



Transforming Finance and Accounting to Optimize Financial Close

By segmenting processes, strengthening components and applying effective governance, financial institutions can heighten operational efficiencies and accelerate daily financial close.

Executive Summary

“Daily” or “same-day” financial close is no longer limited to a few leading companies in the high-tech industry. It is an increasingly pressing goal for CFOs and CIOs across large and medium-sized institutions in the financial services arena. More than just efficient bookkeeping, daily financial close is about optimizing vital business processes, and effectively integrating key financial and operational systems. Most important, it offers institutions the distinct advantage of being able to quickly sense and respond to critical business needs and developments.

Working with CFOs across industries, we have found that many firms are striving to fulfill the vision of the daily financial close, but are far from ready. Years of neglect – stemming from treating the finance and accounting (F&A) platform as a “cost center” – have resulted in complex, disjointed processes and systems that require extensive manual intervention to accommodate even small changes. Increasing government scrutiny and the evolving accounting regulatory landscape, plus the relentless focus on cost and efficiency, are also challenging businesses to modernize their F&A platform.

Nonetheless, while many companies understand this need, they continue to rely on large, enterprise-level vendors, services and solution suites to deliver results. Yet industry studies – and our experience – suggest that the majority of the organizations that adopt this approach end up disillusioned. We believe that the principal reason for sub-optimal outcomes is the lack of a comprehensive, structured and tailored strategy that starts with a focused assessment of key issues and gaps.

This white paper applies our experience in supporting such initiatives, and outlines four guiding principles for institutions to follow as they embark on F&A platform transformation:

1. **Formalize** the F&A value chain.
2. **Modernize and strengthen** the F&A platform.
3. **Assess and optimize** existing operating models with vendor partners and subsidiaries.
4. **Strengthen** overall F&A platform governance.

We will also recommend a set of success factors for measuring progress and aligning transformation activities to achieve the end goal.



And finally, we will showcase the core principles highlighted in this paper within the context of a recent F&A platform transformation at one of our largest clients, a North American regional bank. We were engaged to address some of the key CFO challenges associated with F&A platform optimization and financial close. Our recommendations, based on our guiding principles and outlined approach, have started to deliver immediate, significant value within the client organization (see page 7).

Drivers of F&A Platform Transformation

Several factors are elevating the importance of F&A transformation to a level that is equivalent to other strategic challenges faced by many global companies. These trends, which have brought about key shifts in the F&A operating landscape, call for next-generation capabilities driven by:

- **A sharper focus on achieving the goal of single-day financial close:** Global technology companies such as Cisco Systems¹ and Intel have to a large extent successfully implemented solutions to turn this vision into a reality.
- **A holistic evaluation of today's plethora of F&A optimization solutions** to identify the right fit, based on vendor maturity, cost-effectiveness and long-term value.
- **An emphasis on enterprise analytics, centered on F&A data** to support strategic

activities such as annual growth planning; M&A valuation and screening; performance reviews; business expansion due diligence, and process transformation.

- **A recognition of the increasing importance of standardized operating models** across business units (e.g., subsidiaries) and the need for strict compliance with industry standards (GAAP,² IFRS,³ XBRL,⁴ etc.) and principles (e.g., accounting, regulatory reporting, SEC filings).

Guiding Principles for Improving F&A Effectiveness and Accelerating Financial Close

Among the key issues that can thwart a lean and nimble F&A platform is the inherent complexity of financial accounting across the value chain. Variations in transactional data, various types of reconciliation assessments, different accounting approaches and a range of reporting requirements can stymie F&A platform initiatives. To effectively manage these challenges, we recommend a set of guiding principles that CFO and CIO organizations should establish and adhere to as they initiate a sustainable F&A platform modernization program.

Start by formalizing the F&A value chain – focusing first on understanding key financial close processes, then reengineering these processes (where possible) by applying lean methodologies and process automation.

GUIDING PRINCIPLE #1

The F&A Value Chain



Figure 1

These efforts can result in significantly higher efficiencies, faster time-to-market, more accurate transactions, and an increase in overall customer satisfaction. Our recommendations incorporate the following steps:

- **Formalize the F&A value chain and determine those financial close processes that are key to the business:** Based on our experiences, the F&A value chain (see Figure 1, previous page) and supporting platform incorporate five stages, beginning with the capture of data transactions through reporting.
- **Develop a best-in-class F&A value chain and supporting financial-close processes that encompass the following:**
 - **Data capture:** Aggregation of transactional data from subsidiaries in a standardized format, along with non-transactional business operations/events data.
 - **Transactional data management:** Effective integration of subsidiary data feeds, standardization of data structures across subsidiaries, and utilization of industry-standard data transfer capabilities (e.g. FTP, SFTP,⁵ Web Services).
 - **Data warehousing:** A robust data warehouse (DW) solution to structure, store and process data systematically to improve financial reconciliation, reporting and analytics.
 - **Accounting treatment and reconciliation:** The capability to support specialized accounting treatments such as SOP-03 and ALLL,⁶ along with a highly automated reconciliation process.
 - **Consolidation and ledger close:** A high level of automated data aggregation and consolidation, general ledger (G/L) data entry, and the establishment of rigorous data validation rules within the DW solution to ensure effective G/L data integrity and reporting data.
 - **Reporting and analytics:** Highly automated capabilities for data extraction, reporting (of internal, external and management reports) and analytics – driven by and optimized through the DW solution.
- **Assess, reengineer and automate processes while improving time-to-market, accuracy and customer satisfaction:** Business process reengineering is one of the most effective ways to optimize and streamline the overall financial close process. The following are key dimensions

F&A leaders should consider as they undertake process-optimization initiatives:

- **An end-to-end review of core processes** within the F&A value chain, focusing on processes that need extensive manual intervention. These can be as simple as data flow within systems – or service integration with subsidiaries.
- **Analysis of business process gaps** (e.g., steps to cover all exception scenarios, streamlining tasks, appropriateness of hand-offs) involves identifying areas that lack automation, clearly distinguishing manual touchpoints, and pinpointing redundant process steps.
- **Identification of lightweight packaged/customized solutions** such as workflow automation tools, to significantly boost automation across all processes areas – from the trivial to the complex.
- **Packaged solutions** to drive automation in targeted F&A areas such as loan accounting and asset processing. Some of these solutions can be automated and seamlessly deployed. In other cases, low to moderate efforts in customizing COTS⁷ solutions can deliver good results in several large F&A functions.

Modernize and strengthen the F&A platform by first segmenting it into distinct functional components, then optimizing those areas that need more attention.

Through modular assessment and optimization, institutions can prioritize and address their most pressing needs (e.g., a specialized loan accounting treatment) and streamline their F&A platform.

One of the main challenges our clients struggle with is arranging the F&A platform into a set of clearly defined functional components, such as accounting hub; data store to integrate all subsidiary data; financial systems; and reporting solutions. As explained earlier, the centerpiece of our recommendations is a robust, modernized F&A reference architecture (see Figure 2, next page). This becomes the foundation for decoupling key capabilities/components, then assessing them in depth to address functional, process and technology challenges. It can serve as a master blueprint for incrementally achieving a best-in-class F&A platform that is technology-led, agile and cost-optimized.

GUIDING #2 PRINCIPLE

Key capabilities/modules within a modern F&A platform incorporate:

- **Optimal integration of subsidiary data feeds:** Institutions need to invest in distinct file-transfer capabilities, along with data standardization and governance, to streamline, automate and integrate subsidiary data – an area that typically requires extensive manual intervention.
- **An accounting hub for managing accounting transactions and applying contextual accounting treatments:** The accounting hub will decouple, dissect and modularize key F&A processing and closing activities, and

move them upstream from core ERP-dependent business processes. An accounting hub also automates critical areas that traditionally entail significant manual intervention. Today's accounting teams spend a lot of time processing and transforming source-system transactions and corresponding accounting entries. A dedicated accounting hub enables the F&A process to take on additional capabilities (due to modularization) as needed.

- **Data warehousing:** Data warehousing can play an important role in integrating and storing the majority of data across key source systems. Establishing baseline data models and comprehensive data-mapping

A Functional F&A Reference Architecture

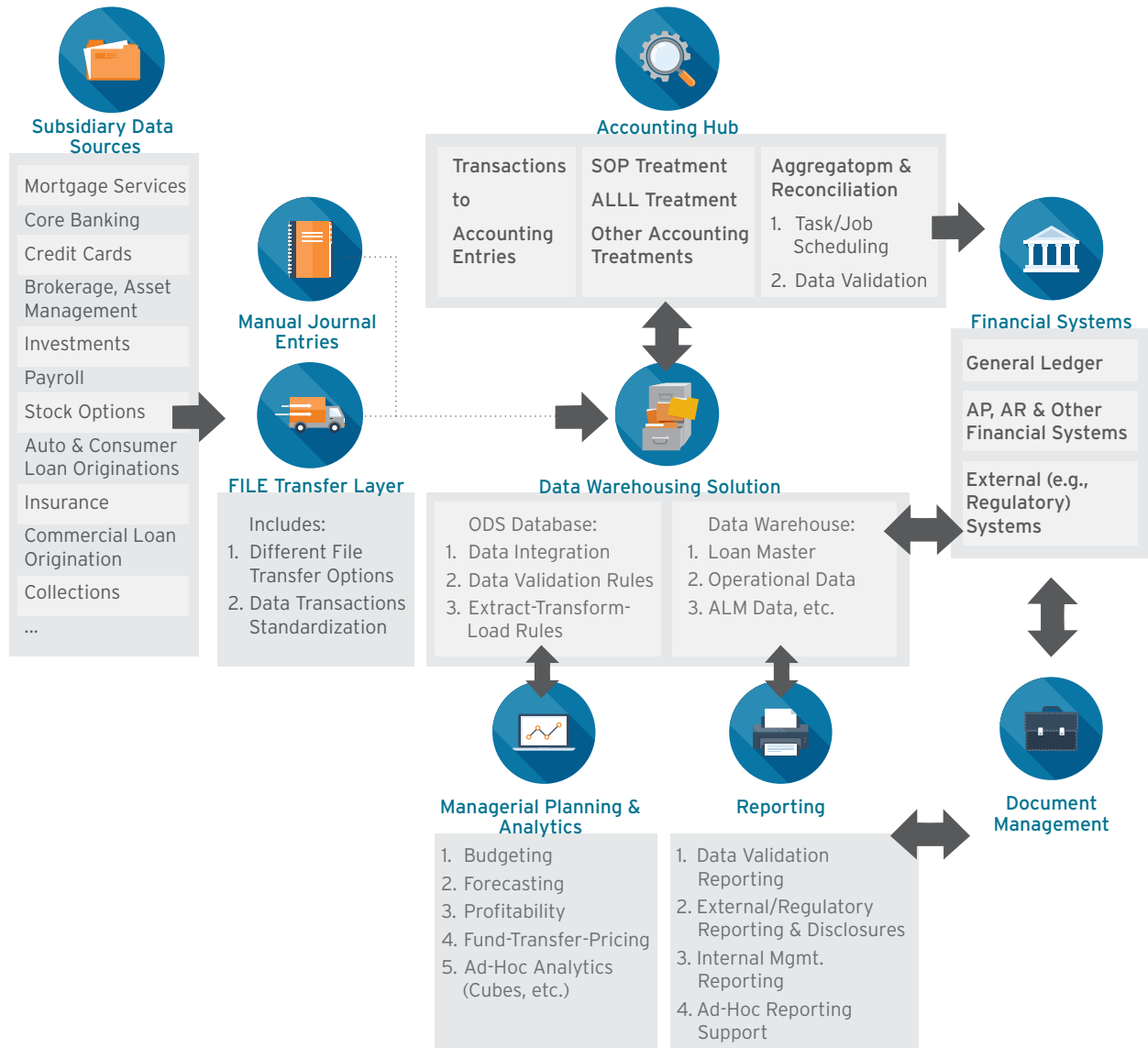


Figure 2

elements for various systems is the first step in developing an enterprise data-warehousing capability. To achieve optimal benefits from the data warehouse, we also recommend strong governance, along with a seamless data flow from subsidiary systems and individual business lines.

- Managerial planning, reporting and analytics:** Based on our experience and industry best practices, data warehouse support for planning/analytics capabilities (i.e., budgeting, forecasting, profitability and FTP) is the new norm for F&A industry leaders. Furthermore, automating key accounting activities through packaged solutions and integration with the DW is driving productivity and cost optimization in several global organizations. Automation and a pre-defined, catalog-based approach to support the majority of reporting processes – external/regulatory, internal and ad hoc alike – are critical to achieving efficiency and effectiveness.

Assess and optimize existing operating models with vendor partners and subsidiaries – focusing on dimensions such as engagement model, data flow and integration, and overall performance measurements.

Subsidiaries and vendors are increasingly more crucial to the success of organizations across industries. Consequently, many companies have come to rely more on strategic partners, which in many cases has led to large-scale inefficiencies for the client. Businesses tend to focus internally and, as a result, develop (and subsequently neglect) complex engagement models with their subsidiaries/partners. We highly recommend that companies embarking on F&A platform transformation focus on this issue. Figure 3 (next page) outlines several key levers that can drive efficiencies and standardization among subsidiaries and partners, significantly reduce overall financial close times and lessen the need for manual intervention.

Quick Take

Accounts Payable Optimization Through Process Automation

Organizations can employ robust, automated solutions to:

- Establish centralized receipt of invoices.
- Automate approvals for single, double (two levels of approval) and line items, and review invoices.
- Configure business rules within the AP workflow system in areas such as AP check processing.
- Automate invoice inquiries with enhanced self-service capabilities for general users.
- Automate IT processes in areas such as PO/Non-PO invoice completion, company structure definition, data exchange and file handling.
- Improve capabilities around vendor portals (data entry interfaces), supplier networks, procurement systems, notifications and escalation management, and workflow for non-invoice items, for example.



GUIDING PRINCIPLE #4

Strengthen overall F&A platform governance in three areas: organizational, technology and data.

A durable, structured governance framework that sets clear expectations from participating vendors/practices is crucial to achieving the goals of F&A platform optimization and tracking the benefits from transformation initiatives. A best-in-class F&A governance capability is based on three core elements:

- **The organization:** We advise institutions to reassess and enhance their accountability/RACI (responsible/accountable/consulted/informed)

organizational matrix across different F&A-related and operational functions within the business. Additionally:

- We recommend orchestration by the CFO office, with the right levels of executive support and representation among various F&A, business and IT functions.
- We advise our clients to focus on change, as well as workforce and skills management, when rolling out large-scale changes.
- We strongly support the development of a continuous improvement imperative – communicated across the business to encourage the identification and execution of optimization opportunities.

Levers for a Successful Subsidiary Engagement/Operating Model

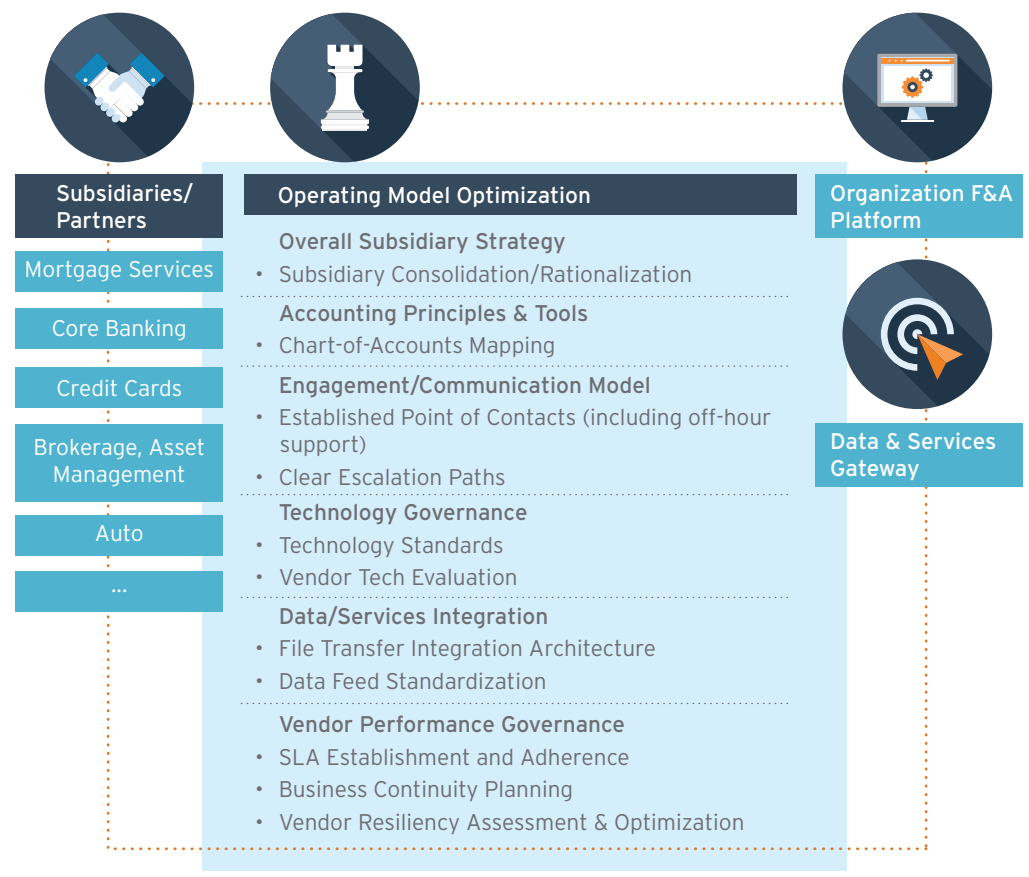


Figure 3

Quick Take

An Optimized Financial Close Process and Technology Refresh for a Large Regional U.S. Bank

We recently partnered with one of our largest U.S. regional banking clients to develop a program for transforming its F&A platform.

Business Challenge

Although the client expended a significant amount of manual effort managing several core F&A activities, it lacked the maturity needed to deploy and support technologies throughout its value chain. Its financial closure cycle (10 to 12 days) was much longer than the industry average (four to six days) – leading to significantly high operating costs and inefficiencies. In addition, a large part of the bank’s organizational functions were allocated to manual tasks, which limited the focus and resources required in strategic financial activities, such as data analytics. Against this backdrop, the CFO of the banking group engaged us to assess the bank’s entire F&A function and technology landscape, and define an improvement strategy.

Solution

Using our proposed framework, we approached the project in two parts.

- First, we conducted a comprehensive assessment – engaging stakeholders from various F&A sub-functions to identify shortcomings and pinpoint opportunities for improvement. We started with a review of the client’s entire F&A value chain to uncover gaps and set improvement measures, then took a deeper dive into areas such as loan accounting – deconstructing the process and addressing problem elements individually to develop a holistic solution. We also conducted an in-depth study of models for subsidiaries to use to detect, assess and resolve inefficiencies.
- The second stage of our engagement involved developing a contextual target-state F&A platform model to address key issues around F&A processes and technology, including improving overall F&A and segmenting IT capabilities into distinct initiatives. We identified opportunities in several focus areas, such as the development of a data warehouse; overall governance; general accounting; workflow automation; planning and reporting, and IT – all centered on financial close. We then

analyzed data and key processes in these areas – addressing pain points in loan accounting and reconciliation, for example. We also proposed solutions for simplifying the client’s chart-of-accounts structure and enhancing process flows, including packaged solutions to support functions such as loan accounting, managerial reporting and AP processing – eliminating the need for extensive manual intervention.

Benefits

We prioritized our recommendations in an actionable roadmap – categorizing them as foundational, short- and long-term tasks based on business value and delivery layers. Our client is well underway in executing several of the foundational and short-term initiatives, and has started to implement several recommendations for platform modernization, including:

- Optimization of the data warehouse solution.
- Adoption of a workflow automation solution.
- Streamlined management and regulatory reporting.
- A skills refresh and creation of new roles to strengthen governance.

The bank has already seen a significant improvements in its overall financial-close process, including a substantial reduction in manual intervention across several processes. The client has also experienced a boost in accuracy and efficiency in areas like loan accounting and AP processing, and reduced manual involvement by over 40%. As a result of these improvements, the bank has streamlined its overall financial close – trimming timelines by approximately 35% (with a target of up to 60% in the near future).



- **Technology:** We recommend a sound IT strategy and supporting governance to optimize and modernize the overall F&A platform. This requires:
 - A continuous focus on heightening efficiencies around service and data integration, platform rationalization, application rationalization and integration, and workflow automation, for example.
 - The cultivation of advanced capabilities and competencies in areas like analytics, mobility and knowledge management to identify and enable higher efficiencies.
 - Standardization of IT delivery practices across parent and subsidiary functions, and progressive adoption of performance improvement and control frameworks (e.g., Lean, Six Sigma, COBIT).
- **Data:** We advocate a data governance model that focuses on the entire data lifecycle – from guidelines for suppliers, source data integration, data cleansing and quality assurance capabilities, to best-in-class data management/maintenance. This requires companies to:
 - Institute audits for data marts, data warehouses and data flow channels on a periodic basis (typically after every financial quarter close) to identify and implement measures for performance improvement.
 - Maintain a continuous focus on uninterrupted data monitoring and security. This incorporates an advanced firewall architecture; a data vulnerability assessment; proactive mitigation planning; scenario analysis; data

loss; safeguards; and the establishment of an advanced, industrial-strength backup infrastructure.

Looking Ahead

It is a well-known fact that F&A platform optimization can bring significant operating efficiencies and associated cost savings. Yet in reality, improvement initiatives are often isolated – uncovered reactively, detected in silos or addressed in patches.

It is not too late for large companies to undertake a holistic F&A value-chain assessment with a set of prioritized initiatives to efficiently and effectively modernize their F&A platform.

While refreshing business processes plays a critical role in such programs, a comprehensive study of current IT capabilities is equally important to leveraging the power of mature solutions in the marketplace.

To summarize, there are two main areas that can bring on the next wave of change in F&A platform modernization: modularization of F&A capabilities with an infusion of new technology in the right places, and leveraging F&A-related data using analytics to support decision making in areas ranging from corporate investments, budgeting and deal structuring, to regulatory compliance and controls. When coordinated, both offer immense potential for helping institutions attain their strategic and operational goals for the F&A platform, significantly accelerate growth, and fulfill their objectives around operational excellence and cost optimization.

Footnotes

- ¹ Cisco's Virtual Close. <http://hbr.org/2001/04/ciscos-virtual-close/ar/1>.
- ² IFRS – International Financial Reporting Standards – IFRS as Global Standards: A Pocket Guide, 2014. <http://www.ifrs.org/Pages/default.aspx>.
- ³ GAAP – Generally Accepted Accounting Principles as part of FASAB (Federal Accounting Standards and Advisory Board). http://www.fasab.gov/pdf/files/2013_fasab_handbook.pdf.
- ⁴ XBRL – eXtensible Business Reporting Language. <http://xbrl.sec.gov>.
- ⁵ FTP, SFTP – File Transfer Protocol and Secure File Transfer Protocol. http://www.wise-ftp.com/know-how/ftp_and_sftp.htm.
- ⁶ SOP-03 and ALLL SOP-03 Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. https://www.fdic.gov/regulations/examinations/supervisory/insights/sisum04/accounting_news.html. ALLL – Allowance for Loan and Lease Losses. <http://www.federalreserve.gov/bankinforeg/topics/alll.htm>.
- ⁷ COTS – Commercial off-the-shelf Products. <http://searchenterpriseinlinux.techtarget.com/definition/COTS-MOTS-GOTS-and-NOTS>.

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