OLIVER WYMAN’S FUTURE OF FINANCE SERIES

UNLOCKING THE STRATEGIC MINDED CFO

Seven success factors for businesses to surge ahead

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INTRODUCTION

When a group of chief financial officers (CFOs) were recently asked to describe their role, 70 percent of the CFOs said, “as a true strategic advisor to the business.”

Today, CFOs have a critical seat at the senior leadership table, with organizations reaching to Finance not only for survival, but to also look ahead, forecast, and drive future growth.

This value-added shift has allowed financial institutions to become more efficient and ultimately more cost effective. However, many organizations are not completely well positioned yet — the business may not have the right infrastructure in place, the necessary talent or the essential forecasting data and analytics.

COVID-19 has further accelerated these initiatives. Many assumptions and needs that were made prior to the pandemic have become stronger realizations. What follows is our first insight in “The Future of Finance” series. Here, we take a deep dive into the evolving role of the CFO and offer success factors for how Finance teams within the banking and insurance industry can thrive, drive growth, and better position the company for the future. Although this paper focuses on financial institutions, the insights we share can be leveraged by non-financial companies.

WHAT HAVE WE LEARNED IN THE PAST SIX MONTHS?

For one, COVID-19 has reinforced the broader, strategic advisor role that chief financial officers and their teams are taking on within the business. With many competitive forces and challenges in the marketplace, having a Finance function that is positioned to strategically support the business can be instrumental in making the right types of decisions required for this environment. Especially now, it's paramount for businesses to have faster, smarter, and more dynamic forecasting tools and capabilities than previously — along with talent that has greater technical knowledge and a strategic-oriented skill set. Finance teams need the ability to dive in deeper and link their actions into what is going on in the market. This requires the investment dollars to build a better and more effective infrastructure, however it may not always align with cost control initiatives.

During our discussions with Finance teams, we have found that only 25 percent of chief financial officers feel that their Financial Planning and Analysis (FP&A) function is driving effective business decisions, and only 19 percent feel that it is efficient. There is a significant need for FP&A performance improvement by using better, seamless technology, more agility, and strategies driven by dynamic, real-time data.
Second, given the shifting market dynamics, cost remains a core focus for CFOs, and Finance will need to continue to lead the way in cost control. Cost management and protecting margins was already challenging for financial institutions due to the low interest rate environment and COVID-19 has exacerbated this issue. For example, banks are under increased pressure due to the revenue shortfall related to decreased interest rates; as such, costs continue to be a strong focus. And with the pandemic’s uncertain grip on the economy, banks are setting aside loan loss provisions to cover potential increases in defaults. Today, businesses need to build greater cost transparency within their organizations to enable better decision making and improve cost management over the long term.

Third, there is an imperative to make investments in areas such as digital, leading to the need to free up capital through cost cutting initiatives. Now, companies are quickly innovating, and projects of this nature are being prioritized and targeted for an accelerated start. Companies looking to gain market share are having to invest heavily in building out better interaction tools that consumers are craving, including websites and new apps that rival disruptors and make the customer experience easy, convenient and seamless.

At Oliver Wyman, we have been working with clients to solve these issues and to help them take practical actions to thrive in this market. With our first insight in this series, we offer our perspectives and market insights from working with leading global financial institutions; present the challenges and trends ahead; and weigh in on the success factors you will need to remain competitive and gain market share in this new normal.

Building a Finance function that is positioned to strategically support the business can be instrumental in making the right types of decisions required for this environment.
THE MODERN DAY CFO

“I’m not a controller, but a strategist”

Today, CFOs have a critical seat at the senior leadership table. Their finance and accounting roles have broadened over the years, allowing CFOs to become stronger, proactive strategic advisors to the business — driving decision making as well as maintaining the books and records.

Approximately 70 percent of the CFOs we had discussions with in banking and insurance said they now have responsibilities outside of the traditional Finance mandate and are taking on more strategic and operational responsibilities. For example, functions such as Strategy/M&A and Procurement may now fall under the CFO’s responsibilities. Many institutions are finding that having their Strategy/M&A function operate within Finance creates a beneficial synergy for their organization — allowing them to more effectively maintain alignment between financial forecasts and planned actions by the business to expand or contract; and helping them to holistically position the company post-crisis more effectively.

SUCCESS FACTORS

Through our conversations with financial institutions, we have found that not all CFOs have the same mandate or functions under their responsibilities. When the Strategy/M&A function reported to the CFO, the CFO and Finance function had intimate knowledge of what the business was trying to achieve. CFOs were able to build and manage Finance capabilities that better positioned the company for future success.

Versus when the Strategy/M&A function fell outside of the CFO area; which created less linkage, less transparency and less understanding. Here, the company’s strategy came forward and then Finance took subsequent actions that could have been made more quickly.

In our discussions with financial institutions, 47 percent are considering organizational changes to increase integration within the business. For example, shifting divisional CFOs to have a dotted line to business and a solid line to Finance.
With this shifting dynamic towards strategy, Finance teams said they need better data and analytics to support the analysis of risks, customer segments/behavior, and customer needs. In the following sections we present the success factors to get there.

Exhibit 1: The future of finance
Based on our discussions with financial institutions, we found that:

73% plan to materially invest in analytics to support better decision making

47% are considering organizational changes to increase integration with the business

Source: Oliver Wyman

Today, businesses are reaching to CFOs and Finance not only for survival, but to also look ahead, forecast, and better position the company for a post-COVID world.

KEY DECISIONS THAT CFOs NEED TO MAKE TODAY

As CFOs take on a more strategic advisor role, they must wear multiple hats to understand all aspects of the business. The Finance team needs to assess the current capabilities and types of pressures that exist across the board — whether it’s supporting business lines; staying on top of evolving regulations (such as LIBOR); changing the effectiveness and efficiency of the operating model; and/or leveraging new technology for reporting and forecasting. The following graphic presents considerations for CFOs and their Finance teams.
Exhibit 2: Key decisions that CFOs need to make today

The Strategist
• How do I support the enterprise on “bet-the-company” decisions/events?
• How do I maximize the impact of Finance in supporting business lines?
• How do I create a meaningful, efficient strategic planning discipline?

The Gatekeeper
• How can I stay on top of the evolving regulatory landscape?
• How can I improve the way that we manage risk?

The Operator
• How can we optimize processes to improve the quality and speed of financial decision-making?
• How do I change my operating model to improve the efficiency and effectiveness of Finance?
• How can technology improve the way that Finance serves the enterprise?

The Change Agent
• What is the best organizational structure for the finance in the next 3 to 5 years, and how will the team’s role be redefined and change?
• How can we leverage data and technology to survive/lead digital disruption?

Source: Oliver Wyman

SUCCESS FACTORS

Building a stronger Finance capability, with optimal efficiency and effectiveness, is achieved through improving across multiple dimensions in tandem. This requires the full support from senior leadership, developing an understanding and accountability across business functions, and successfully executing the plans laid out.

Exhibit 3: Redefining the finance function

Source: Oliver Wyman
CHALLENGES AND TRENDS AHEAD

KEY CHALLENGES THAT CFOs ARE FACING TODAY

Prior to the pandemic, Finance teams faced barriers and COVID-19 has exacerbated these challenges. The most significant universal issues for banks and insurers are cost pressures from the need to protect margins in a sustained low interest rate environment and difficulties with adopting new technology.

We have found that many of these challenges are connected. For example, changing regulatory pressures and compliance fatigue are directly impacting Finance operations as well as contributing to issues with attracting and retaining talent.

Exhibit 4: CFOs identified cost pressure from low interest rates as the top challenge

Number of mentions

1. Cost pressure from low interest rate environment
2. Internal inefficiencies across teams and workflow processes
3. Adopting new technologies
4. Changes in consumer demands met with scaled offerings
5. Dependency on hard-to-scale legacy systems
6. Attracting and retaining talent
7. Mitigating cyber security threats
8. Managing current regulatory demands
9. Challenges to capture, store, and use data efficiently
10. Geopolitical changes and frictions

Significance to organization

1. “Expectations to cut costs in low rate environments while increasing efficiency puts pressure on leveraging the technologies we have with fewer resources.”
2. “The business case for newer technologies is fuzzy today which complicates the investment process and reduces patience for pilots, test and learns, and integration/change management costs.”
3. “We're trying to be more customer-centric. Challenges come from dealing with demographic trends, as well as shifting customer preferences.”
4. “We're trying to be more customer-centric. Challenges come from dealing with demographic trends, as well as shifting customer preferences.”
5. “Regulatory challenges such as LIBOR are hugely impactful to daily systems and operations. From a talent perspective, regulatory fatigue is an issue.”

Source: Oliver Wyman
The key is not to get a one-time result, but to continue reducing costs over the long term.

1. MANAGING COST PRESSURE

In our discussions, most organizations (approximately 87 percent) have ongoing or planned cost programs, while 40 percent of those described are shifting away from one-off cost initiatives to continuous improvement.

Success factors: How strong is your organization’s cost transparency? And how well is your reporting being received by your company’s business leaders?

We found that a majority of organizations feel that their cost transparency needs improvement. When organizations have a solid handle on costs and can give transparency to those costs, more effective and impactful decisions can be made by business leaders, and this will position the company for improved cost management over the long term.

Given the economic uncertainty surrounding COVID-19, Finance must lead the way on cost transparency. It will be crucial to take a structured and systematic approach to cost and efficiency management efforts under a variety of scenarios, as well as take immediate actions to reduce costs due to the near-term profit outlook. To accomplish this, it’s imperative for business leaders to be given reports that offer breakdown costs with clear, visible, actionable insights. Through the simplification of costs and better descriptions of the actual costs listed in reporting, businesses can bridge the gap and improve cost management.

2. ADOPTING NEW TECHNOLOGY

With today’s shifting business conditions, Finance needs capabilities that can tailor models and reforecast when underlying conditions change. This involves agility, improved timelines, and retaining talent that can understand scenarios in a fluid environment. The insatiable appetite to leverage technology focused on integrating data and dynamic forecasting will continue.

Success factors: Today, companies should invest in faster, smarter, and more dynamic forecasting tools and capabilities than they previously did.

This requires the investment dollars to develop a stronger infrastructure. Success is contingent on investment beyond technology that includes an integrated and modern architecture, improved data management, and stronger talent training.
With the impact of COVID-19, many CFOs said that investing in a single general ledger and subledger function (for example, accounts payable, expense management) provided operational advantages and opportunities for efficiency. This architecture provided a more effective way to balance workloads across multiple Finance operating groups (different lines of business and geographies). And we have found that organizations who pushed to digitize processes (for example, invoice management, payment processing) have operated with fewer challenges during the pandemic than those who still relied on paper-based processes.

Most CFOs in our conversations mentioned that their organizations are using enabling technologies and robotic process automation (RPA), and many have deployed RPA within Finance; however, they have struggled to identify how to best apply them to achieve optimal benefits. For areas where RPA was successfully deployed, these areas had no productivity impacts during COVID-19.

With Finance involved with strategic decision-making, the team needs better data and analytics to support the analysis of risks, customer behaviors, and customer needs.

3. ATTRACTING AND RETAINING TALENT

The transformation of the Finance role has made a strategic, business-oriented skill set more in demand than before. Additionally, the increased use of enabling technologies and advanced analytics has led to technical knowledge being more essential, in Finance and in other areas.

43 percent of the CFOs we spoke to feel their workforce is not well positioned to support this shift. This is due to compounding factors, such as difficulty in attracting the necessary talent; changing career attitudes of younger, talented employees that move onto other roles; and issues with training more tenured employees.

The future is uncertain, and things will not be the same in the next 12-24 months as they are today. COVID-19 has already changed workplace dynamics, such as work-from-home arrangements shifting "from exception to accepted," and this may lead to new talent pools emerging, likely with a change in skill profiles, next generation quantum computing advances, and more employees working from different or remote locations.

Success factors: CFOs need to build the right mix of talent on their team.

The team must foster agility and strategic thinking, with the ability to consider the impact of decisions across the enterprise. They should also understand game changing analytics and be able to use an efficient forecasting process, and this type of team is often more expensive than a team monitoring the accounting rules.
When assessing talent initiatives companies need to focus on three key areas:

- **Attraction**: Gear recruitment efforts to attract strategic thinkers with process-oriented skill sets.
- **Reskilling**: Convince senior, tenured people with deep knowledge to endure change and learn new things quickly. Experienced, senior talent can also be paired up with digitally savvy, junior employees to transfer learnings between both groups.
- **Retention**: Prioritize training, leadership development, and rotational programs to retain data-savvy junior talent in a competitive environment. Offer interim projects outside of Finance so employees can develop new skills and experience within the business.

### 4. MANAGING CURRENT REGULATORY DEMANDS

We have found that the mounting regulatory and compliance pressures, such as the LIBOR transition, are impactful to daily systems and operations. In some instances, regulator disconnect may drive regional variations and redundancy. Regulatory fatigue for talent remains an issue due to the constant scope of change and increased pressures to be knowledgeable and accountable.

**Success factors:** Auditors will expect more automation and simplification in the future regulatory landscape.

As Finance talent keeps pace with changing regulations, they must have solid expertise in assessing risks and determining the outcomes on the organization. Regtech can also drive automation and help manage regulatory changes, allowing companies to move away from tedious, manual processes and share information more efficiently.

### 5. MANAGING CHANGING CONSUMER DEMANDS

In our discussions, we have found that many banking and insurance organizations are not as nimble as other industries when it comes to uncovering shifting customer preferences; however, financial institutions are starting to recognize that “this is where we need to go.”

**Success factors:** When tackling consumer-centric market dynamics, we believe that banking and insurance can learn a great deal from what other industry sectors have already accomplished.

For example, the consumer package goods industry is ahead of the times when it comes to understanding customer preferences in different market segments. With digital innovations, customers are craving seamless online experiences and apps, more engagement, and personalization. When Finance is connected to consumer needs and interests, the team can begin to track those details and start to see pricing and profitability by customer type — ultimately allowing Finance to gain deeper insights and make more impactful decisions.
DRIVE INTERNAL ORGANIZATIONAL EFFICIENCIES

How can your Finance division drive operational transformation and best serve your internal stakeholders?

Few companies have done this effectively, and this can make a huge difference. Strategic planning and forecasting require agile working styles across teams. There are ways that Finance can structure their organization so that talent is effectively matched up to select lines of businesses or stakeholders, allowing operations to be more efficient and impactful. For example, how closely is your CFO linked into the business? Is the CFO serving as a true strategic advisor or as more of a central command and control function? And within the reporting lines, does your business line CFO report to Finance or to the business line CEOs?

We have found that it may be beneficial to have talent on behalf of Finance or aligned with Finance that focuses on the business. This creation of business unit resources could sit within the business and report to Finance first and to the business second, or the other way around. Another consideration for this role is to select Finance team members with previous experience working inside the business or have a closer understanding to how the business operates.

GET STARTED

The road ahead is uncertain and now is the time to future-proof your business. With many competitive forces and challenges in the marketplace, having a Finance function that is positioned to strategically support the business can be instrumental in making the right types of decisions required to thrive in this environment. Well-planned actions taken today can help drive growth and win goodwill with customers, especially once the crisis fades.

The pandemic has reinforced the broader, strategic advisor role that chief financial officers and their teams are taking on within the business. At Oliver Wyman, we can help you to find your strategy and achieve it in a way that is market relevant. We know the types of pressures that exist across the board and can collaborate with your team to strengthen your Finance capability on a number of dimensions — whether it’s accessing your current capabilities; identifying business-wide transformation opportunities; becoming an efficient data-driven business; or building operating models both within Finance and across the organization.

The time to start is now.
Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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