This paper highlights distinctive elements of Financial Performance Management (FPM) and Corporate Performance Management (CPM) as two separate strategic processes for a bank and identifies critical need to integrate them. And technical-frameworks for CPM implementation which can structure foundation element to build FPM on top of it.

Corporate Performance Management framework for Banks

Implementation Approach

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Performance measurement has evolved in banking industry from being just organizations' high-level KPI management to driver based strategic decision management where driving elements are region, branch, line-of-business, customer, instrument. This paper highlights distinctive elements of Financial Performance Management (FPM) and Corporate Performance Management (CPM) as two separate strategic processes for a bank and identifies critical need to integrate them. Paper also highlights technical-frameworks for CPM implementation which can structure foundation element to build FPM on top of it. In addition, paper showcase pre-requisites for a CPM implementations and provides parameters of evaluation to identify best CPM implementation approach based on organizations' readiness for pre-requisites.

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Performance Measurement

After 2008 financial crisis, banks have started taking steps to improve their performance measurement capabilities in light of market and regulatory conditions (e.g. capital requirements are increasing for most banking businesses) and new management requirements. Revenue growth continues to be difficult to achieve due to weak global-economic conditions, low interest rates and increased regulatory restrictions.

Banks are trying to manage costs better, deepen relationships with customers and enhance product mix and pricing decisions. These are some of key factors causing banks to re-examine and improve the ways in which they measure and report business performance to both internal and external stakeholders.

During pre-financial crisis period, banks were more focused on financial performance/KPIs/Ratios to measure growth at organization and group-subsidiary level. But post-financial crisis, management is more interested in knowing finer details of each measurement drivers (regional, branch, line-of-business, customer, instrument ,etc.) which derives financial performance. In addition, regulatory authority has also increased information requirements to be at shorter frequency keep continuous track of market conditions and avert any crisis.

Types of Performance Measurement & Management

There are two facets of performance management that financial institutions require which are "Financial performance management (FPM)" and "Corporate performance management (CPM)". The key areas covered by both are as follows:

Financial Performance Management (FPM)

- Financial consolidation
- Financial reporting
- Management reporting, costing and forecasting
- Reconciliations / close management
- Intercompany transactions
- Disclosure management

Strategic Corporate Performance Management (SCPM)

- Financial budgeting and planning
- Integrated Financial Planning & Forecasting
- Strategy management
- Profitability modeling (by Customer, by Product, by business lines)
- Performance Reporting
- Capital Allocation
- Long range planning

FPM and CPM are two independent strategic business process which showcase to distinct view of any financial organization. FPM is more focused on as of now and high-level regulatory disclosures. While CPM is focused on organizational strategy and market driven, which takes different parameters (regional, branch, line-of-business, customer, instrument ,etc.) into account while measuring. Now is a real need to integrate FPM and CPM to have top-down and bottom-up view.

In addition, risk measurement drivers (fund transfer pricing, liquidity transfer priding, return on risk weighted assets, etc.) have increasingly become part of CPM to equip C-level members with multi-dimensional view for better/faster decision making.

Foundation Element of CPM in Banks

Most of the industries focus on growth of income statement, but banks focus on managing their balance-sheet first and foremost, because their net interest income depends on creating the optimal balance-sheet for prevailing conditions. A bank's profitability, liquidity and sustainability derive from the strength the strength of its balance-sheet and on the bank's ability to maximize their net interest margins and fees from their deposits, loans and investment pockets. Banks need to model projected changes to their balance-sheets, taking into account changing interest rates, and then closely monitor actual changes.

As shown in above dig., Financial Management is stepping stone for compliance. From performance measurement view, Financial management is CPM where compliance is FPM. Financial Management addresses below listed areas and

- Profitability Analytics & Optimization
- Income Expense Planning
- Financial and Operational Risk Management

For scope of this paper, I am trying to address "Profitability Analytics & Optimization" which is foundation of CPM solutions.

What is Profitability Analytics and Optimization at Customer level?

What is a customer worth to you? This question is nowhere near as simple as it appears, especially for medium and large financial services organizations that continue to work to create a single view of each customer across their enterprise. As such, many firms struggle simply to calculate the current value of a customer relationship, let alone understand its profitability, the customer's life time value or, more important, how to optimize its potential.

Expanding insight into customer profitability is increasingly essential to today's financial services organizations, which are struck by unprecedented and unyielding change. More prescriptive regulatory requirements which drive up compliance costs and diminish fee-based revenue – continue to hinder top-line growth. As it becomes more expensive to acquire new customers, banks are shifting

> Like businesses in almost every other industry, the 21st Century has found regional banks being confronted with an increasingly more diverse, complex and dynamic market environment. Demand for more diverse products and services has led banks to introduce new and non-traditional products and services as well as unbundle traditional ones to better address market requirements. Banks have also had to try new and innovative ways to attract funds – especially lower cost core deposits – that serve as the "raw material" for its portfolio of products. In addition, banks have had to move quickly into new technologies that have enabled them to keep pace with the fast-moving, electronic economy.
>
> (Douglas T. Hicks, et al., 2008)

their focus to loyalty and retention. At the same time marketing budgets remain tight, so firms look to focus their efforts on those customers with the potential for optimal profits in the short and long run.

To gain a clear picture of customer profitability, financial services organizations need to look above and beyond the monetary value of a relationship. They also must understand the cost of acquiring and maintaining a customer, associated risk, as well as lifecycle potential. To do this, enterprises require the ability to integrate and analyze in near real time, many different types of data from multiple disparate systems. And, they cannot stop with just identifying profitability; the goal is to optimize it with the highly personalized products and customer interactions that match today's customers demand. Therein, lies the challenge for many financial services organizations. (Oracle, 2014)

Current Challenges with CPM Implementations:

The common challenges faced by all financial organization while reviewing or implementing corporate performance management solutions are as follows:

Unavailability of standard framework and understanding of prerequisites

For most of CPM projects, the business requirements are always common but key challenge lies in selection of framework. One common reason why these implementations fail, is due to incorrect framework selection. Due to unavailability of standard framework, CPM projects are always vendor-framework driven. This become key reason for unsuccessful outcome.

Disconnect between CPM and FPM business processes

In light of current management needs, FPM and CPM business processes need to be tightly integrated to identify the drivers (regional, branch, line-of-business, customer, instrument ,etc.) of each FPM KPIs. Without this integration, management can never get accurate reason behind why KPI are not behaving as expected and what should be changed to improve KPIs behavior.

Data Collection and Integration Complexity

The inability to gain a single, comprehensive view of the customer due to legacy systems remain atop the list of challenges as organizations seek wider customer insight. To understand a customer's entire relationship with a bank, one must deal with multiple banking platforms, systems, and channels (including social media).

These disparate datasets lead to multiple versions of the "truth" and preclude a 360-degree customer view. Even when organizations bring all of their customer data together through complex integrations, it must be married in a way that is readily usable.

Insight Latency Remains High

Historically, arriving at business insights have been a laborious process requiring support and intervention of IT teams and business analysts. This approach hinders business agility. Business managers have to request reports, which the IT group then has to create and runs. This process in the best execution may take hours but more often than not, it take days or even weeks which is unacceptable in today's real-time business environment.

Latency issues aside, the rules around scoring and modeling are hard to maintain and continually refresh, and responsibility for managing them often resides with just a few individuals preventing the capture and transfer of valuable institutional knowledge.

No Common Language

One cannot make good decisions with bad data. Today's financial firms, which have many lines of business and operate across numerous global regions, often lack a common lexicon across their organizations. For example, product definitions may not be standardized across geographic regions. A large U.S. bank in the midst of a business intelligence initiative found that a term as simple as “credit card” can have multiple definitions. In the bank’s U.S. operations, a credit card was considered as a financial product; but the European group defined it as the physical card.

Simply stated, organizations need consistent and standardized data for actionable insight into profitability and potential

Inability to Act Quickly

Customer interactions in most organizations are not rapidly transmitted across the organization so banks do not have the ability to act quickly, such as presenting a special offer that might prevent a customer from moving accounts.

Analytical Insight and Business Process Disconnect

Front-office business processes continue to be based on old knowledge; prohibiting the highly informed and personal relationships to which today’s customers are accustomed. Most organizations fail to have the integration to the front-office and middle-office to provide the most recent knowledge to support credit, pricing and offer decisions in real time.

CPM Framework implemented in one of the largest Regional Bank in Middle East

Before starting CPM implementation for “performance management”, I did extensive secondary research to identify generic framework and parameters to evaluate best-approach of implementation, but CPM being niche area, could only get vendor specific views of CPM solutions. This sparked need to conduct in-depth analysis of CPM processes & elements to identify different implementation approaches and parameters which could govern implementation. Most important fact that business requirements for CPM solutions are always constant; but key complexity lies in organizations readiness to have pre-requisites available. Hence, readiness also drives quality of CPM implementation and outcomes.

Qualifiers of CPM Framework

Implementation of CPM and MIS require complete, accurate and on-time information about organizations’ current status. Currently available solutions provide ready-made templates which needs to be filled in order to have required performance management reports/views. Based on secondary research and expert views, we observed that either top-down or bottom-up approach which have been used in DWH implementation cannot be replicated for performance management implementation. Reason being that Bottom-up approach will be time consuming due to size and sheer scale of it; similarly Top-down approach might allow quick wins but later more in-depth requirements will need exponential amount of time to implement. Suffice to say there is an inherent need to have a different way of analyzing and scoping the project.

We reviewed different facets of performance management (net interest income, fund transfer pricing, risk adjusted return or capital (RAROC), Return of Risk Weighted Assets (RORWA), etc.) to understand and define information accuracy, on-time and completeness dimensions. In addition, we took non-functional parameters into consideration which are resilience, scalability and sustainability. Using above approach, we derived below category of qualifiers, their dimension and non-functional properties.

- Key Qualifiers
- Primary Qualifiers
- Secondary Qualifiers

Qualifiers	Definition	Properties
Key qualifiers	This is most critical information component which is central to performance management and MIS framework. And it has to meet all the mentioned requirements of accuracy, completeness and time.	Accuracy – Must match with tolerance (+/- 1.0) of with organization wide Trial Balance Completeness – Must provide customer and non-customer balances by relevant granularity parameters. And should provide customer and non-customer income/expense by relevant granularity parameters. Time – Must be available on daily basis immediately after End-of-day process and stored for 5 years
Primary Qualifiers	These qualifiers are second most important to derive different facets of performance management and MIS. Different performance management metric requires different primary qualifiers. E.g. fund transfer pricing requires, start-date, maturity-date, rate and frequency; customer profitability requires customer balances and income/expense by customer. Absence of primary qualifiers will not allow to derive specific performance management metric	Accuracy – Should be accurate enough to derive performance management metric Completeness – Should be complete-enough to support relevant metric granularity with known exceptions Time – Should be available on daily basis immediately after End-of-day process and stored for historical purpose based on metric requirement
Secondary Qualifiers	These qualifiers are additional information to enhance usability of performance management metric. These qualifiers changes based on user requirements. These qualifiers are derived based on user requirements at the time of implementation and project scope.	Accuracy – Should be accurate enough to suit project specific requirement Completeness – Should be complete enough to suit project specific requirement Time – Should be available to suit project specific requirement

Implementation approach – CPM Framework

Above qualifiers are comprehensive enough to implement performance management framework. Segregation of qualifiers allows to develop clear-cut strategy of project implementation. In addition, it provides a framework to segregate business requirements in line with project implementation.

There are different scenarios of implementation and each has its own pros/cons. The scenarios/implementation approach should be chosen depending on various parameters like implementation time frame, complexity, type of outcome, etc. These qualifiers can be implemented in CORE system or DWH or Performance management system.

	Approach-1	Approach-2	Approach-3	Approach-4	Approach-5
Key Qualifiers	DWH	CPM	DWH	CORE	CORE
Primary Qualifiers	DWH	CPM	CPM	DWH	DWH
Secondary Qualifiers	DWH	CPM	CPM	DWH	CPM

*CPM=Corporate Performance Management system

**DWH= Data warehouse system

***CORE = Core banking system

Below are pre-requisites as well as Pros and Cons of each of above listed approaches:

Implementation approach:	Pros	Cons	Pre-condition
Approach#1 - Implement all (key, primary and secondary) qualifiers in Bank-wide data warehouse	• Ease of implementation • Vast no. of technology choices	• Inherent issue with Collecting and reconciling information for key qualifiers • Issue while synchronizing continuous change of business process in CORE or other satellite systems with DWH • Management of business rules for primary and secondary qualifiers	• Bank-wide and mature DWH is available and used by organization • Implement in-house with dedicated or shared resources • Expertise is available in-house for project period
Approach#2 - Implement all (key, primary and secondary) qualifiers in Performance management system	• Availability of pre-built data-templates and reports • System has built to scale based on business need	• Inherent issue with Collecting and reconciling information for key qualifiers • Issue while synchronizing continuous change of business process in CORE or other satellite systems with Performance management system • Performance management system need to play role of data mart to meet primary and secondary qualifiers • Management of business rules for primary and secondary qualifiers	• Special performance management system is available within organization • Bank-wide and mature DWH is not available in organization • Expertise is available in-house or can be availed in form of outsourced resource for project period
Approach#3 - Implement key qualifier in Bank-wide data warehouse and primary & secondary qualifiers in Performance management system	• Could be considered the best all-round option • Simplifies management of business rules for key qualifiers • Availability of pre-built data-templates and reports • System has built to scale based on business need	• Inherent issue with Collecting and reconciling information for key qualifiers • Issue while synchronizing continuous change of business process in CORE or other satellite systems with DWH & Performance management system • Management of business rules for primary and secondary qualifiers	• Special performance management system is available within organization • Bank-wide DWH is available in organization with option to avail primary and secondary qualifiers for performance management system • Expertise is available in-house or can be availed in form of outsourced resource for project period

Approach#4 - Implement key qualifier in CORE banking system and primary & secondary qualifiers in Bank-wide data warehouse	• Could be considered the second best option • Key qualifiers are always synchronized and reconciled between CORE or and Performance management system • Availability of pre-built data-templates to feed primary and secondary qualifiers • System has built to scale based on business need	• Modifying the CORE is a risk but worth taking considering the benefits • Performance management system need to play role of data mart to meet primary and secondary qualifiers •	• Special performance management system is available within organization • Bank-wide and mature DWH is not available in organization • Expertise is available in-house or can be availed in form of outsourced resource for project period

Future Considerations:

This paper can be further enhanced to cover definition and list all the fields required for implementing different facets of performance management. They can be segregated further into primary and secondary categories to calibrate different dimensions such as accuracy, completeness and time. Most prevailing facets are as follow and the intention is to extend the paper to include them:

- Net interest income
- Customer Profitability
- Fund transfer pricing (FTP)
- Risk adjusted return or capital (RAROC)
- Return of Risk Weighted Assets (RORWA)

In addition, Risk related KPIs which is totally separate area of measurement are also increasingly becoming part of CPM solutions, because management is looking for “single version of truth”. Hence, in next revision of this paper, I can try to address Risk KPIs in line with CPM.

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