CFO Outlook for Financial Institutions

Performance Management
Trends and Priorities

2022

Introduction

The pandemic's second year provided an opportunity for many U.S. financial institutions to steady themselves following the initial disruptions and economic turbulence spurred by COVID-19. While the pandemic has tempered expectations, finance leaders at institutions nationwide are optimistic for the future, according to Syntellis' annual survey of 174 finance professionals at U.S. banks, credit unions, and other financial services companies.

Overall financial performance throughout 2021 was better than originally projected. Financial institutions have skillfully navigated economic uncertainties and sizable business model shifts, including a raging housing market and the federal Paycheck Protection Program (PPP). Many have added new technological capabilities and made significant operational changes to address evolving needs over the past two years.

This report discusses the survey results, including the ongoing impacts of COVID-19 and current trends and priorities for financial institutions.

KEY FINDINGS INCLUDE:

Navigating a Shifting Landscape

- Financial institutions came through 2020 better than expected and are overwhelmingly optimistic about 2021 performance, with 92% of institutions expecting to meet or exceed their 2021 profitability goals
- Many institutions implemented data and reporting changes aimed at enhancing agility, including data analytics/dashboarding (45%), scenario modeling (39%), and daily data imports (28%)
- Operational changes aimed to reposition institutions for growth and provide flexibility for employees; including 65% allowing remote work
- Non-interest income was a major growth area across financial institutions of all types, with 66% reporting growth in 2021

Advancing Financial Planning and Analysis

- Most institutions (84%) should do more to leverage financial and operational data to inform strategic decisions
- Economic uncertainties associated with the pandemic have prolonged budget cycles, with 43% reporting that budgeting takes 12 months or longer (compared to 14% in 2020)
- Continued reliance on spreadsheets hampers progress; 39% report using spreadsheets as a primary means of budgeting
- Institutions do not proactively address known capability gaps, including 59% that acknowledge their data visualizations/dashboards are insufficient, limiting data visibility and making timely business decisions more difficult

Improving Profitability Analytics and Reporting

- Most institutions (71%) lack a clear understanding of profitability analytics and reporting
- Institutions have increased monitoring across various profitability dimensions, but clear gaps remain
- The industry has significant room for improvement in maximizing funds transfer pricing (FTP), with only half using FTP and just 57% of those using an instrument level, matched-term approach

Navigating a Shifting Landscape

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92% Expect to meet or exceed 2021 profitability goals

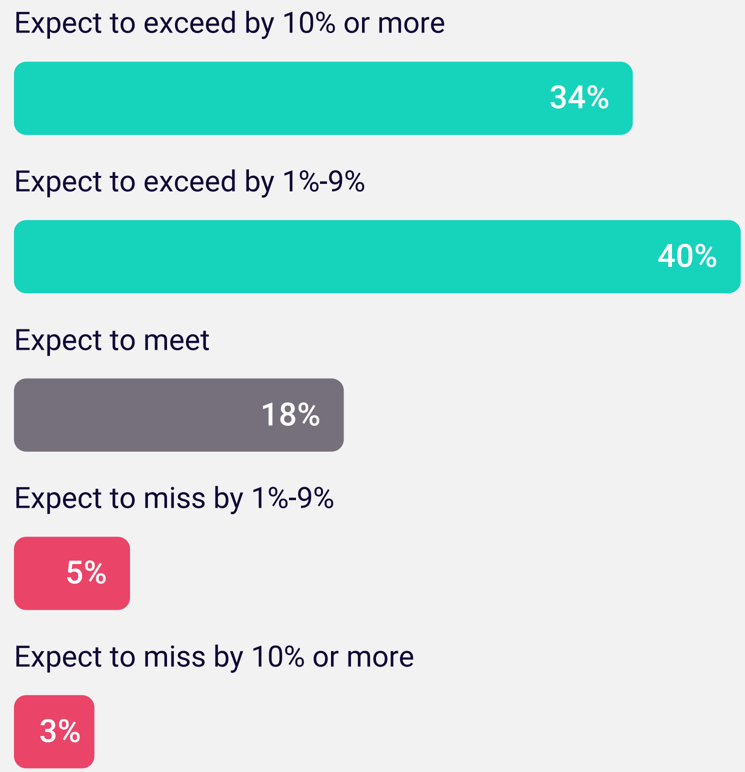
Positive momentum

Survey respondents were overwhelmingly optimistic about profitability in 2021. When answering survey questions in late 2021, 92% of financial professionals expected to meet or exceed their annual profitability goals. Forty percent expected to surpass their goals by 1%-9% while 34% expected to exceed their goals by 10% or more.

This positive outlook is an improvement over expectations at the end of 2020, when just 46% *expected* to meet or exceed their profitability goals. Institutions outperformed that expectation, with 76% *actually* meeting or exceeding their original 2020 profitability goals. About a third exceeded their profitability goals by 1%-9% while 24% exceeded them by 10% or more.

This performance suggests that financial institutions navigated pandemic and economic challenges well and have settled into a new normal.

Do you expect to hit your 2021 Profitability goals?



Embracing digital transformation

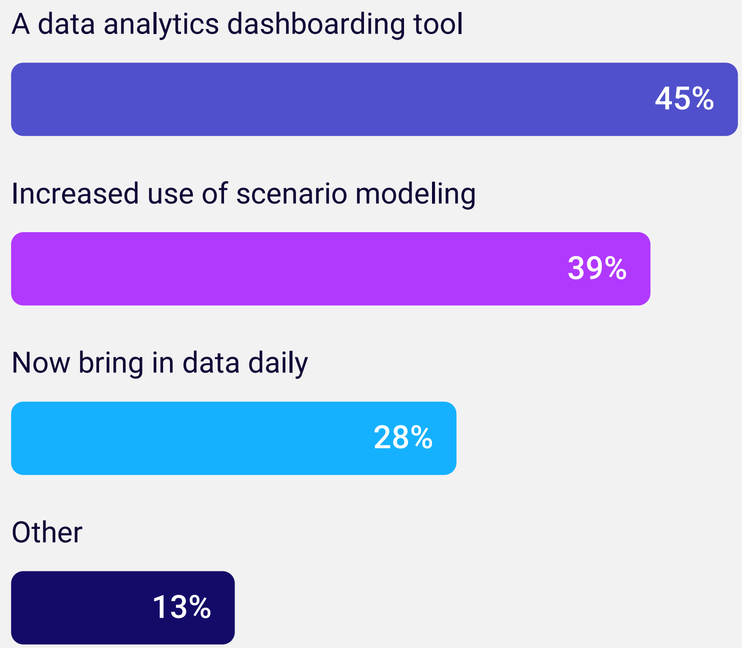
Many factors surely contributed to financial institutions' outstanding performance, especially the numerous technological, operational, and business model changes organizations made to better equip teams to adapt and plan for the future.

Expanding technological capabilities

Increasing flexibility was a primary goal. The pandemic reinforced the need for greater agility across the industry. While much of the focus over the past year has been on customer-facing digital transformation, the survey results also reflect the importance of advancing back-end capabilities. Many institutions implemented data and reporting changes over the past year to better monitor and respond to market shifts and track internal performance, such as charge-offs and deposits.

Forty-five percent said they implemented a data analytics/dashboarding tool, while 39% increased use of scenario modeling, and 28% now bring in data daily to drive timely business decisions. Some respondents said their institutions also added staff focused on data quality and remediation to better manage increased reliance on more frequent data and analytics.

What data and reporting changes have you implemented over the past year?



Implementing operational changes

Early efforts to mitigate the spread of COVID-19 forced leaders at many financial institutions to reassess traditional operations. Social distancing policies pushed companies to test remote work models in an industry that historically has been resistant to the concept. Ongoing nationwide workforce shortages also are reshaping recruitment and retention incentives. Many of those changes are likely to become permanently ingrained to meet employee expectations moving forward.

As a result of these and other forces, about 82% of respondents said their institutions updated their workforce policies and compensation offerings within the last two years. Employees had flexibility to work remotely at 65% of institutions, and 36% of institutions moved staff to different job functions to meet organizational needs. Other institutions offered compensation incentivizes for front-line employees based on profitable growth goals (16%) or moved staff to new locations to better address branch traffic (13%).

82% Updated workforce policies or compensation within last two years

65% Offered employees flexibility to work remotely

Axiom Incentive Compensation Management solution allows for weekly reports comparing individual vs. branch performance

"Now our staff can clearly see how each member contributes to the credit union's overall performance, and then adjust their activities to meet their goals."

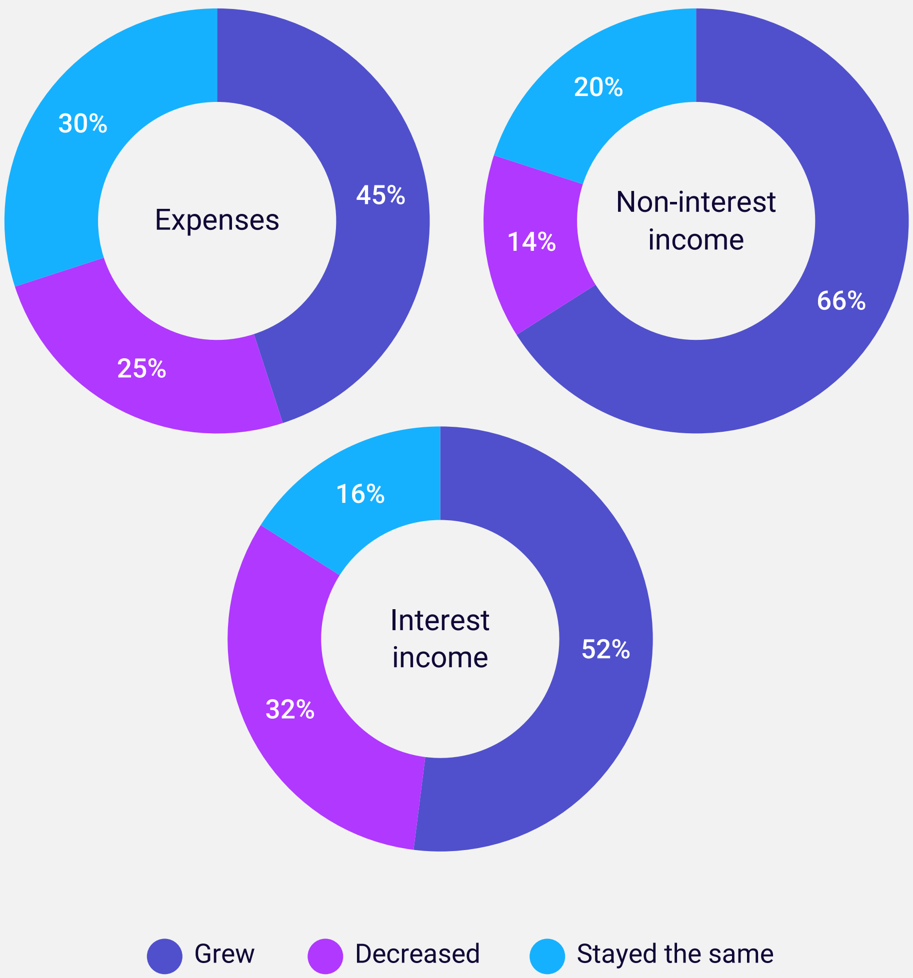
Brad Richardson, Director of Finance
Community America Credit Union, Missouri
[Learn more]

Adapting to business model changes

Financial institutions across the country experienced significant business model shifts throughout 2021. Two-thirds of survey respondents saw growth in non-interest income, such as increased use of credit cards and contactless payments due to social distancing, more account fees from higher levels of deposits, and more mortgage origination and servicing fees as massive moves toward remote work motivated many to purchase new homes.

More than half (52%) of institutions experienced growth in interest income from sources such as Paycheck Protection Program (PPP) and mortgage loans, while 45% saw expenses grow. Larger institutions with $5 billion-$9.9 billion in assets were most likely to see growth in non-interest income at 76%, followed by the smallest institutions (under $1 billion) at 67%.

In what ways did your business model change in 2021?



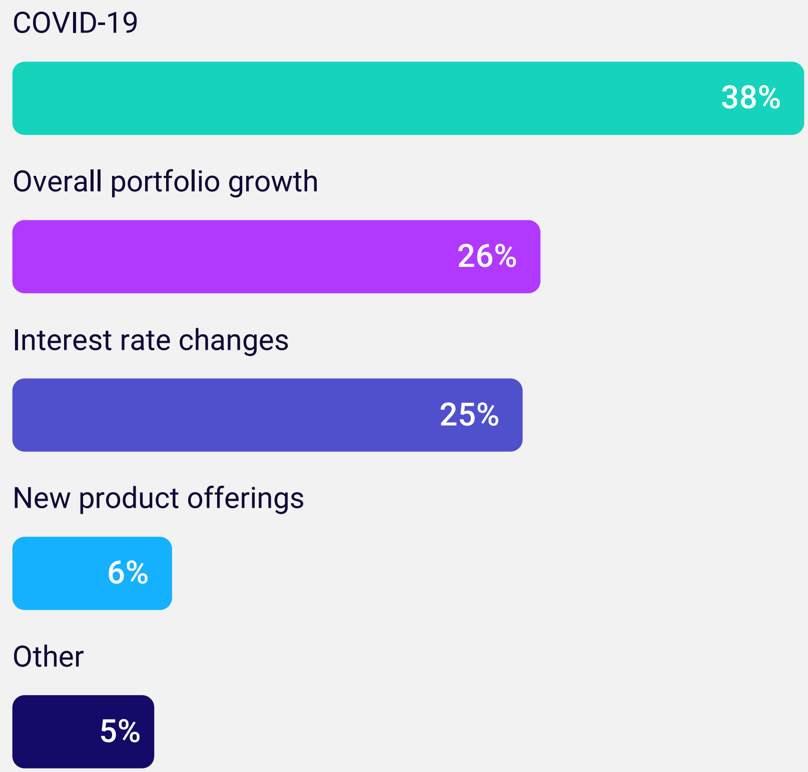
Numerous factors contributed to shifting business models across the industry over the past two years. Survey respondents identified the COVID-19 pandemic as the biggest driver of business model change, followed by overall portfolio growth (due to factors such as growth in deposits and mortgage lending) and interest rate changes. Other factors cited included new product offerings, organizational growth, staffing changes, leases/loan sales, regulatory changes, leadership changes, a low-rate environment, deposit growth, and adoption of new technology.

The primary areas of profitability growth vary widely across different sizes and types of institutions depending on their areas of business focus (e.g. consumer versus commercial lending, etc.).

Survey respondents identified the top five areas of profitability growth in 2021 as follows, with mortgage loans having the most growth impact:

56%	Mortgage loans
45%	PPP loans
43%	Commercial loans
36%	Deposits
34%	Consumer loans

What was the biggest driver for business model change?



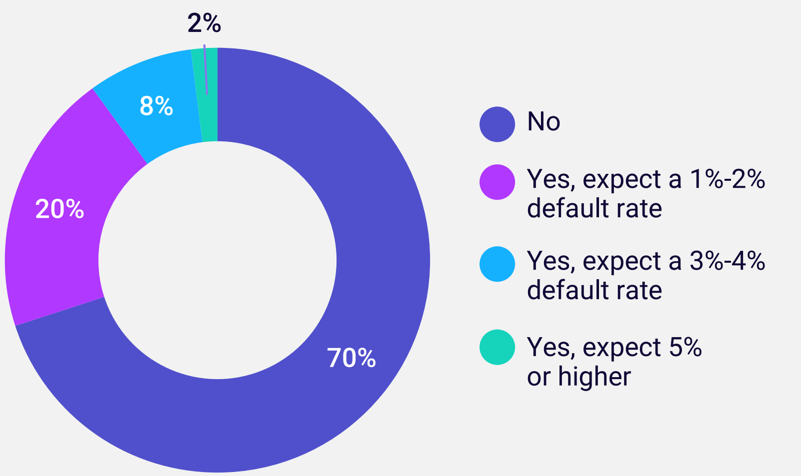
Asked whether they are concerned that the end of federal protections for evictions and foreclosures will lead to significant increases in mortgage defaults, survey respondents were overwhelmingly optimistic — 70% don't expect to see any increases. Among the 30% that expect some increases, a majority anticipate increases of just 1%-2%. This indicates a shift from earlier concerns. In a spring 2021 report, the Office of the Comptroller of the Currency predicted higher "mortgage delinquency and loss rates to materialize" as relief measures expired[1]. The survey results suggest those fears have been alleviated in recent months.

While PPP loans had a reasonable profitability impact, institutions saw only moderate customer growth as a result. More than 70% of respondents said they saw some growth in customers or membership from the program, but that growth was relatively low. Only 11% reported growth of 6% or more.

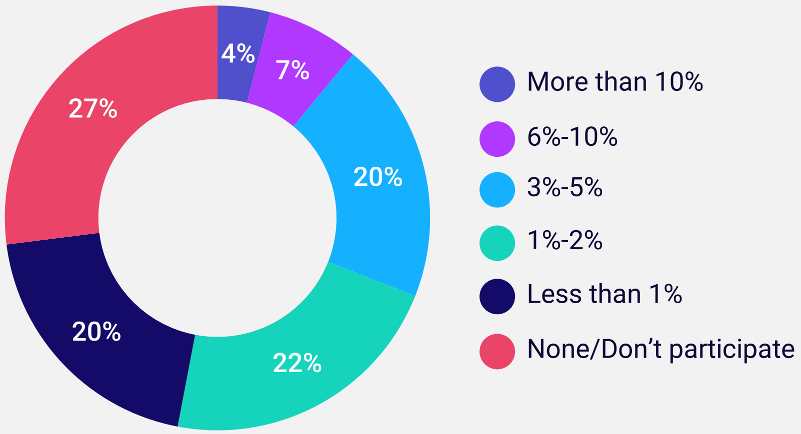
However, those new customers have contributed to growth in other areas. Forty-five percent of respondents said PPP customers have opened other accounts at their institutions, while about half said there has been some cross-selling of products for those customers that hasn't been analyzed.

[1]Office of the Comptroller of the Currency: *Semiannual Risk Perspective*. National Risk Committee, Spring 2021.

Are you forecasting increased mortgage defaults as protection ends for evictions?



How much customer/member growth do you expect as a result of the PPP?



Scenario modeling guides University of Wisconsin Credit Union to maximize mortgage growth

“Analysis of many ‘what if’ scenarios led us to shift our business strategy and put as many resources as possible — including excess branch staff — toward our first mortgage business. We eventually reforecasted the entire budget for the second half of the year because we saw that we could make up for a lot of our losses through the mortgage origination arm of our business.”

Glen Spaeth, VP and Controller at UW Credit Union

[Read the Q&A]

Our View

While growth in commercial loans has suffered during the pandemic, financial institutions have seen sizable deposit growth as unexpected stimulus monies and economic uncertainties drove many individuals and families to spend less and save more. This trend isn’t likely to continue in a post-pandemic era. Finance leaders should anticipate growth in other areas — such as alternative investment products — and ensure they have both the capabilities to model that growth and adequate liquidity when deposits wane.

Advancing Financial Planning and Analysis

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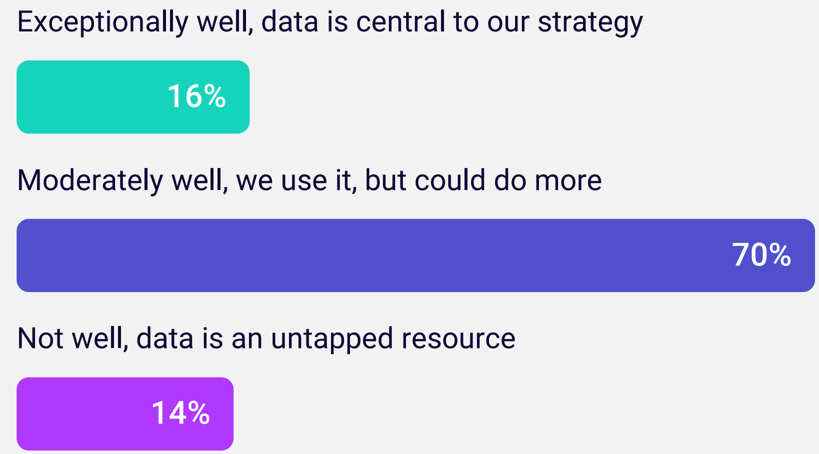
A need to accelerate back-end digital transformation

The previous section illustrates the numerous ways in which financial institutions have adapted to a tumultuous environment. Yet many of those changes have centered on pivoting to meet evolving customer needs. The 2021 survey results show that institutions have been slower to adopt equally important technological and process improvements for internal functions.

A majority of finance professionals (70%) responding to the survey said their institutions were leveraging financial and operational data to inform strategic decisions moderately well, “but could be doing more.” Fourteen percent said they are not using data well and that it is “an untapped resource,” while 16% said data is “central to our strategy” and they use it exceptionally well.

Finance professionals once again identified resource constraints as the No. 1 challenge in financial planning and analysis, followed by outdated/insufficient processes, personnel skillset, and insufficient tools.

How well does your institution leverage financial and operational data to inform strategic decisions?



Top financial planning and analysis challenges

66%	Resource constraints
48%	Outdated/insufficient processes
39%	Personnel skillset
25%	Insufficient tools

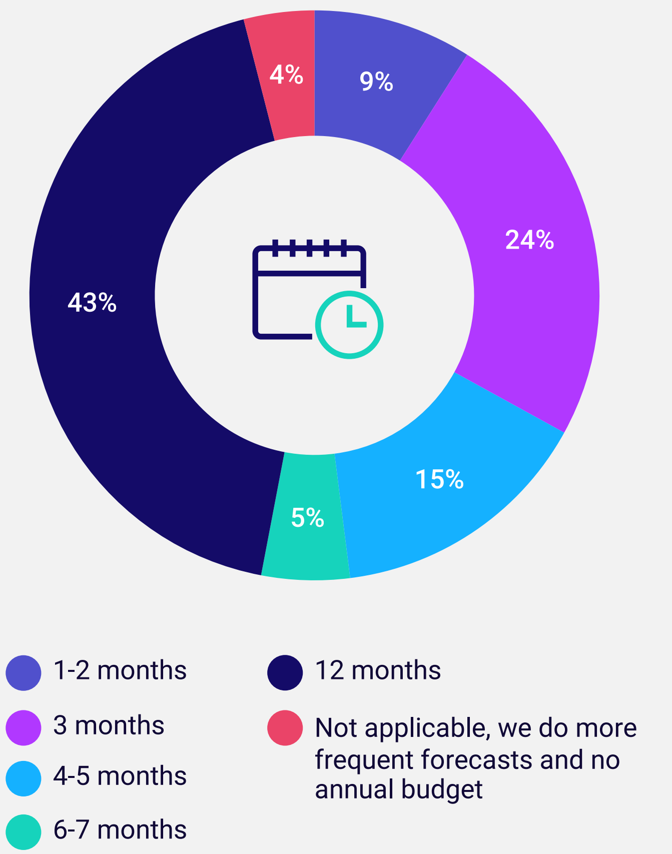
The uncertainties of the pandemic have led to longer budget cycles for financial institutions nationwide. Eighty-seven percent of survey respondents said their institution had a budgeting cycle of three months or more, compared to 70% in 2020. That includes 43% who said their budgeting cycle was 12 months versus just 14% in 2020. Combined with the 4% who explicitly indicated they do more frequent forecasts, the results suggest that economic volatility has driven many institutions to routinely revisit their budgets and conduct monthly reforecasts or rolling forecasting to keep up with a constantly changing environment.

Continued reliance on spreadsheets hampers progress

Even with all of the technological advancements accelerated by the pandemic, respondents said spreadsheets remain the primary system used for performance management in:

48%	Incentive compensation
39%	Budgeting and forecasting
36%	Scenario analysis
34%	Profitability analysis
29%	Relationship profitability and pricing

What is the length of your budgeting cycle?



For both profitability analysis and budgeting and forecasting, a cloud-based performance management application was the second most common system used, reflecting the numerous advantages around security and scalability provided in this environment. An on-premise performance management application was the second most common system used for scenario analysis and incentive compensation.

Smaller institutions with less than $1 billion in assets were most likely to use spreadsheets across all functional areas due to staffing constraints and limited resources for software investments. Incentive compensation was the only area where spreadsheets were most common across all institutions, regardless of asset size.

Respondents identified the three most challenging reporting tasks as:

1. Pulling data from multiple sources into a single report (62%)
2. Accessing clean, consistent, and trusted data (44%)
3. Creating dashboards and visualizations (41%)

Even when institutions acknowledge clear gaps in needed capabilities, they do not proactively resolve them. For example, about 60% of survey respondents said they had gaps in relationship management, profitability analysis, and pricing tools, but only 21% plan to acquire or replace those solutions in the next 18 months.

Three most challenging reporting tasks:

62% Pulling data from multiple sources into a single report

44% Accessing clean, consistent, and trusted data

41% Creating dashboards and visualizations

Another 59% indicated their data visualizations/dashboards were insufficient, but just 19% plan to replace or acquire those solutions in the next 18 months. This may stem from an inability to pull together data from disparate sources — organizations may feel they should improve data integration prior to investing in tools to use the data, although comprehensive solutions could solve both challenges at once.

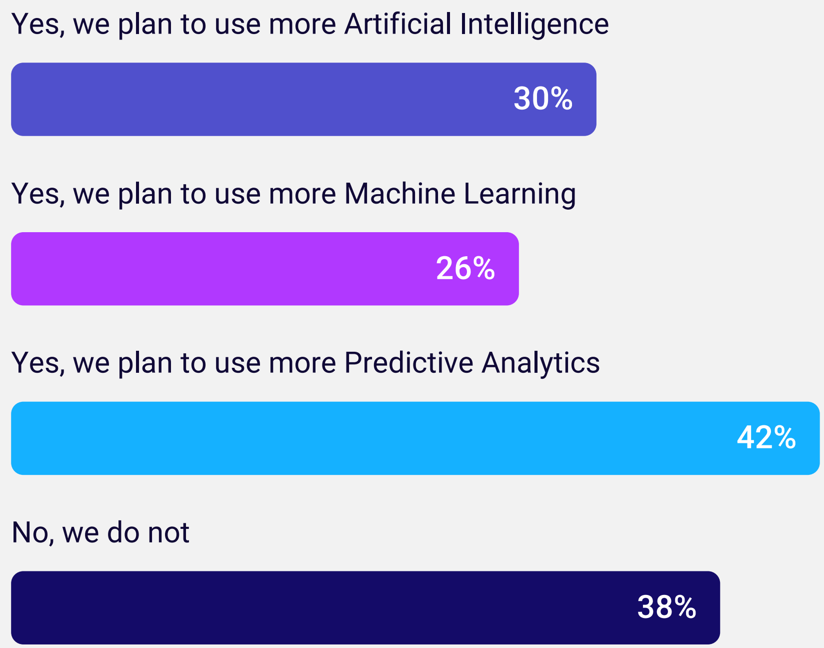
Respondents also cited a need to improve solutions for long-range strategic planning (46%), capital project planning and management (43%), and incentive compensation management (50%).

At the same time, there is growing interest in the use of data analytics. More than six in 10 respondents plan to increase utilization of data analysis tools within the next 12-18 months, specifically leveraging Predictive Analytics (42%), Artificial Intelligence (30%), and Machine Learning (26%).

Our View

While financial institutions have made some progress in advancing their financial planning and analysis capabilities, there still is a long way to go. Integrating intuitive, advanced data analytics capabilities with a unified enterprise performance management solution such as Syntellis' Axiom allows financial institutions to leverage a broad range of capabilities and resolve long-standing challenges, including provision of dashboards and visualizations to provide timely business insights, and the ability to pull clean, trusted data from multiple sources into one report for a single source of truth.

Do you plan to increase your use of data analysis tools in the next 12-18 months?



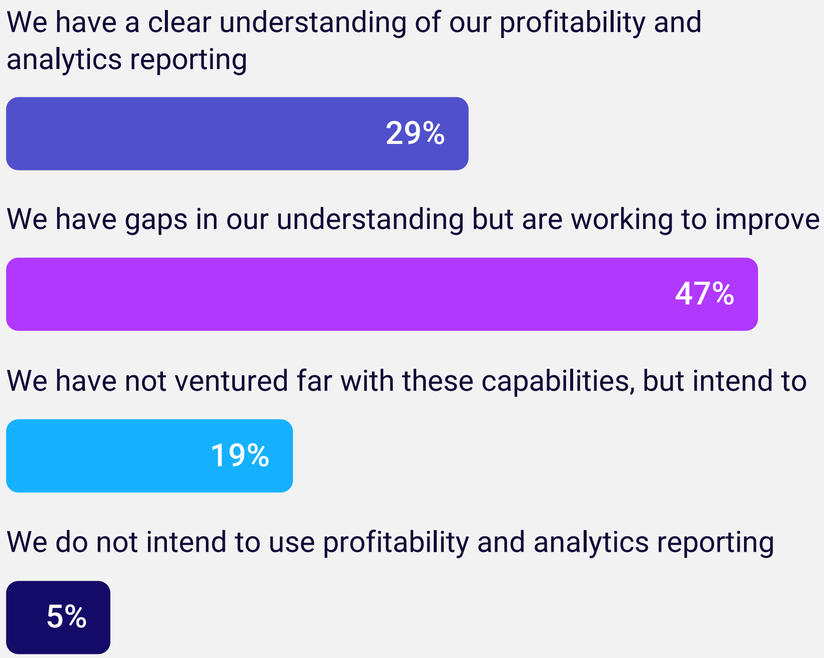
Improving Profitability Analytics and Reporting

Strong emphasis on profitability reveals gaps

Finance professionals at banks, credit unions, and other financial institutions are focused on building their institution's profitability analysis capabilities. Only 29% of respondents said their institution has a clear view of profitability analytics and reporting. Two-thirds are working to either implement or improve profitability analysis at their institutions.

Asked about specific profitability dimensions, there were significant gaps between what's important to monitor versus what is being monitored. For example, 53% indicated channel profitability as an important dimension to monitor but only 25% of institutions monitor it, 76% cited customer profitability as important but just 44% monitor it, and 70% cited relationship profitability as important but only 40% monitor it. These gaps suggest that many institutions do not have the technological reporting capabilities needed to align with organizational priorities.

Which statement best describes your profitability analytics and reporting?



The gap was narrower for officer profitability, which 44% said was important and 34% currently monitor. Overall, financial institutions monitored more profitability dimensions in 2021 than in 2020 to support leaders' increasing interest in measuring and understanding value drivers.

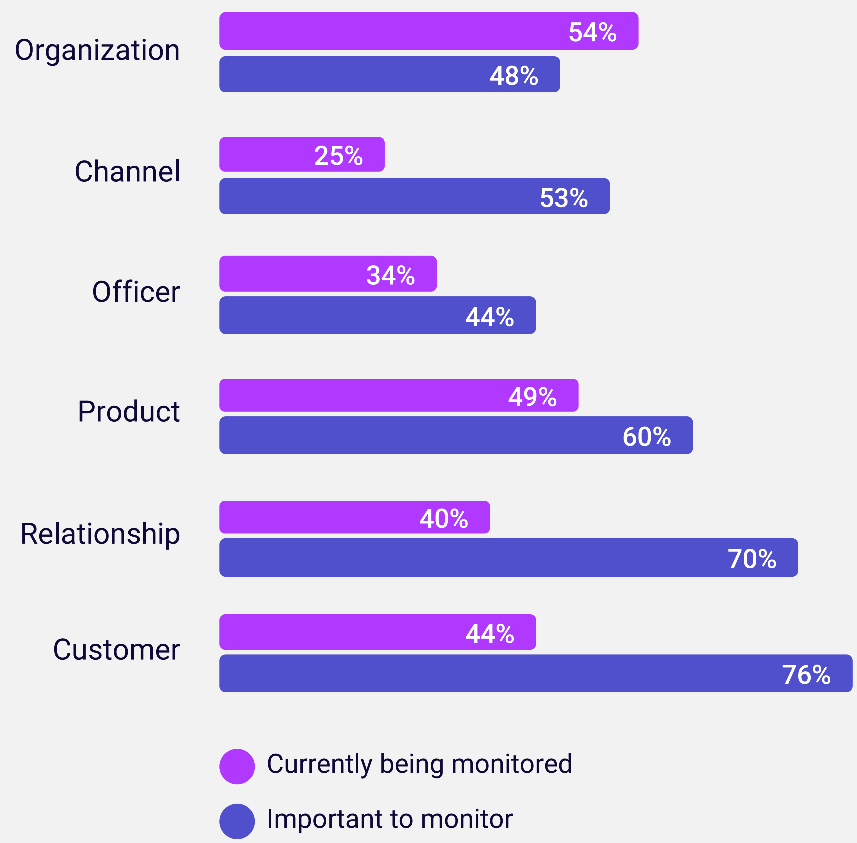
Do you use funds transfer pricing?

50% Yes   50% No

Fifty percent of respondents said they do not use funds transfer pricing (FTP), which would enable them to more accurately measure and analyze net interest margin (NIM) for every segment of their institution. Only 13% of respondents plan to implement FTP in the near future. Among organizations that use FTP, 57% use the industry best-practice* instrument level matched-term approach, while 25% use a net funding approach at the branch level, and 18% use a pooled approach.

*Matched-term transfer prices at the individual instrument/record level based on its characteristics, such as origination date, term, options, and expected cash flows.

Important profitability dimensions



Larger institutions were more likely to use FTP. Eighty-five percent of the smallest institutions with less than $1 billion in assets do not use FTP compared to 29% of the largest institutions with $10 billion or more in assets. More than half (56%) of institutions do not have a profitability steering committee to guide profitability analytics and ensure transparency and accountability.

Respondents identified the following as the top challenges to analyzing profitability of complex business relationships, such as a combination of customers, account mix, fee-based services, and transactions.

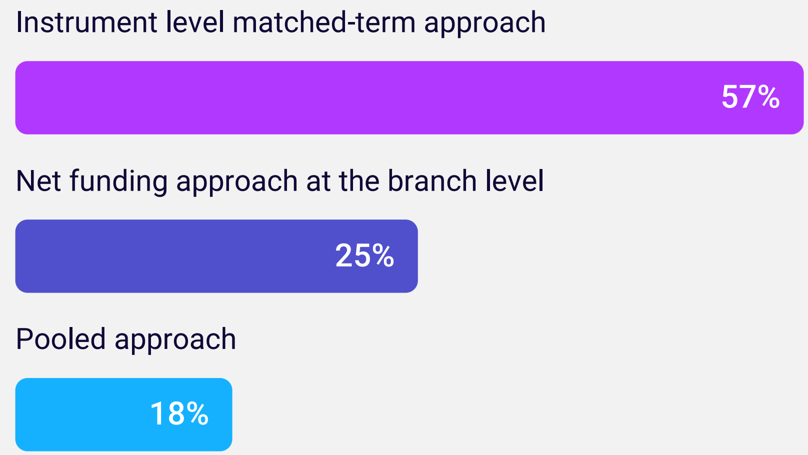
54% Challenges accessing the right data

33% Insufficient tools to calculate and analyze results

25% Limited organizational knowledge to perform the analysis

Sixty-seven percent of finance professionals surveyed said they do not have a pricing tool that allows immediate evaluation of how a new account impacts the profitability of an existing relationship, and two-thirds of these respondents said they would like one.

Among organizations that use FTP:



Our View

Though an accurate understanding of what drives profitability (e.g. customer/members, relationships, products, channels, etc.) and improving cash flow forecasts with FTP would be useful in the current environment, financial institutions understandably have had other priorities. However, only 29% of institutions having a clear understanding of their profitability analytics is simply too low. Finance leaders need a firm grasp on profitability analytics to better understand how to sustain and grow in this environment and capitalize on new offerings.

Conclusion

The COVID-19 pandemic continues to have significant implications on banks, credit unions, and other financial services institutions nationwide. In many ways, the pandemic has served as a wake-up call for the industry, forcing it to adopt new technologies, as well as operational processes and policies to better serve employees and customers alike.

Yet many institutions still lack fundamental capabilities needed to remain competitive in a shifting market environment. The industry as a whole must move beyond its continued over-reliance on spreadsheets for a broad range of performance management functions, making investments to ensure continued agility.

Consider these key focus areas:

- Scenario planning and analysis best practices
- Funds transfer pricing and peer perspectives on accurate profitability analysis
- Optimizing financial reporting and improving analytics

For additional insights and guidance, see Syntellis' resources for financial institutions.

SYNTELLIS

Syntellis Performance Solutions provides innovative enterprise performance management software, data and analytics solutions for financial institutions. Syntellis' Axiom software helps finance professionals elevate performance by acquiring insights, accelerating decisions and advancing their business plans.

The Axiom Financial Institutions Suite provides integrated financial planning software that allows you to efficiently and accurately budget, model scenarios, analyze and drive profitability, and price new business against a backdrop of regulatory/operational, interest rate, market, credit, and liquidity risk factors.

For more information, please visit www.syntellis.com.

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