

THE FUTURE OF FINANCE FORUM



*Hong Kong Round-table Discussion:
The Path to Forward Looking Finance*

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THE DISCUSSION TOPIC

How can the finance function position itself to be in the driver's seat on business strategy while evolving to meet emerging challenges?

At our recent meeting in NYC, finance leaders from some of the city's most important businesses reported near-constant regulatory and operational challenges. In many cases, this friction was enough to curtail areas of potentially promising growth; in the most severe cases, we heard companies completely abandoning highly lucrative objectives. And, one characteristic was universally accepted as a catalyst to failure: a lack of finance-quality data – which must maintain a much higher level of accuracy and detail compared to other divisions.

In our first meeting in Hong Kong, we wanted to explore how the challenges in NYC compared to APAC.

We asked 15 senior finance leaders:

- How are you moving towards the forward-looking role of the modern CFO?
- Do you think the finance function in APAC is ahead or behind your counterparts in the US on this journey?
- What roadblocks are stopping you right now from achieving your business ambitions?
- Is technology currently helping or hindering you?
- If you could make one change in your organisation right now, what would it be?

THE DISCUSSION

Our chair for the evening was Niels Boudeling, Chief Financial Officer Asia, Rabobank. A large cooperative bank with its roots in The Netherlands, Niels is responsible for finance, control & taxation in Hong Kong, Singapore, Mumbai, Shanghai & Jakarta. Niels is constantly searching for the right balance between commercial opportunities, risks and efficiency. Before joining Rabobank, Niels worked at Cartier, MontBlanc, FootLocker & Paxar in the UK, Switzerland & Germany in a variety of CFO and Senior Finance Managers roles. He started his career in 1981 as an Auditor for KPMG in the Netherlands.

To kick off the debate, our Chair for the evening began by asking: "What do we, as the finance function, need to do to become better business partners?"

THE REGULATORY ENVIRONMENT

Niels, our Chair, began the evening by sharing his experiences of numerous recent finance summits and conferences in which he was told how robots are taking over

the world. But he wondered: is this really the future of finance?

Niels made the point that the pace of change in business is so fast that the finance function has had a hard time catching up. He invited the audience to consider some of the recent developments in Finance. He evoked Sarbanes Oxley and how, since 2002, a lot of time has been used to ensure compliance – time that could have been spent serving the business. Following the 2008 global financial crisis, the finance function has allocated even more time to compliance.

Even in technology, the pace of change has been slow. The first ERP systems were around 25 or 30 years ago. Yes, today we have cloud systems – but, fundamentally, they haven't actually changed that much.

Insight, trust and efficiency remain the priority of the finance function. But for Niels, the question we should be asking in order to prepare ourselves for the future, is what else we need to do.

The finance functions in many companies are great at getting the data right, being compliant and getting information to management – but they fail to be real business partners. Niels asked the audience what challenges are you facing right now?

CHALLENGES

Our first contributor, a CFO from a large Financial Services company, cited data as their major headache: "We have more than 16,000 algorithms for our performance reporting. At the moment, not too many people are providing this service, so our first challenge is getting the data right."

However, another guest said that getting the data right is only half the job. The other half of the job is understanding where the finance function can really add value.

"We don't want to be in a situation where we are constantly scrutinised for cost," agreed another guest.

Resourcing was also cited as an issue: "Enterprise risk management now comes under our finance function, so the resourcing issues I have around that prevents us from dealing with the other issues you are talking about," said one guest.

THE ROLE OF THE FINANCE FUNCTION

"We get so focused on the numbers, but often we should be focusing on the narrative; finance needs to tell stories".

One of our guests made the point that there are two key areas that the finance function need to own:

- Capital management
- Challenging the business: are you making the right decisions?

"On a positive side," echoed another guest, "we have a lot of data and insight and we are in a good position to decide whether the business can take risks."

"Whatever industry you are in – insurance, banking, any industry – there is a tendency on the part of the business to look at the revenue opportunity. They see the prize, but not the cost to attain that revenue. As a finance function, we have the information to say, 'hold on, let's take a step back and look at this strategically'."

Another guest brought the perspective of the finance function within the insurance industry to the table. He pointed out that the finance function in that sector doesn't only have an advisory and safekeeping responsibility, but also an earning and value creation function.

"We need to go far beyond the role of challenger to effectively being a director; being proactive in the ideas we implement as a company."

Most of our assembled guests agreed that the challenger role is a key attribute for the finance function. However, one guest noted that it can be difficult for finance to play this role if the department lacks credibility within the business.

BUILDING CREDIBILITY

"We need to build our credibility and prove that we are not just there to say 'no' to things," our guest said. "If we deal with the efficiency issues, we can use that to gain credibility so that we can move into the challenger role," suggested another contributor.

However, another guest wondered if efficiency is the right way to go – while his previous organisation had focused on cost-cutting and rewarding shareholders, the organisation he is now with takes a completely different approach; investing to add value. Technology investment is a case in point, agreed another contributor.

Working closely with the business to understand the business need within the scope of a task or project was seen as another important way to build credibility. As was the ability to deliver a project on time and within budget.

THE SCOPE FOR AUTOMATION

On the whole, the group saw a need for greater investment in technology. However, there were some misgivings.

"There is always a tradeoff between speed, accuracy and cost," pointed out one guest.

One guest revealed there is some resistance to automation within their finance function as staff wondered what it meant in terms of their own job. There was broad agreement that people are a very important part of the tech piece.

Creating a narrative around the fact that you aren't seeking to make people redundant but, rather, freeing them up to focus on the value add was seen to be important.

"The processes around compliance are highly manual," said another guest, "I don't know how we could automate that."

"I don't have enough fingers on my hands to list all the regulations with which we have to comply," agreed another guest. "I hope the tech perspective can help to simplify this."

FINANCE QUALITY DATA

"To provide insight and value, it requires granularity and that granularity drives additional complexity – that's what forces you towards automation."

This speaker proposed that we need to ask several questions when embarking on a technology project:

- How do I get that data?
- How do I validate that data?
- How do I report that data?
- How do I use it?

"You won't be able to do it all at once," he acknowledged, "because most companies aren't going to spend the millions you need; you won't get the business funding. But ask: what's the business need that enables you to get that project rolling? Then you can build on it."

"There are thousands of analytic tools in the market, but most of you will still use Excel" said one guest. There was general agreement that the finance function needed to play catch up with their use of technology but that the difficulty in securing funding was hindering progress.

REGULATIONS AND INFORMATION

Not all guests thought technology was the solution to the burden of compliance, however. For some, the biggest challenge with new regulations was communication. Attaining acceptance from all parts of the business that everyone has responsibility for regulatory issues is extremely challenging, particularly in large established organisations.

One guest made the point that the dialogue between the front office and the finance function is vital if the finance function is to respond to shifting regulations and the changing risk appetite.

“Regulators have a very short fuse,” said a guest. “If there’s a crisis tomorrow, they expect you tell them within minutes what kind of exposure we have. Most financial organisations will struggle. It would take a tremendous investment to be able to do that.”

“Some of our businesses are obsessed with shortening the reporting period,” complained one guest, “But I’m not sure how that really adds value to the business. Yes, we have the information earlier, but we are not actually doing anything with it.”

It’s not just about having the information, but also the willingness to act on it, said our Chair.

“The question becomes not only how do you make it faster, but how do you make it more relevant,” agreed a guest.

BUILDING THE NARRATIVE

“Sometimes we get too focused on the numbers,” one of our guests proposed. “We need to be able to create the narrative around what we want to convey. We need to be able to tell the story and explain to the business why we are focusing on this number and what this number means to you as a business leader.”

THE PROMISE OF BIG DATA

Many of our guests were skeptical of the opportunities Big Data could deliver.

“It’s impossible for me to say how much we will make this

year. Even just the next few months is so hard to predict – the market is so volatile. Big Data might give you analysis and trends, but how accurate is that? I really don’t know” stated one guest.

However, the integration of big data with machine learning was viewed more positively.

“We can correlate large amounts of data in the hope it gives us some kind of business opportunity, but that doesn’t give us a meaningful outcome. Machine learning is the next step. The combination of big data and machine learning analytics could be very valuable.”

“Data is interesting, but markets can be unpredictable. Some data can be correlated and once you figure out what those bits are you can forecast accurately – at least as far as those bits are concerned.”

“Giving business the leverage to change direction could be very powerful,” agreed another guest.

THE FUTURE

The tension between the day-to-day ‘bread and butter’ work of compliance and the need to add real business value was felt keenly by all our guests.

One guest made the point: “we need to show finance is not just a control function, but that we can create solutions.” In general, however, there was a lot of optimism in the room for the potential scope for the finance function to carve out this role, although it wasn’t universal.

“I think the future is very bleak for the finance function in its current form,” commented one of our guests. “Business is moving at a very fast pace and it is difficult even to identify who your competitor is – is it from your own industry?

Or is it from outside? Most often, regulations require a certain way of doing things – and this creates a bottleneck. The choice we’ve got to make is: are we going to be the bottleneck – or will we support the business as we grow?”

“At the end of the day, if the business doesn’t grow, finance doesn’t have a reason to be,” answered another guest.

THE CONCLUSION

The Club united CFO's, Financial Controllers and leaders within finance from organisations such as AXA, Merrill Lynch, Manulife, Generali, Society Generale, Credit Agricole, JP Morgan and select others – on this occasion at Grand Hyatt, Hong Kong – to discuss what the future of finance looks like. During the evening, we considered many more possibilities for the future of the finance function than we can cover here. To gain the in-depth insights from which our guests benefited, book your place for next time via our website

www.futureoffinanceforum.com

CLUB PARTNER

We would also like to thank our Club partner, Aptitude Software. Aptitude Software is a leading financial software specialist. Aptitude's technology equips CFOs, of the world's largest organisations, with competitive advantage by streamlining & automating financial accounting processes & enabling faster actionable insights. This year Aptitude's enterprise customers use its proprietary software to help account for \$1 trillion in combined revenue & over 500 million end customers. Aptitude Software's headquarters are in London with significant offices in North America (Boston & San Francisco) & APAC (Singapore). Its clients include HSBC, Swiss Re, Singtel, Globe Telecom & Telstra.



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