A BPM Partners White Paper

How to Leverage Performance Management to Maximize Profitability within the Banking Industry

October 2011

Research Supported by:

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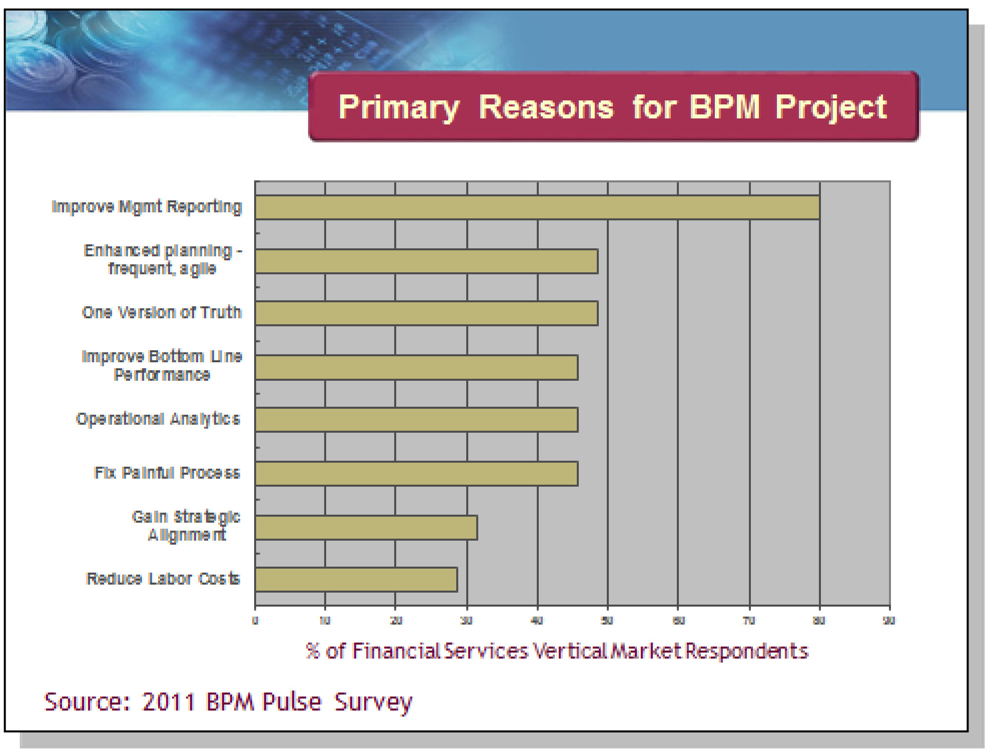
Executive Summary

Under pressure to boost profitability in fiercely competitive markets, many regional financial institutions are expanding their use of technology for budgeting, planning, forecasting and broader performance management needs.

Financial institutions are familiar with CPM (corporate performance management) and many have substantial implementations of CPM in daily use; most often for budgeting or consolidation. In many cases, they have implemented one or more point solutions that intertwine deeply in a particular business process, but these have specific and limited scope and do not integrate multiple business processes.

With banks focused intensely on the cost of acquiring customers and scrutiny of assets for underperformance, there is a critical need for sensitivity/what-if analysis, stress testing of loan portfolios, integrated planning, and integrated portfolio planning with other areas of the bank such as treasury, for capital adequacy analysis.

The most frequently cited CPM-addressable business issue within the financial services sector is the lack of integrated planning, reporting, and analytics processes and systems. To put it simply, executive, regional, and line of business managers need to know what is happening and its impact on profitability. The most recent BPM Partners Pulse Survey shows that by a wide margin, improved management reporting is most frequently the driving motive for new CPM initiatives.



Banking decision-makers need CPM solutions that can support and improve the complex and highly integrated performance planning, reporting, and analysis processes in order to improve overall profitability and predictability.

Most banks do not use all the extensions of CPM, such as tax provisioning and reporting, XBRL tagging and reporting, financial disclosure management, and analytics. Thus, they are using only a subset of the total capabilities available in today's CPM solutions.

Given the economic challenges that now confront financial institutions and the increasing regulatory oversight and compliance requirements, banks are looking to CPM solutions to improve their:

- integrated balance sheet and sophisticated P&L planning
- profitability planning and analysis
- planning for the major cost centers, such as HR planning and benefits
- multiple contingency and scenario modeling and "what-if" analytic capabilities

This white paper presents an overview of CPM solutions and how they are being successfully deployed in banking and financial service institutions, along with recommended best practices for successful implementations. This document should be of particular interest to executives or managers responsible for product (asset-liability) planning or technology solutions for banking business units that need to improve strategic agility and profitability.

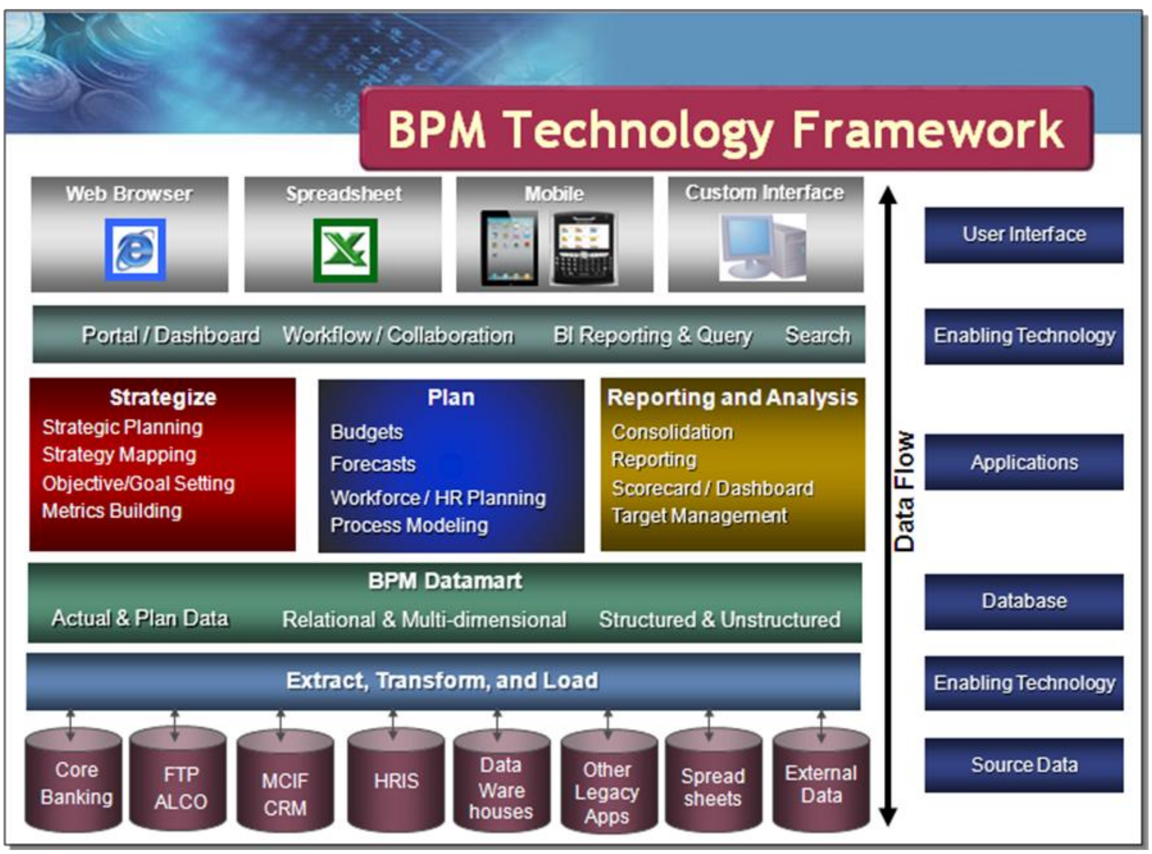
1.0 Introduction

For many banks, survival has been more important than regulatory compliance, so while they have looked to CPM packaged applications that support new reporting mandates, they focused more intensively on analysis, modeling, and forecasting. These CPM capabilities provide the opportunity to impact profitability. In particular, they can help identify and fine-tune revenue opportunities, and detect and resolve operational problems early, before they swell into financial losses that hit the bottom line.

Definition of CPM

BPM (business performance management), CPM (corporate performance management), and EPM (enterprise performance management) are the same thing. There is no difference between the meanings of business, corporate, and enterprise performance management. CPM solutions enable an organization to define strategic goals, and then plan, measure and manage performance against goals including modeling, reporting and analysis. CPM requires a set of integrated, closed-loop management and analytic processes, supported by technology, that address financial as well as operational activities.

The follow diagram illustrates the key components of the technology framework that supports virtually every CPM solution within the financial services sector.



2.0 The Importance of CPM in Regional and National Banking

The profitability, liquidity, and sustainability of any financial institution is determined by the strength of its balance sheet and its ability to maximize the net interest income margins realized on its deposit, loan and investment portfolios. Banks need the ability to model and monitor projected changes to their balance sheets. Other industries typically focus primarily on the income statement. Banks focus on managing their balance sheet first and foremost, because their net interest income derives from getting the optimal balance sheet for prevailing conditions. Therefore, for a bank, the key feature of any CPM solution is its ability to manage the following elements:

- Driver-based interest and non-interest income, with the ability to model multiple interest rates, margins, fees, and transaction volumes
- Non-interest operating expenses, such as workforce, compensation, and facilities costs
- Capital expenditure plans for investments related to items such as core banking and other IT systems and corporate office and branch location expansion plans

Integrated financial statement planning and modeling enables decision-makers to evaluate and compare many combinations. It not only helps them zero in on the most profitable scenarios, it's also a valuable tool for learning accurate cause and effect, getting a grasp on the most important drivers and how sensitive outcomes are to changes in those drivers. Knowing what really matters, and what has relatively low impact in a particular banking center, can do much to simplify the manager's job of decision-making.

In the marketplace today, banks can find a variety of commercially available CPM application packages which support the integrated financial modeling requirements of banks and financial institutions. Some of these solutions offer purpose-built solutions for the banking industry; others offer solutions that require varying degrees of configuration and customization. In any case, the key capabilities for CPM solutions within the financial services industry include:

Portfolio Modeling Built for Volatility, Not Just Calm Trends

Banks have unique requirements for modeling profitability, because they focus on the institution's portfolio of deposits, loans, and investments. Performance planning within financial institutions requires the ability to model multiple key drivers that directly impact a bank's balance sheet and overall profitability such as fixed and variable rate loan interest rates, loan amortization runoff projections, re-pricing schedules, and prepayment assumptions along with time-based investment and deposit balances, interest rates, and reinvestment assumptions. They put emphasis on modeling and managing the loan portfolio, which is the key to managing the balance sheet.

An analyst is likely to recalculate or reforecast the same data with a variety of volume projections. In recent years, some of these drivers have been highly volatile. When delinquencies began to spike, the change was so out of range that many banks probably saw it as an aberration. Those who could adjust the fastest and model it as the start of a trend were in a better position to manage their exposure.

Flexibility to model, analyze, and compare performance projections across several dimensions is essential within the financial services industry. This includes the ability to model and analyze actual and projected performance of key business drivers such as net interest income and margin at the portfolio, product, LOB, region, branch, customer, and instrument levels. Banks' legacy systems hold the granular data needed to support this level of modeling and analysis, but they generally lack the ability to model multiple driver based scenarios and efficiently slice, dice and sort on different dimensional data criteria.

CPM applications that can provide purpose-built driver-based models for the financial service market make it straightforward to model and compare different time periods, as well as different balance-sheet scenarios. The application will allow the user to save and name models with scenario variants and sort them according to results on a particular criterion.

Flexible Analysis and Driver-Based Scenarios

Flexibility to analyze and compare across several dimensions is essential in financial services. The query and report dimensions include net interest income and margin at the portfolio, product, LOB, region, branch, customer, and instrument levels. Banks' legacy systems hold the granular data needed for this analysis, but they lack the ability to slice, dice and sort on different criteria. CPM offers that capability, once the implementation and integration work is done.

CPM applications that provide purpose-built driver-based models for the financial service market make it straightforward to model and compare different time periods, to move a capex investment or marketing campaign through time, and to test different balance-sheet scenarios. The application allows users to save and name models with scenario variants and sort them according to results on a particular criterion.

Funds Transfer Pricing (FTP) and Scenario Comparisons

To maximize future profitability within ALCO risk guidelines, banks need to model, measure, and monitor profitability using historical and anticipated FTP rates assigned at the portfolio, individual customer relationship, and/or instrument level. Banks need to maximize spreads within a portfolio risk tolerance. Runoffs—and new loan originations and terms—need to be checked frequently with reforecasts of their impact on profitability. Recent economic challenges such as the mortgage securities crisis, significant unemployment, delinquencies and broad economic volatility underscore the need for this functionality.

Most banks already have Asset Liability Management (ALM) systems and processes in place that are capable of assigning FTP rates to existing portfolios needed to support this level of profitability modeling and reporting. Their transactional systems typically cannot be extended or customized, however, to provide modeling and analytics that are flexible enough to allow line of business, regional, or branch managers to query and view spread and net interest margins at the product, line of business, region or branch profit center level.

For a bank to derive full value from a CPM system, there are several key steps to complete:

- Data integration: integrate data on aggregated loans, investments, deposit balances, and FTP rates from legacy core banking and ALM data sources within a purpose-built CPM system
- Build performance planning and analytic reporting models--or migrate them over from spreadsheets

A CPM software provider that is "financial services-ready" will have this capability built in, as well as the ability to adjust the model for risk factors such as liquidity, interest rate changes, and credit problems.

Workforce Planning and Compensation and Benefit Expense Planning and Analysis

Labor expenses including salaries, wages, incentive compensation, employee benefits, and payroll taxes, are likely to be the greatest non-interest rate expense for banks. Like most other organizations, banks require the ability to plan current and expected workforce levels across the enterprise and model associated compensation, benefit, and tax expenses as part of their performance planning and forecasting processes. While the level of detail included in these plans – for example, planning by named associate versus by position, modeling planned promotions, transfers, or staffing level changes, or modeling benefit and payroll taxes at detailed level by associate or simply as a percentage of overall direct compensation expenses – may vary from one bank to another, compensation expense planning and analysis should be part of an integrated model, not handled under a separate application.

It's critical to meet security and privacy requirements for all workforce and compensation planning data. Regardless of whether a bank prepares and analyzes workforce and compensation expense plans through a centralized Human Resource function or through individual cost center managers, workforce plans and compensation expense data must be restricted to designated personnel managers or Human Resources team members. Human Resource Information Systems not specifically designed to support workforce and compensation expense planning or multiple internally-created Microsoft Excel spreadsheets or other outdated workforce planning solutions present significant risks regarding the accessibility and accuracy of these critical data elements. All these methods generally require significant investments of time and personnel to support the integration of workforce and compensation expense data within financial and operational plans and performance analyses.

Fortunately, most CPM solutions available on the market today provide robust models capable of supporting detailed workforce and compensation expense planning at virtually any level of the organization. These workforce and compensation models are fully integrated within the CPM solution to ensure data integration and provide complete data security and workflow and process management controls.

Capital Expenditure Planning

Modeling the impact of capital expenditures requires fewer inputs which are dependent on the legacy transactional systems, so an argument could be made for leaving this type of modeling in the spreadsheet domain. However, to carry scenario results of capital expenditure investments through to financial statements, it is preferable for banks that capital expenditure modeling occurs within the same CPM application as its portfolio modeling. A unified application also ensures that CAPEX models draw on the same data as other aspects of planning and forecasting.

A limited number of CPM vendors provide integrated capital expenditure planning functionality within their solutions. Some factors you may want to consider include whether the models can cover not only the initial expenditures, but also the operating expenses. A key capability is the ability of a CPM packaged application to place the expenditure at different points in time. For example, the opening of a new branch is pushed forward or backward—how does this impact the period-end bottom line? In a spreadsheet, this is very difficult to model; but can be straightforward in a packaged application.

In deciding where to open new branches, de Novo branch modeling is needed to project the ramp up rates of deposits and loans, relative to the initial capital costs/investment.

Financial Consolidation and Reporting Processes

The periodic financial consolidation and reporting process has grown more complex and carries more risk. Financial consolidation solutions often must meet different reporting standards, and there is more liability with external disclosure requirements, XBRL, and—depending on the SEC's policy decisions--in the future if not already, IFRS.

Financial institutions, particularly as they grow, have relatively complex closing and consolidation needs and may have to consolidate and report in different ways to fit country variations. CPM solutions can and should deliver quantifiable benefits in streamlining the periodic close process, automating as many aspects as feasible for rapid, error-free repetition in future reporting periods.

Banks need reporting for both internal and external constituents, including rate-volume analysis (RVA) which measures and reports how changes to interest rates affect the bank's profitability. Analysis and reporting of RVA is needed at the consolidated and line of business or business unit level; this requires that banks have the ability to analyze and report changes in yields and costs (rate variance), fluctuations in volume of earning assets and interest-bearing liabilities (volume variance), and the mix of assets and liabilities "mix variance" within their portfolio.

The planning and modeling capabilities of CPM software can produce the full set of profit and loss statement and integrated financial statements (as scenario forecast results) with each change to interest rates, spreads, growth, payroll, and non-interest income.

XBRL Report Filing Compliance

The XBRL (extensible business reporting language) regulatory standard requires understanding of proper tagging schemas and rules. Getting it wrong no longer is penalty-free; a system of increasing exigency and rising likelihood of penalties for more errors or omissions has been in place, and the window is closing on companies; now it's time to get it right and keep it that way.

XBRL tagging and reporting can be carried out by third-party companies, but there are several advantages to handling XBRL in-house, such as control, and speed. A CPM application suite that includes an XBRL function can save the bank time and money; tagging can be done once and replicated in future reports.

Regulatory Reporting and Mandatory Disclosure

Banks face an increasingly complex regulatory environment where they are required to comply with a variety of federal and state regulatory reporting and disclosure requirements. This includes federal reporting requirements such as all 10-K and 10-Q reports for the Securities Exchange Commission and periodic call reports required by the Federal Financial Institutions Examination Council (FFIEC) and multiple state banking regulatory agency reporting requirements.

Compliance with these external regulatory reporting mandates requires significant collaboration across the financial institution to ensure the accuracy of the financial and operational data which is reported, and of the associated disclosures and management discussion and analysis. Many banks lack fully integrated systems and adequate process controls to ensure the accurate collection and analysis of essential financial data and disclosures required on these regulatory reports. Data accuracy and timeliness of submissions for these reports are put at risk by the labor intensive and often manual process many banks have developed to meet external reporting requirements. Adding further complexity and time constraints to the regulatory reporting requirements, banks are required to electronically submit federal and state level reports through XBRL-compliant systems, such as the SEC's EDGAR system, which require banks to map their data to prescribed reporting formats and taxonomies.

With a properly designed CPM system, banks can streamline the financial close and consolidation process, provide workflow and process control capabilities to enhance collaborative development, review, and approval of management analyses and disclosures, and improve the transparency and auditability of financial and operational data within these regulatory reports. Data integrity can also be greatly improved through the use of a single, integrated CPM application combined with data extracted from the bank's core banking system, general ledger, and other operational data systems to meet the reporting requirements.

IFRS

IFRS (International Financial Reporting Standard), which already applies in a number of jurisdictions, especially Europe and Canada, is more than a different set of reports; it is a parallel system to GAAP. Unless there is a surprise and IFRS adoption is delayed indefinitely in the US, banks will have yet another challenging accounting and reporting standard to comply with. There is high value in an application with the capability to report in both GAAP and IFRS formats. BPM Partners estimates that half of banking institutions are already IFRS-compliant or have embarked on the road to compliance. Whether or not to choose a CPM suite that can provide IFRS reporting, not only GAAP integrated financial statements, is an important choice for banks to make in the near future.

Tax Provision Planning

Tax planning—determining how much to set aside for tax liabilities for each entity and jurisdiction—is often a silo function separated from other aspects of financial and operational planning within banks . It is a labor-intensive process with steps that include collection, manipulation, and validation of information. This is not an ideal situation.

The financial services provider that operates in multiple geographic areas, or has several subsidiaries in related businesses within a state or country, needs a way to integrate data collection for tax purposes, as well as deliver accurate forecasts of tax obligations for multiple legal entities and jurisdictions.

Although most CPM applications do not include functionality for tax provisioning, and fewer still support integrated tax provision calculations and planning, some do. How important will it be over the long term to have your tax group more closely linked to enterprise planning processes? Most banks, when they examine this issue, will determine they are better off if their tax planning team works from the same numbers—from a unified database—as the other planning staff.

Typical Adoption Path for Banks

In the initial implementation of CPM solutions, finance departments and planning groups within financial institutions usually set the goal of enhancing specific processes:

- strategic financial planning
- annual budgeting
- periodic forecasting
- internal performance management reporting

From one or more of these areas, they expand the CPM solution to support other key business processes such as:

- financial consolidation
- external regulatory compliance reporting
- tax provisioning and reporting
- operational analytics
- analysis and modeling of major non-interest expenses such as HR and benefits
- other business intelligence and analytic reporting

This is a typical progression, but by no means the only adoption path.

3.0 Benefits of CPM

Benefits That Apply to Most Industries

Financial institutions can realize most of the benefits that CPM solutions provide to virtually any other major industrial segment. The primary and most frequently cited cross-industry benefit is the ability to provide one version of financial truth to use in plans, budgets, forecasts, consolidation and reports on daily activity. Working from a single set of base data for financial modeling and planning—a feature of unified CPM application suites—brings consistency and simplifies collaboration for planning purposes. It also enables that sought after single, authoritative version of the financial truth.

A relatively new area of CPM, strategy-modeling (sometimes termed simply "long range planning") helps to improve operational analytics and link operational drivers to results. Widespread adoption of this new functional area of CPM appears likely; it is relatively easy to implement and provides a capstone for the more established CPM functions. Strategy modeling allows progress toward fulfillment of strategic objectives to be carefully monitored; instead of waiting for financial results, managers can see when operational drivers (as an example, work-in-progress reject rates) veer into the red zone and threaten goals. Applications that establish linkages between operations and strategy help to improve business processes and catch problems early, with a clear understanding of their impact if they go unchecked.

Other benefits of CPM implementations that apply cross-industry include:

- The ability to compare actual numbers to plan and reforecast, and take corrective actions, faster
- The ability to make solid, well-grounded decisions quickly and frequently
- More accurate tax provisioning
- HR, compensation, payroll, and benefits planning within the unified application
- Higher confidence level about decisions to adjust operations to enhance profitability; this goes back to the fact that CPM helps build realistic models using any number of driver variables and assess their impact on outcomes

Benefits Which Apply Specifically to Financial Services

There are several outcomes of CPM adoption that are of particular benefit to financial services companies. Often the greatest positive impact of a CPM solution implementation within a financial institution is the ability to support integrated balance sheet planning and portfolio scenario models and analysis. These models should integrate actual asset-liability data and key business drivers such as interest rate assumptions and historical and anticipated FTP rates.

Banks need the detailed view into profitability and profitability drivers that a unified CPM suite can provide, along with full financial-statement planning and line of business, regional, and branch level modeling. Banks, of course, tend to derive greater benefit if the CPM solution lets them analyze and model at the line of business, regional or branch, customer and instrument levels. Carrying the scenarios forward to see and compare integrated financial statements, then make decisions based on those results to optimize performance, is the end point of the whole effort.

This enables evaluation of local and corporate marketing/sales campaigns to target existing and potential customers with new product or bundled offerings that align with the bank's long-term balance sheet strategy.

Another key CPM solution benefit: banks are able to reduce risk, increase transparency and auditability, and lower costs associated with regulatory reporting compliance requirements. As just one example, the ability to tag statements for XBRL reporting gives more control over the process while meeting the existing and future regulatory reporting requirements. In addition, many regional and larger banks operate in multiple jurisdictions which can require them to tag for multiple XBRL taxonomies such as US or other country-specific GAAP and IFRS. Software which can accommodate multiple XBRL taxonomies gives them ease of compliance with less risk and lower cost.

Importance of Built-in Industry Intelligence

Banks have specific planning needs; they must accurately model and plan interest income by product, portfolio, and customer segment, for example. CPM software solutions for financial institutions should come with built-in industry specific capabilities and intelligence, and purpose-built models for integrated balance sheet planning. These tools enable the bank to accurately model the impact of changes in key interest rates, portfolio balances, and the effect of different balance sheet portfolio mixes upon net interest margin. Given the current capabilities of CPM solutions, a bank should not have to build these models from scratch.

Multidimensional analysis, particularly with vertical market intelligence built in, is also useful to help model clearer paths to profitability and then track progress toward those results. For example, this flexible analysis makes it easier to pick out profitable versus unprofitable products, customers, units, and marketing programs. A line of business, branch, or even relationship manager can model changes to loan interest rate, prepayment, re-pricing, or new business volume assumptions to see the effect on total profitability.

Additionally, the ability to not only model scenarios and project them forward through financial statements, but also to name, save and compare scenario results helps banks make accurate strategic choices to improve performance.

4.0 Software Selection Criteria

In all cases, the CPM initiative should start with careful requirements definition. Aligning a specific vendor's capabilities to your detailed requirements list is the key to selecting the appropriate technology platform. It is understood that one should check customer references, successful implementations, customer satisfaction surveys as part of your evaluation process.

The following should be on a bank's comparison list in most cases:

- How comprehensive is the application's modeling and sensitivity analysis for such factors as interest rates scenarios, spreads, growth rates, and payroll assumptions?
- Can the application calculate full product/branch/regional profitability using allocations and FTP rates and report on variances such as: rates, volumes, yield and mix? It is essential for the application to be able to handle the complicated variability in product mix, interest rates, portfolio behavior, etc. within a single model to provide realistic scenarios and what-if analysis.
- Does the application enable you to perform M&A modeling and goal seeking at the legal entity, region, and branch and portfolio level with detailed cash flow analysis?
- Does the application have robust allocation and FTP logic to enable it to construct budgets to measure profitability at various product, regional, and organizational levels? This ability to set business rules in modeling helps to evaluate projects and perform goal-seeking at the required level of detail.
- Can the application handle HR salary and benefit planning and analysis down to the employee detail level?
- Does it provide these capabilities within a single application?
- Does the application respond quickly—within seconds—across any dimension of bank data, with the ability to perform with your organization's volume of data? Fast response increases user satisfaction and allows the application to play a much stronger role in daily managerial decision-making.
- How open and flexible is the CPM application? Will the integration of third-party data be straightforward? Financial institutions typically have disparate data sources and applications. Does the CPM application integrate easily with the standards and platforms your company uses?
- What are the support and maintenance burdens? Will business units be able to construct their own models, budgets, and plans?

The banking organization should document its business requirements, with help from the above questions, and use them to assess the fit of technology vendors.

5.0 Available Solutions

Alternatives

Spreadsheets, the de-facto standard for planning and reporting, are generally overwhelmed by the budget, forecast, and reporting requirements of a financial services company, but they hold on as a legacy approach in many departments.

Unified CPM suites have been available for over ten years and are designed or customized for banking institutions. They represent an attractive option for performance management deployments.

Vendor options include:

- The mega-vendors, such as Oracle and SAP which have modeling solutions in the market
- Best of breed CPM solutions such as Longview Solutions that are capable of handling the complexity and large data volumes of the banking industry
- Point solutions or other transactional systems that are focused on other business issues, but provide asset/liability management tools.
- Service bureaus that typically provide a specific banking function or business process.

CPM Vendors Focused on Banking

In the marketplace today, banks can find a variety of commercially available CPM application packages which are capable of supporting the integrated financial modeling requirements of banks and financial institutions.

Software providers with a focus on banking have emerged, offering their unified solutions for data consistency and ease of learning, and integrated financial processes.

Among the newest vendors are small to mid-sized software providers that are focused exclusively on joining strategy-finance-operations, meshing them together with quantified, specific linkages (drivers).

Vertical market-oriented software vendors offer embedded banking intelligence, leveraging templates or custom demos. The expertise of their implementation team can contribute significantly to project success.

6.0 Real World User Examples

The following are specific examples of financial services organizations that have successfully deployed performance management initiatives:

Case study 1: Regional bank in the mid-western US with over $2 billion in assets and more than 1,000 employees, delivering banking, trust and investment solutions and services.

Business issues/challenges addressed with CPM applications:

- Uncertain, volatile economic environment and complicated product portfolio required very complex modeling
- Planning loan portfolio mix required careful scrutiny of asset performance necessitating stress testing and what-if analysis not supported by their current applications
- Need for detailed P&L and balance sheet planning
- Existing SAP solution had reached end-of-life and needed replacement

CPM implementation and benefits:

- Implemented CPM for complete financial planning: Complete P&L planning, salary/benefits planning, capital/human capital planning.
- Annual planning, forecasting and full financial consolidation
- Superior modeling - net interest modeling including FTP, fee revenue modeling, complex product mix and external drivers
- Single solution for annual and long-range planning, forecasting, financial consolidation and internal / external reporting

Solution implemented: Longview 7

Case study 2: Local / regional bank in the Northeastern US with over $3.5 billion in assets. This bank delivers a range of commercial and retail banking, mortgage, wealth management and trust services to individuals and businesses.

Business issues/challenges to be addressed:

- Stiff competition from larger banks for retaining and acquiring profitable customers
- Lack of proper tools for efficient planning and projections of loans and spreads
- Lack of visibility into profitability at the branch, customer and product levels
- Inefficient and time-consuming Excel-based solution

CPM implementation and benefits:

- Added flexibility in planning
- Detailed profitability analysis and planning by branch, customer and product
- Single source for loan-portfolio planning and projections
- Integrated tax provisioning and reporting along with financial planning and consolidation
- Finance-owned solution, with minimal IT burden enables speedy response to business needs

Solution implemented: Longview 7

7.0 Recommendations: Implementing CPM in Banks

Finance departments and planning groups within financial institutions usually target the initial implementation of CPM solutions to enhance:

- strategic financial planning
- annual budgeting
- periodic forecasting
- internal performance management reporting and analysis

Then, they often expand the CPM solution to support other key business processes such as financial consolidation, external regulatory compliance reporting, tax provision planning and provisioning, operational analytics, and other business intelligence and analytic reporting. This is a typical progression, but by no means the only adoption path.

Some CPM best practices differ for banks. In many industries, the initial phase of requirements definition can reflect corporate and perhaps regional requirements. In banking, it is essential to define requirements at multiple levels including corporate, line of business, regional, and branch levels. In banks, a substantial portion of planning is at these levels of granularity; for example, to evaluate the efficacy of a local customer acquisition or retention marketing campaign or new product and service introduction.

When defining requirements and designing CPM applications within financial institutions, organizations are cautioned to correctly gauge an important factor: the complexity of performance planning models that are needed. Fulfilling that requirement must then be balanced with the volume of data the application will need to process. The key point to remember is that the CPM application is not intended to serve as a transaction-oriented system such as the core banking or other operational systems, but rather as a planning and reporting solution that leverages summarized data extracted from these transactional source systems. This helps to define scalability requirements for the application and avoid performance issues and roadblocks down the road.

In the selection phase, the shortlisted vendors should demonstrate—in real time before your audience of evaluators using your data --how they align their capabilities to your requirements in a custom demonstration or proof of concept. By watching the actual steps they take to adapt their software application to your requirements—do they check options on a dropdown menu, or start coding--you learn much about the application's ability to change over time with your organization, as well as what you can expect during implementation. How the vendor customizes or configures the software is often more important than whether a vendor's solution is able to fit your company's needs out of the box. Their method will reveal a good deal about how adaptable their software is to your company, and whether your team can administer it without being limited by the vendor or IT support.

The ideal CPM implementation plan for a regional or national bank is often to begin with fairly rapid-benefit projects and meet a pressing need—profitability modeling for business units, or FFIEC reports—in the short term to establish credibility and faith. However, the CPM team should keep a clear view of the higher-impact benefits that come with a full-fledged implementation that includes comprehensive portfolio modeling, modeling and delivery of mandated reports, and tax provisioning and planning where needed. Ultimately, the bank aims to forecast, understand and control its own profitability—that is the real test of corporate performance management in financial services.

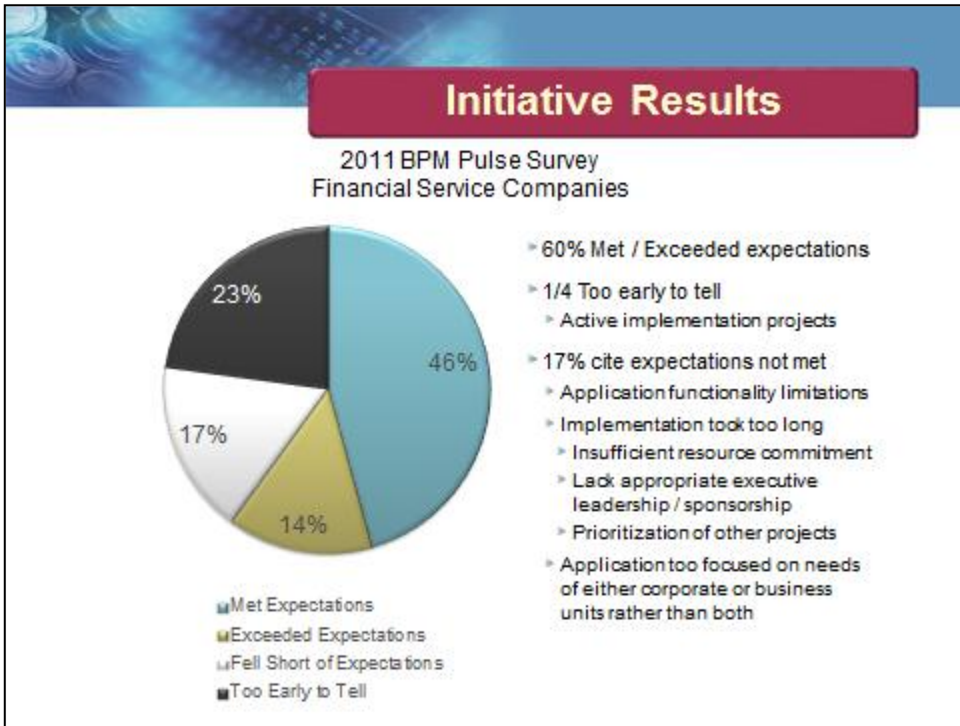
8.0 Conclusions

For banks and financial services firms, the capabilities that are most important in the selection of a CPM application include its ability to:

- provide a comprehensive, single version of financial status and facts
- model complex scenarios that go from the balance sheet to integrated financial statements
- model every aspect of the portfolio at the instrument, customer, branch and business unit level
- conform to all the applicable reporting requirements, such as GAAP, SEC, FFIEC, XBRL, and IFRS if necessary
- integrate summarized transactional level information from multiple source data systems

It is practical, and recommended, to begin a CPM implementation with highly achievable near-term goals to assure early successes and motivate support for a long-term gradual extension. At the same time, the larger benefits of CPM for a bank are realized when a range of data sources are integrated, and detailed, and realistic models for balance sheet and portfolio optimization are built or migrated over from spreadsheets.

Confirmation of the benefits of implementing CPM in banks is found in the satisfaction survey results. The most recent Pulse survey shows that about 60 percent of financial services firms were satisfied with their CPM implementation. Where expectations were not met, banks blamed insufficient executive sponsorship, slow implementation, or functionality that was more geared to the business unit or corporate level than desired.



When defining their functional and technical requirements, banks should carefully assess whether a unified CPM suite is the most appropriate solution. If not, the bank will be working with multiple databases and applications in different CPM point solutions. It may also have to forego the advantages of rippling scenarios forward to see complete integrated financial statements. With a unified application suite, all or nearly all planning can work from the same set of base numbers and integration issues are minimized.

Ultimately, CPM has the end objective of improved profitability. The bank aims to forecast, understand and control its own profitability—that is the real test of corporate performance management in financial services.

About BPM Partners

BPM Partners is the leading independent authority on business performance management (BPM) solutions and a founding member of the BPM Standards Group. BPM Partners' vendor-neutral experts guide companies through their BPM initiatives from start to finish, with solutions that help companies attain the maximum value from their business performance management initiatives. This is done with proven methodologies that provide insight on how to collect and analyze the right information to address specific business goals. BPM Partners leads clients through project needs assessment, roadmap development, requirements definition, KPI development, vendor selection, and implementation of departmental or enterprise-wide BPM systems. In addition, post-implementation services are available, including "tune-ups" of existing BPM implementations and assistance with extending projects to other operational departments outside of finance. For further information visit: http://www.bpmpartners.com.

About Longview Solutions

Longview Solutions provides corporate performance management (CPM) and tax reporting software that leading companies such as Time Warner, Home Depot, Eaton, Welch's, and Integrys use to drive performance with speed, visibility and financial integrity. Since 1994, many of the world's most respected financial services companies such as Trustmark, State Street, Swiss Re and ING Bank have been using Longview to create a single repository of financial truth from which all, or any one of the following key financial processes can be performed: Financial Planning, Budgeting, Forecasting, Modeling, Disclosure Management/XBRL Reporting, Statutory Consolidation, Management Reporting, Profitability Analytics, Tax Provisioning, Uncertain Tax Positions and Tax Data Warehouse. Longview is an Exact company headquartered in Toronto, Canada with additional offices in Philadelphia, Chicago (USA) and London (UK).

For more information visit www.longview.com/planning-consolidation-reporting-for-financial-institutions

Additional resources:

2011 BPM Pulse Results White Paper
http://www.bpmpartners.com/bpmcentral_whitepapers.shtml