desire for Resiliency for Financial Services Leaders

Amid all the disruptions and changes, financial services leaders have quickly shifted toward building resiliency in their financial operations. Our survey reveals that in the face of recent volatility, 72.9% of CFOs have increased their focus on business resiliency (see Figure 2). That number grows to over 80% when looking at corporate banks and a significant 74% among insurance companies, as their complexity leaves them even more vulnerable to macroeconomic uncertainty. Financial services leaders are quickly learning that they need to update legacy applications to navigate the unprecedented uncertainty of today's volatile markets and to eliminate costly technical debt that blocks innovation and hampers agility.

FIGURE 2

Change in CFO's Focus on Business Resiliency



n = 207

Source: IDC's *Global Modernization of Finance Survey*, December 2021

The continued global pandemic also forced many organizations to quickly shift to a hybrid workforce. This shift has created new challenges for financial operations, particularly for complex processes like the financial close. In a distributed hybrid environment, it can be more difficult to coordinate activities and ensure that critical tasks are completed in a timely manner. As a result, there is an increased need for automation and real-time visibility into financial data.

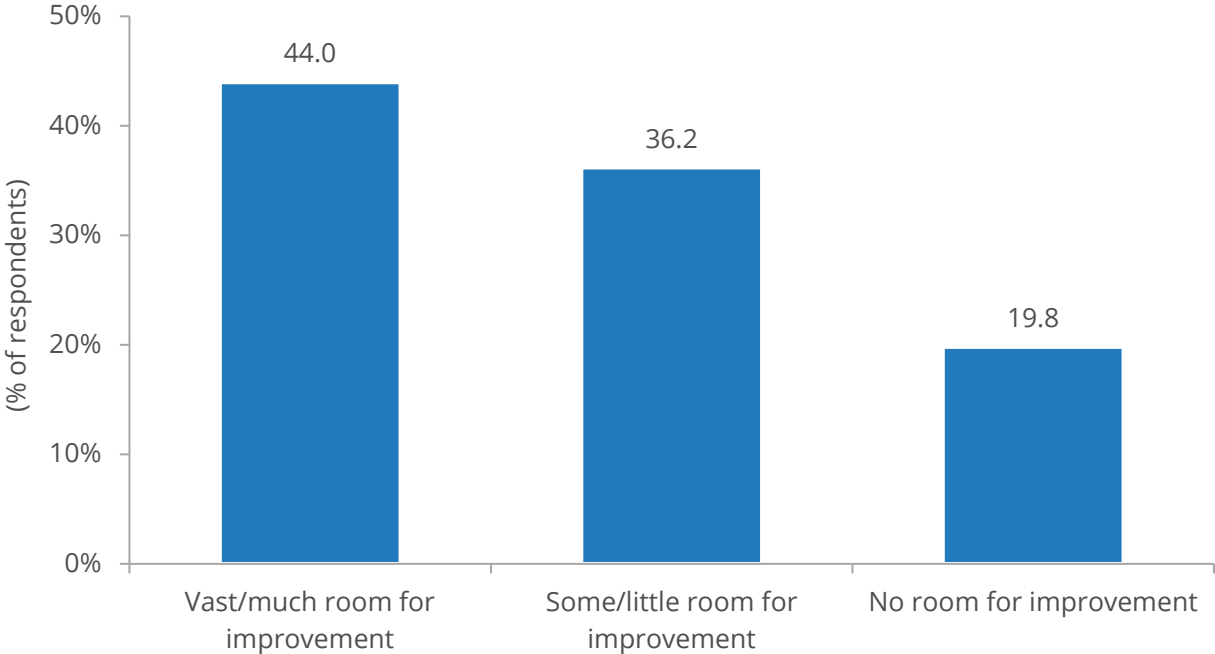
The Problem of Finance and Risk Data Management

In addition to the need for business resiliency, our survey revealed that finance leaders are also facing pressure to address the problem of financial data management. This problem is caused by the increasing complexity of the financial ecosystem, which is the result of globalization, the rise of new technologies, and the proliferation of data. This complexity makes it difficult for organizations to consolidate and effectively manage their finance and risk data. As a result, decision makers are often dealing with siloed and incomplete information, which hinders their ability to strategically act from timely and informative insights/analytics.

The lack of visibility into financial data is a major issue for 44% of respondents (see Figure 3). In addition, 70% of banking leaders believe their lack of reconciled data from source systems is a major hindrance to delivering timely insights. This problem is compounded by the fact that 56% of financial organizations urgently need to reduce the cost of current data collection, correction, and reconciliation.

FIGURE 3

Levels of Need for Improvement in How Finance Data Is Managed



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Source: IDC's *Global Modernization of Finance Survey*, December 2021

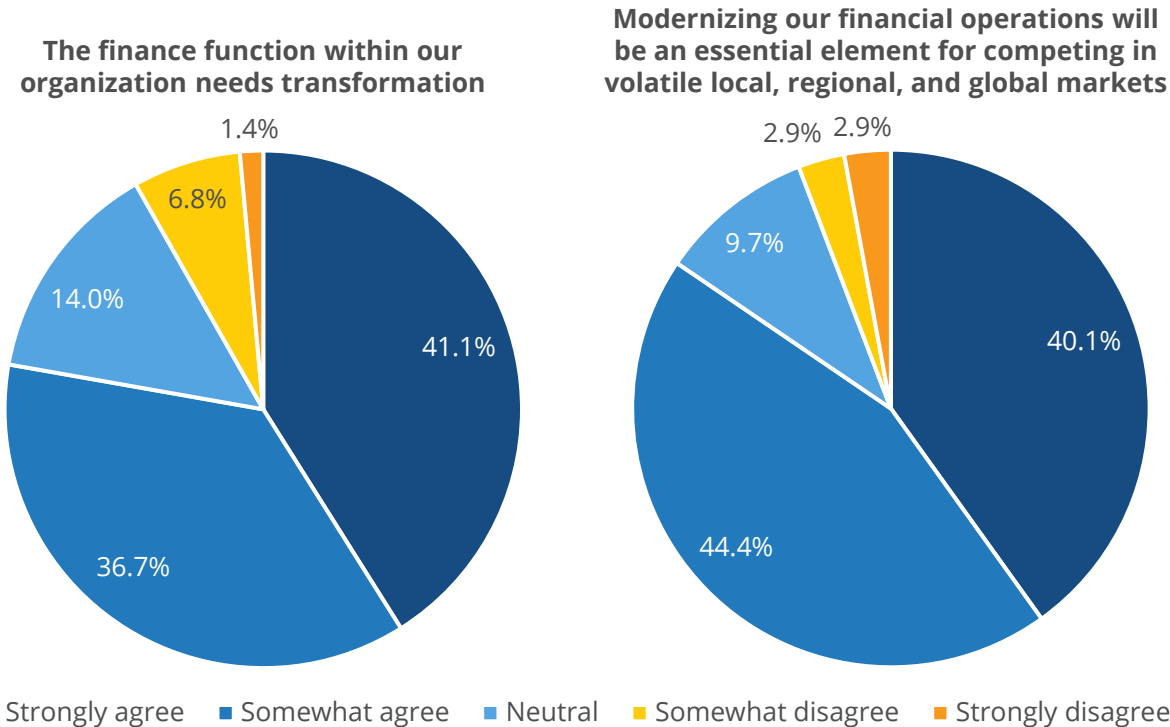
The rapid pace of change has also put a spotlight on the need for timely and accurate communication of business information. Amid all the disruptions and changes, many financial leaders were hampered by an inability to gather and disseminate that business-critical information to the necessary stakeholders at speed. The shift to the hybrid workforce has exacerbated this problem, as it can be more difficult in a hybrid environment to coordinate activities and ensure that critical tasks are completed in a timely manner. These challenges make the need for modernization of data management across the CFO office more important than ever.

Finance Transformation as a Competitive Advantage

Banks and other financial institutions that are further along the digital transformation journey can better survive the downturn of traditional business models, quickly pivot into the digital world, and more effectively compete against new fintech services. According to IDC's *Global Modernization of Finance Survey*, 77.8% of financial institutions agree with the statement that the finance function within their organization needs transformation. Another 84.5% agree with the statement that modernizing financial operations will be an essential element for competing in volatile local, regional, and global markets (see Figure 4).

FIGURE 4

Importance of Digital Transformation in the Finance Function



n = 207

Source: IDC's *Global Modernization of Finance Survey*, December 2021

Another point of competitive advantage for banks and other financial institutions is the tighter collaboration between the CIO and CFO. Discussions with CFOs have revealed a shift away from being a gatekeeper toward a heightened focus on innovation. This shift, coupled with the increased pressure on the finance function to modernize its systems and processes, has created an opportunity for closer collaboration between the CIO and CFO. This partnership can help accelerate transformation and enable digital-first business models.

Finally, executive leaders continue to shift their focus from rear-facing details to forward-looking insights. In the past, much of the financial executive's role was to manage rear-facing details like closing the period, reconciling general ledger (GL) transactions, data reconciliation, or cash application. While those activities are still important, the uncertainty of the pandemic has put more of a focus on risk and liquidity, which require forward-looking activities like forecasting, budgeting, and planning. This shift in focus provides an opportunity for finance executives to play a more strategic role in their organizations.

Expected Benefits of Finance Modernization

CFOs' offices that undergo finance modernization can expect a myriad of benefits, including increased agility to support evolving business needs, improved financial data management, and reduced costs. The benefits of finance modernization are numerous and can have a transformative effect on a financial institution's bottom line. The sections that follow take a closer look at a few of the most significant expected benefits of modernizing finance.

Flexibility, Cost Minimization, and Strategic Insights

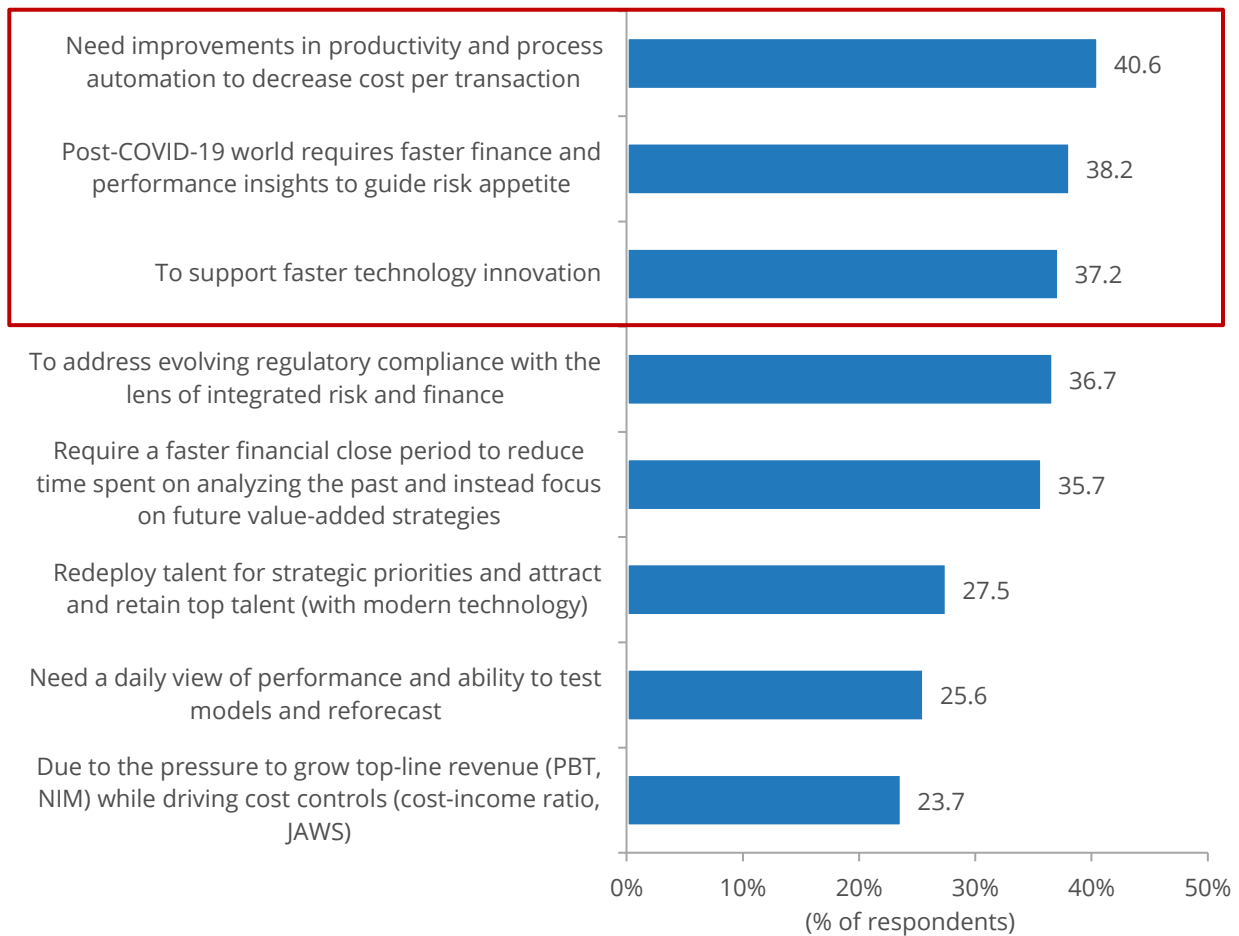
As financial institutions move into the digital-first economy, the finance function turns to advanced technologies to enable its evolution. Fueled by the enormous amount of waste and inefficiency within finance workstreams, the CFO requires more advanced and innovative technology. The worldwide financial applications market is forecast to reach \$44.7 billion by 2025, with the cloud portion of that market growing by 13.9% through 2025. Technologies such as artificial intelligence, machine learning, and robotic process automation can be used to provide the flexibility, cost savings, and strategic insight into the organization's business, as required by the CFO.

According to our survey, over 75% of financial institutions are investing in finance modernization. These technologies are meant to reduce wasted effort and streamline finance workstreams, with a myriad of business outcomes in mind. The top reasons to invest in finance modernization are to decrease cost per transaction (40.6%), gain performance insights to guide risk appetite (38.2%), and support faster technology innovation (37.2%) (see Figure 5).

"Visibility across the streams of information across the company is a massive boon to efficiency. It is a huge multiplier of velocity of decision making." — Senior vice president, regional retail bank

FIGURE 5

Reasons for Investment in Finance Modernization Technology



n = 207

Source: IDC's *Global Modernization of Finance Survey*, December 2021

As financial institutions leverage the latest technology to provide flexibility, minimize cost, and ensure strategic insights into their business, the goal is to have one view of their enterprise with an understanding of how all businesses and departments are performing and then optimize that performance accordingly. Executives and managers can make better decisions and understand business impact by identifying and assessing issues early on.

Finance modernization makes it more cost effective to run and maintain all systems and processes required to deliver finance, performance, risk, and compliance capabilities. The pain of running hundreds or even thousands of siloed finance applications is no longer sustainable. The need for an integrated finance applications suite to support all aspects of the record-to-report process, from general ledger and financial close through to regulatory filings and compliance, is now well understood.

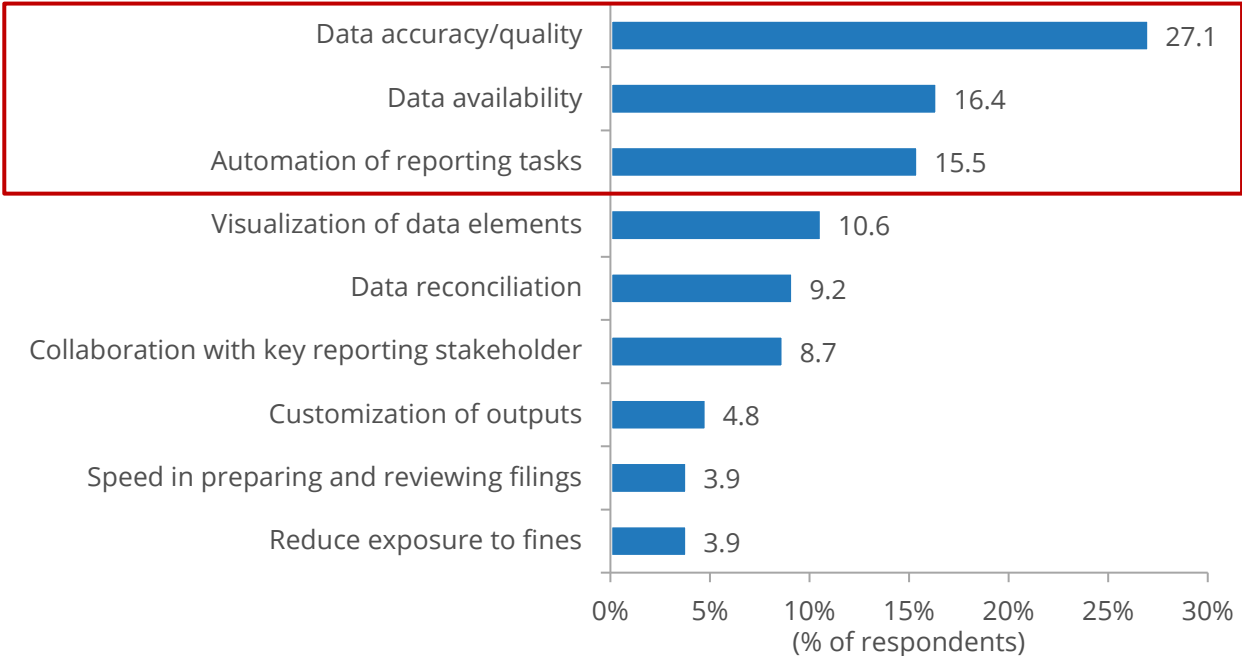
Furthermore, it is important for financial services organizations to move toward "relentless automation" with finance modernization. This would help in scaling the business, reduce the time to market for new products and services, and improve customer experience. With the help of embedded AI and ML in finance applications, organizations can automate across the record-to-report process.

Better Support for Growing Regulatory Requirements

Modernization increases flexibility to better support growing regulatory needs. With the help of modern finance applications, management reporting, regulatory reporting (Federal Reserve and central banks), and statutory reporting (IFRS and GAAP) can all be delivered from a single platform. Financial data management improves with multiple levels of detail, from source system transactions to posting GL balances and financial consolidation results. This delivers significant cost and efficiency benefits while reducing the risk of reporting errors and inaccuracies. When considering regulatory reporting, respondents stated that modernization had the biggest impact on data accuracy (27.1%), data availability (16.4%), and automation of reporting tasks (15.5%) (see Figure 6).

FIGURE 6

Biggest Impacts Finance Modernization Has for Regulatory Reporting



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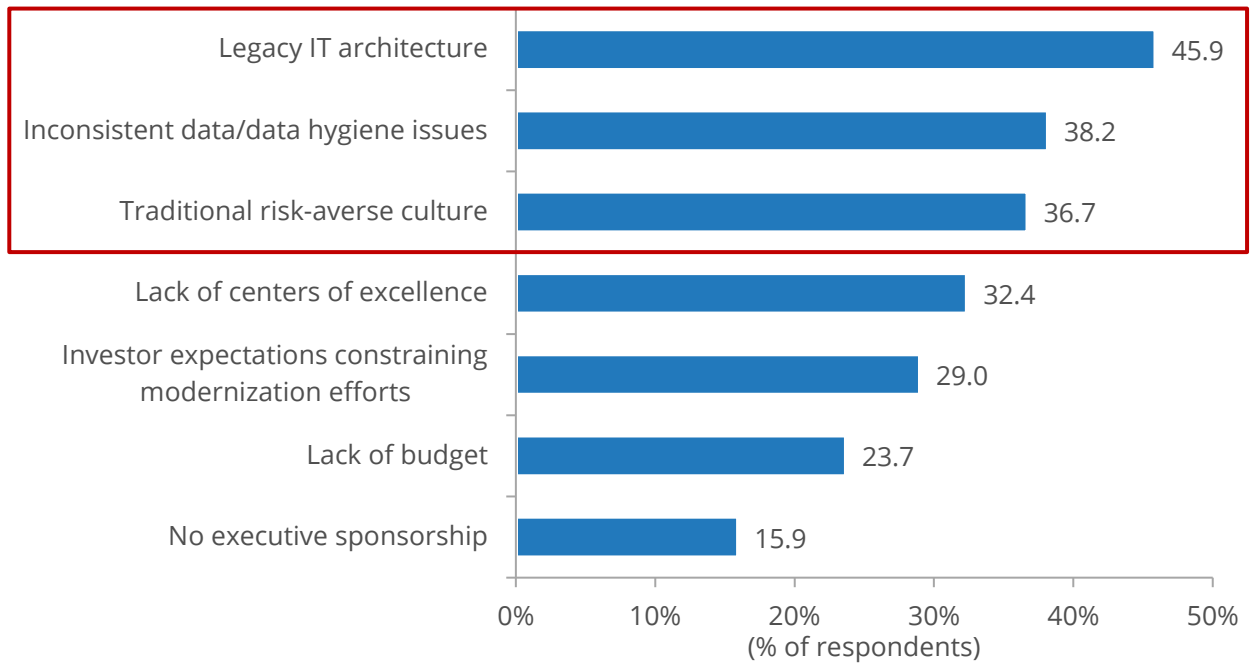
Source: IDC's *Global Modernization of Finance Survey*, December 2021

The CFO's Office and Its Challenges to Modernizing Financial Infrastructure

Despite the clear benefits and improved business outcomes associated with modernizing an organization's financial infrastructure, finance executives regularly run into significant roadblocks during implementation. The biggest hurdles for financial institutions touch upon speed and agility. These challenges often stem from technology issues. Respondents to our survey identified legacy IT architecture (45.9%), data hygiene issues (38.2%), and risk-averse culture (36.7%) as the top barriers to adoption of finance modernization technology in their organization (see Figure 7).

FIGURE 7

Barriers to Adoption of Finance Modernization Technology



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Source: IDC's *Global Modernization of Finance Survey*, December 2021

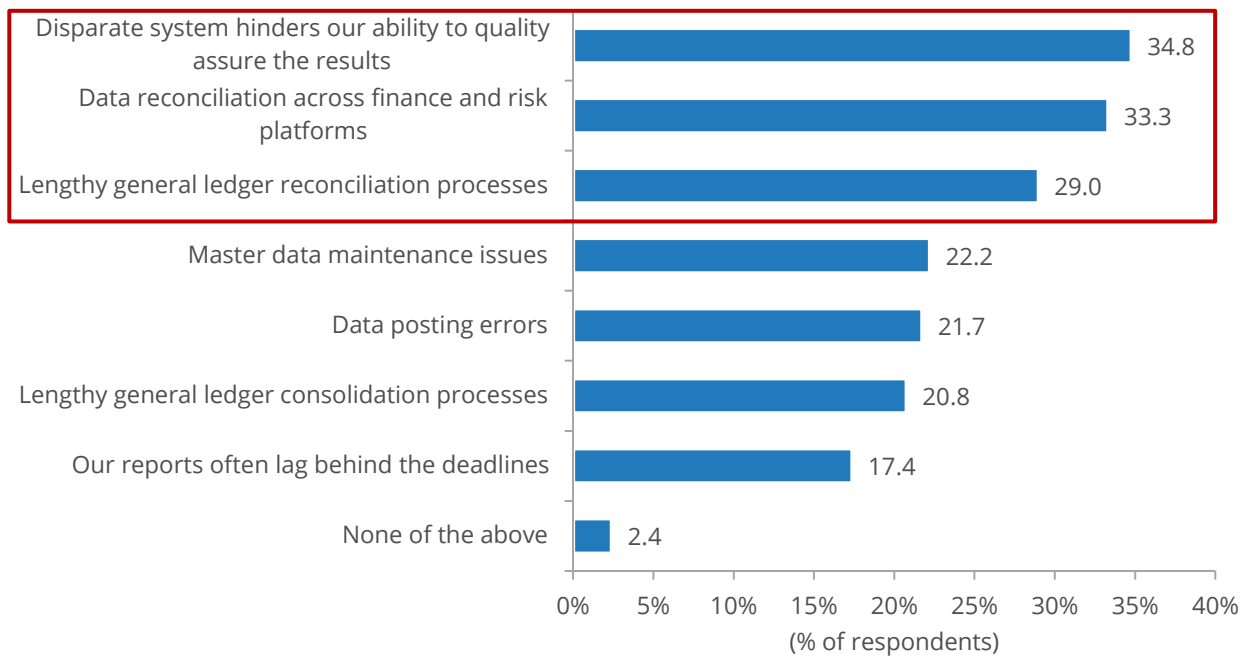
In addition, CFOs and finance leaders must consider critical nontechnical issues when navigating their finance modernization journey.

Compliance and Regulation Challenges

Nearly two-thirds of financial institutions in our study stated they are facing a higher cost of compliance compared with before the pandemic. Technology challenges are key factors in that increased cost. Most organizations (77.8%) state that they always or usually meet regulatory and statutory reporting requirements; however, many are impacted by disparate systems that hinder quality assurance, data reconciliation across finance and risk platforms, and lengthy general ledger reconciliation processes (see Figure 8). Organizations must modernize data systems and processes to address evolving regulatory compliance requirements more quickly and with less cost.

FIGURE 8

Issues That Most Impact the Ability to Effectively Meet Regulatory and Statutory Reporting Requirements



n = 207

Source: IDC's *Global Modernization of Finance Survey*, December 2021

Talent War

As financial institutions discovered during the pandemic, employees – those in both customer-facing and back-office roles – are more important than ever to delivering good customer experiences. Yet the war for talent is intensifying. Banks and financial services organizations are under pressure to attract and retain top talent. A significant 27.5% of respondents to IDC's survey are investing in finance modernization technology to attract and retain top talent. This is a sensible move, as modernizing financial infrastructure can help make an organization more attractive to prospective employees.

However, it's not enough to simply invest in finance modernization technology. Organizations also need to put the right processes and policies in place to attract, develop, and retain top talent. This includes upskilling the finance team with more data analytics skills and offering flexible working arrangements that cater to employees' needs.

Time Crunch

Manual processes negatively impact the bottom line by both requiring more time and resources for any given workflow and reducing potential opportunities of those resources. Banking and insurance organizations need improvements in productivity and process automation to decrease cost per transaction. About one-third of institutions (35.7%) said they require a faster financial close period to reduce time spent on analyzing the past and instead focus on future value-added strategies.

Role-Specific Challenges

Within the finance function at banks and insurers, each role faces specific challenges associated with their finance transformation journey. Chief accounting officers (CAOs) and financial controllers are often unaware of the full extent of their organization's financial infrastructure and the challenges it poses to modernization. This lack of awareness can make it difficult for CAOs and financial controllers to provide adequate leadership and direction during a time of change.

Financial planners and analysts are often siloed within their own functions, making it difficult to take a holistic view of the organization's financial infrastructure. This can make it more challenging for financial planners and analysts to provide inputs into the decision-making process during a time of change.

Line-of-business finance analysts often lack the necessary IT skills (coding, programming, DevOps, etc.) to effectively modernize financial infrastructure. This lack of IT-related expertise can make it difficult for line-of-business finance analysts to contribute to the modernization process in a meaningful way.

Business operations (cost and procurement functions) often have little visibility into the organization's financial infrastructure, making it difficult to optimize for cost. This lack of visibility can make it challenging for business operations teams to provide input into the modernization process.

ROAD MAP TO FINANCE MODERNIZATION

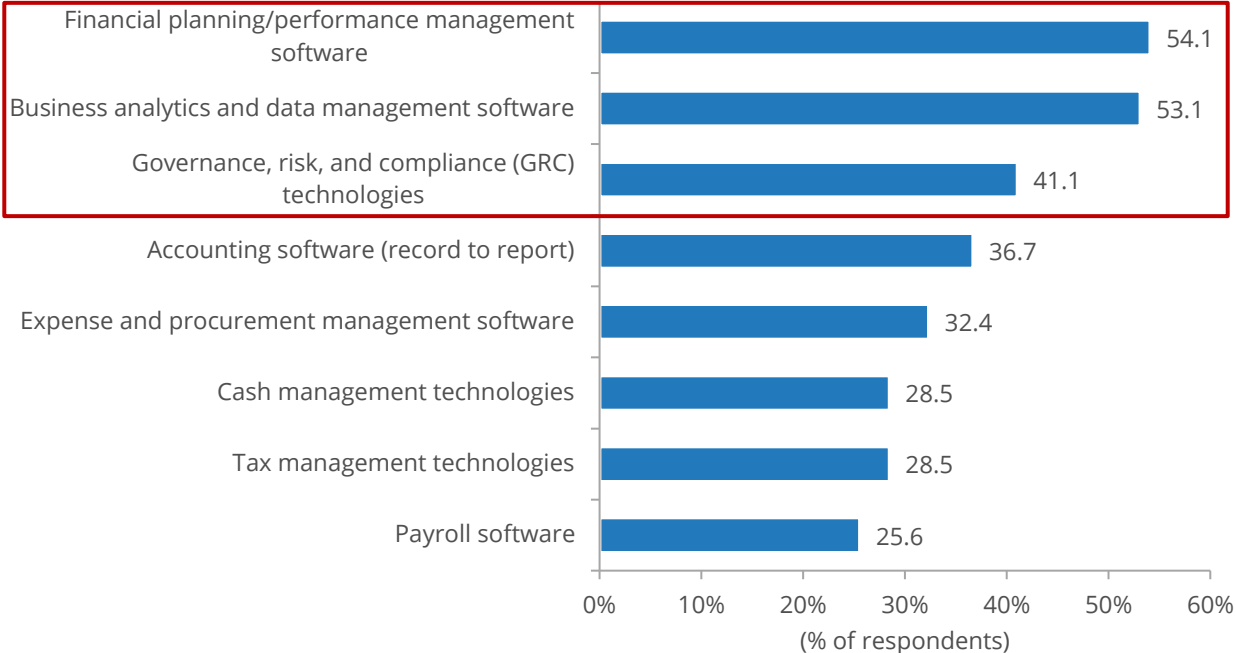
CFOs' offices are being tasked with an ever-increasing number of responsibilities, which in turn requires finance teams that are nimble and have access to modern data management tools and processes. It is essential for financial institutions to look toward modernization so they can make data-driven insights and swiftly pivot into the digital world. The ability to act at speed and at scale is critical to resilience and the survival of traditional business models.

"Modernization tools resolve repetitive work, which moves people to more value-added work and makes us a more attractive employer." – Director, Corporate Finance, international financial solutions organization

However, it is not easy to realize all the benefits and capitalize on all the opportunities right away. Finance executives need a road map to their finance modernization initiatives. In our survey, financial planning and performance software (54.1%), business analytics and data management (53.1%) software, and governance, risk, and compliance (GRC) technologies (41.1%) were identified as the most important applications and tools needed to build modern finance capabilities (see Figure 9).

FIGURE 9

Most Important Applications and Tools to Build Modern Finance Capabilities



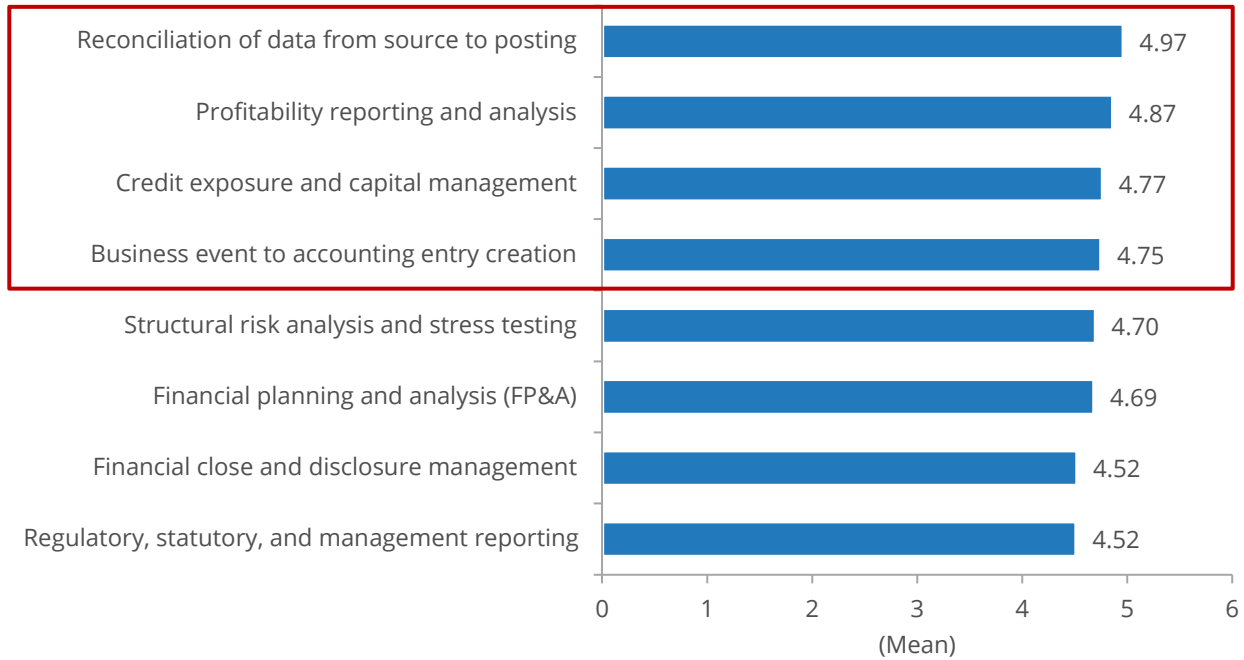
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Source: IDC's *Global Modernization of Finance Survey*, December 2021

Financial institutions should view the finance modernization journey as a life cycle rather than a one-way ticket to a single destination. Prioritize opportunities for finance to contribute to the organization's bottom line. Look to streamline processes and invest in consolidation of key financial applications. On average, financial services organizations use more than four applications for one function across a myriad of key financial activities, including data reconciliation, profitability management, capital management, and accounting processes (see Figure 10). To improve workflow efficiency and get a better return on investment, financial institutions must identify each financial application for each function, rationalize the applications, and consolidate them.

FIGURE 10

Average Number of Separate Applications Involved in Key Financial Activities



n = 207

Source: IDC's *Global Modernization of Finance Survey*, December 2021

Five Actions to Focus Finance Modernization

With many competing opportunities and technology decisions, it is important to focus the finance modernization journey along five key actions.

Integrate Data Management

Financial management within large complex financial institutions frequently involves exercises in data management. Data residing in multiple repositories, including the general ledger, data warehouses, data marts, and spreadsheets, requires extensive reconciliation, resulting in time-consuming processes and delayed responses to regulators and senior stakeholders. Many organizations are looking to advanced technology to cope with the data burden at scale and at speed. Access to a unified data model that provides modular and granular data across analytical use cases for risk, finance, compliance, and customer insights is critical to remaining agile.

Centralize Financial Accounting

Financial institutions with a long financial close cycle are stuck in the past with no view of the future or notion of how to meet future demands. A centralized accounting rules approach can help finance teams standardize processes and systematically generate accounting entries from business events. Moreover, statutory, management, and regulatory reporting with detailed audit trails is accelerated.

Enable a 360-Degree View of Profitability Analytics

Financial institutions are often challenged by the decision of what products to sell, to which customer, at what price, through what channel, and at what risk. A 360-degree view of profitability across customer, product channel, and organizational unit offers a clear understanding of the drivers of performance and improves customer acquisition and cross-sell of financial services.

Connect Planning and Forecasting

Increased frequency of planning cycles makes it difficult to refine and reforecast plans continuously due to limited visibility between finance, operations, and lines of business as well as fragmented data and systems. By connecting planning and forecasting, institutions can establish predictive processes that factor in multiple scenarios, plan for contingencies, and understand impacts to profitability, balance sheets, and cash flow accordingly.

Improve Regulatory Compliance

Financial institutions must be able to respond quickly to the increasing number of regulatory compliance requirements. Advanced analytics helps understand the flood of business data from a variety of sources and a variety of data types and accelerates compliance reporting.

CONCLUSION

Amid all the disruptions and ongoing changes, financial leaders have quickly shifted toward redefining what's best for their financial operations. Financial institutions that are technology enabled can more quickly pivot into the digital world, surviving the downturn of traditional business models. CFOs are hungry for finance modernization.

However, the transformation journey is not always easy. It requires significant investment to overcome traditional visibility and data management issues while addressing evolving compliance requirements and attracting and retaining the best talent. But those who make the necessary investments will find themselves in a much better position to survive and thrive in the digital world.

Finance transformation investments cover a wide set of solutions to act at speed and at scale, including streamlining systems, managing risk, and automating workflows in all financial operations from data entry to financial accounting to FP&A to profit management to regulatory compliance.

Furthermore, modernization helps meet changing customer expectations by offering new targeted services and building customer-centric capabilities that add value at every touch point. As a result, financial institutions can remain competitive and grow revenue in the face of volatile markets.

Financial institutions should view the finance modernization journey as a life cycle rather than a one-way ticket to a single destination.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

140 Kendrick Street
Building B
Needham, MA 02494
USA
508.872.8200
Twitter: @IDC
blogs.idc.com
www.idc.com

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