

# Finance transformation in the digital age

Last month a group of finance executives in the banking industry attended the first 'Aptitude - Leaders in Finance Roundtable' for dinner and discussion at The Eight Club in London. The theme for the evening was *'finance transformation in the digital age'*.

The group covered a wide variety of topics including the evolving role of the finance function in banking, the industry's appetite for investing in emerging technologies, and the impact of new customer channels on the finance function.

Today's digital transformation initiatives come at the end of a difficult two decades for banking CFOs and their teams. For many organizations, the 2000s saw significant spend on widescale architecture investments like data warehouse-based solutions and costly, disruptive ERP upgrades. These large investments were a mixed success. For the most part, these solutions did not have the flexibility to respond with agility to the pace of industry change while other solutions over-promised then found the scope to be unachievable.

Then the financial crisis put technology on the backburner and priority shifted to understanding and implementing regulatory compliance mandates like Basel III, CRD IV, MiFID II, front office trading controls, KYC/AML and IFRS 9. For the most part, digital technology investments have focused on customer engagement channels rather than finance, which is traditionally considered back office. Only recently have CFOs had the capacity to re-look at how to answer industry challenges and stay relevant through a digital finance transformation.

## Top challenges in banking

Attendees agreed that while the years have progressed, the core challenges are similar. Data issues - quality, completeness and timeliness – still abound and while some processes have simplified, the complexity of system landscapes upstream of the General Ledger still exists. The result is a high cost, inefficient, manual, and complex architecture with fragmented reporting. Simultaneously, business leadership expects the C-Suite to invest in the latest digital technologies to demonstrate they are ahead of the curve, even if this is not the right answer. How to map out a roadmap between an analogue present and digitized, always on-line, “Office of the CFO” is a top challenge.

At the dinner, a few additional challenges rose to the top of the list:

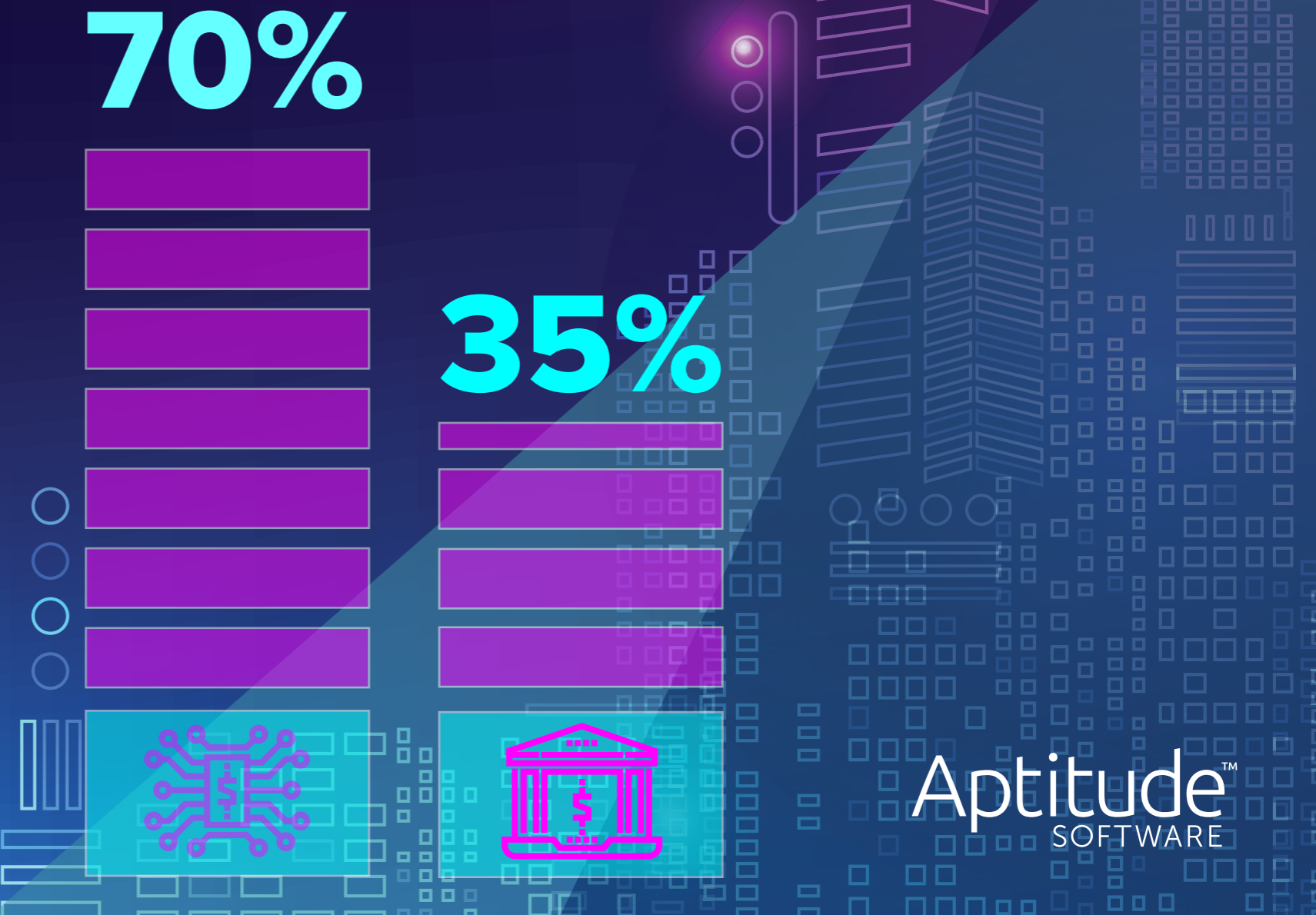
- New business is still not integrated with finance: finance is often not engaged early enough in the design and roll-out of new businesses and products.
- The increase in digital entry points at the front end: higher data volumes, coming as a result of contactless payments for example, are hitting a finance architecture that is often incapable of handling them.
- Data ownership remains a challenge: CFOs are still trying to reinforce the message that finance is only the receiver of data that is typically generated in the front or middle office.
- MI reporting: meeting business demands is a challenge due to incomplete data, manual processes, varying timings and levels of granularity, lack of trust in the data, and multiple reporting tools.

## The way forward

After discussing the challenges, the attendees discussed how to move forward. Most agreed that investments in technology were required to better centralize data for use in analytics and by emerging technologies, to optimize and automate processes, and to reduce the expense of maintaining legacy systems. Many large universal banks have centralized their Finance, Risk and Treasury teams under single leadership and looked to consolidate the systems and data required to support these businesses. Efficiencies have been achieved through decommissioning legacy systems enhancing the quality of common data used across these teams.

“ Both banks and fintechs today spend approximately seven percent of their revenues on IT; but while fintechs devote more than 70 percent of their budget to launching and scaling up innovative solutions, banks end up spending just 35 percent of their budget on innovation with the rest spent on legacy architecture.

source: McKinsey Global Banking Annual Review 2019



## Drivers for change: regulatory expectations are still a factor

The business is looking to finance leaders to demonstrate how new digital technologies can be used to reimagine finance and deliver the MI and data that the business is demanding. In parallel, regulators are making it clear they expect more accountability and ownership from CFOs. In the UK, the Senior Manager and Certification Regime, in parallel with the Recovery Resolution and Planning and the Bank of England's Operational Resilience framework, is driving the need for finance to show enhanced data quality and control. Similar themes are being reflected in the UK's Finance Reporting Council, Singapore's MAS, and Australia's Royal Commission into Misconduct in the Banking and FS Industry.

## How to get to a digital future

The discussion demonstrated the range of views about how banks should move forward. One point of discussion centered on whether the digital finance journey should be approached as tactical or visionary. Many of the attending banks agreed that while the Big 4 have a vision of what the finance office of the future can look like, it's a challenge for many banks to map out how to get from where they are at present to that end state. Attendees agreed that outlining a vision is important to inspire and motivate but hard to get funding for. Tactical approaches such as breaking the problem into achievable chunks, like prioritizing specific data and reporting requirements, can help to actually create momentum.

There was also recognition that digital solutions can provide some of the answers but too often the use cases are required to meet an aggressive pay-back period and so organizations tend to focus on the less-transformative and uninspiring processes around the edges.

There was recognition that a controlled data model and subledger remains a key component of an efficient finance architecture for banks, though the challenge here is where to draw the line between finance, risk and treasury data as taking a one-size fits all approach risks repeating the mistakes of past projects that have over-reached in their ambition. Attendees departed the dinner considering next steps and how to bring these threads together in a transformative vision in their teams.

Thank you to the banking executives who attended this event!  
If you would like to join a future roundtable, please reach out to [amanda.steward@aptitudesoftware.com](mailto:amanda.steward@aptitudesoftware.com).

Aptitude Software provides software solutions that enable finance professionals to run their global businesses, forecast decision outcomes, and comply with complex regulations. Uniquely combining deep finance expertise and IP rich technology, Aptitude gives finance leaders the tools they need to transform their business and achieve their ambitions.

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