Technology Governance: The CFO’s Role

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Overview

- Evolution of the technology function and role of the CFO
- Importance of an effective technology steering committee
  - Key components to a successful technology plan
- Measuring return on investment
- Effective IT budgeting
- Technology’s impact on enterprise risk management
Traditional CFO Roles

• Direct line of communication to the CEO
• Management of the financial components of the organization
  – Accounting
  – Accounts Payable
  – Fixed Assets
  – Financial Reporting (Internal/External)
  – Insurance
  – Human Resources
  – Audit/Compliance – Dashed to Board
Why is the Role Changing?

• Financial and regulatory pressures
• Evolution of technology
• Increasing technology investments require greater financial oversight and involvement
• Inability to find a CIO
• Growing organization, not quite large enough for a CIO
Models of Change

• Increased committee responsibilities
  – Working directly with the CIO for budgeting, decisioning and regulatory related issues
• Direct reporting lines
  – CIO reports to the CFO
• Defacto CIO
  – CFO filling the role of CIO
Evolving the CFO Role

45% of CFOs surveyed had IT as a direct report, and about 25% more as a dotted line report.

“That’s a big organizational shift, and many of the CFOs I work with are struggling with that change,” says Bob Comeau, a principal with Deloitte Consulting LLP.

*Source: 2011 Deloitte CFO Signals, 1st Quarter 2011
Defacto CIO Responsibilities

- CFO is responsible for:
  - Bridging the gap between IT and the business units
  - Developing and tracking performance metrics for the IT function and managing ROI for technology investments
  - Leading and executing all strategic decisions
  - Reducing overall IT costs
  - Aligning the financial and data models
Benefits

- No more arguments over funding
- Better insight into the organization
- Better understanding of the organization’s economic situation
Drawbacks

• Review of IT spending requests
• Ability to spend adequate time focusing on each role
• Lack of experience in one of the roles
• Challenging to keep up with technology advances
"It’s difficult for me to champion dollars for IT infrastructure when as CFO I’m involved with the politics of dollars spent in marketing, advertising, operations and so on."

~ Jeremy Hopkins, CIO and CFO
World Telecom Group
Challenges to Separate CIO

- Finding the right resource to fill the role
- Credibility with staff
- Internal controls, segregation of duties
How to succeed?

- Become a tech savvy CFO
- Learn about new technologies
- Focus on IT security, infrastructure and metrics
- Incorporate changes to productivity, capacity and business performance
- Collaborate with IT leaders
IT Questions CFOs Need to Ask

1. Are you using the full functionality and capacity of your existing systems?
2. Are you struggling to integrate key systems with each other?
3. Have you postponed implementing key functionalities due to lack of time and resources?
4. Do you continue to use manual processes that were originally meant as temporary stop-gap measures?
5. Are you running outdated versions?
6. Has it been more than a couple of years since you last explored outsourcing?

*Source: McGladrey, Eight Areas to Boost Performance, May 2013*
Importance of an Effective Technology Steering Committee
Why Have One?

- The FFIEC all but mandates this committee;
- The FDIC strongly encourages it;
- Auditors recommend it; and
- It provides a mechanism to address many of the most difficult examination questions.
Importance of a Technology Steering Committee

Oversight is critical because:

• Technology is the most expensive resource in the organization, outside of human capital.

• It is the backbone of the organization’s ability to conduct business.

• Technology safeguards customer/member information.

*Source: Forrester Research, October 2011*
Technology Committee Mission

- The banking technology steering committee is responsible for overseeing the technology-related functions of the Bank with particular attention to operational risk management. The committee is responsible for setting the information technology strategic direction, recommending information technology policies, procedures and standards; reviews and recommends priorities for the development of applications and for capital requests; and serves as an information-sharing forum.
Technology Committee Responsibilities

- The Committee will have the responsibility to:
  - Review and approve the organization’s technology planning and strategy.
  - Review significant technology investments and expenditures.
  - Monitor and evaluate existing and future trends in technology that may affect the organization’s strategic plans, including monitoring of overall industry trends.
  - Request reports from management concerning the organization’s technology operations.
  - Oversee the risks associated with technology, including risk assessment and risk management.
Technology Committee Members

• Should be representatives from each of the various business units
  – Administration
  – Branch operations
  – Deposit operations
  – Finance
  – Loan operations
  – IT Leaders
  – Mobile banking
  – Marketing
IT vs. Business Owner Perspectives

“Concerning your No. 1 business process, how significant would you rate the following issues?”

<table>
<thead>
<tr>
<th>Common problem</th>
<th>Critical problem</th>
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<tbody>
<tr>
<td>Delay of new functionality</td>
<td>ITDM 41%</td>
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<tr>
<td></td>
<td>BDM 40%</td>
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<td></td>
<td>11%</td>
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<td></td>
<td>16%</td>
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<tr>
<td>Slow rollout/delivery of new services</td>
<td>ITDM 33%</td>
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<td></td>
<td>BDM 25%</td>
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<td></td>
<td>19%</td>
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<td>16%</td>
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<tr>
<td>Slow performance of existing services</td>
<td>ITDM 25%</td>
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<td>BDM 25%</td>
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<td></td>
<td>12%</td>
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<td></td>
<td>9%</td>
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<tr>
<td>Poor response time for customer interactions</td>
<td>ITDM 22%</td>
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<tr>
<td></td>
<td>BDM 16%</td>
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<tr>
<td></td>
<td>15%</td>
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<tr>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>Lack of reliability of services</td>
<td>ITDM 19%</td>
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<td></td>
<td>BDM 20%</td>
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<td></td>
<td>11%</td>
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<tr>
<td></td>
<td>7%</td>
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<tr>
<td>Too much downtime</td>
<td>ITDM 12%</td>
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<td></td>
<td>BDM 7%</td>
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<tr>
<td></td>
<td>10%</td>
</tr>
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<td></td>
<td>7%</td>
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*Source: Forrester Research, Changing State of IT Operations, October 2012
Components of a Successful Technology Plan

• Technology plan should follow overall strategic plan
  – Accounting for major business goals and objectives

• Technology plan typically includes:
  – Needs assessment
  – Initiative descriptions, goals, justification, timeline
  – Measurable objectives
  – Hardware, software and facility needs
  – Training and staff development plan
  – Budget and rationale, evaluation method, timeline
Planning Considerations

- Windows XP, Office 2003, Exchange 2003 and SQL 2000 will not be supported after **April 2014**
- Converged infrastructure – Continue to own the hardware/software while allowing for easy expansion and growth along with true DR and fault tolerance
- Business continuity / DR assessments
- Technology / Security assessments
- Outsourcing IT helpdesk, monitoring and support
- CIO Outsourcing
IT Trends

*Source: Gartner Agenda Overview for Banking and Investment Services, January 2013*
Measuring Return on Investment
Barriers to Measuring ROI

- ROI on technology projects isn’t clear cut
- Most projects have both an indirect/direct portion
- Both new and old systems are involved in single processes
- Have to account for the people factor
ROI Measurement Basics

• Develop a business case outline
  – Utilize for new projects
  – Standardize questions and calculations
    • How will the project benefit the business?
    • How will it decrease expenses, increase efficiency?
    • Cost to maintain the project long-term?
ROI Measurement Basics

• Define tangible scores
  – Customer satisfaction
  – Response speed
  – Available/timely reporting
• How do we “measure” intangible scores
• Develop a tracking mechanism
• Report on a regular basis
Key Matrix

“BDMs, how do you primarily measure the success of your IT department?”

“ITDMs, how are you primarily measured by the business today?”

- Response time/performance: BDM 49%, ITDM 27%
- Uptime/availability: BDM 20%, ITDM 33%
- Agility/time to market: BDM 16%, ITDM 10%
- Cost control: BDM 15%, ITDM 30%

*Source: Forrester Research, Changing State of IT Operations, October 2012
Effective IT Budgeting
## 2013 Top Five Priorities

<table>
<thead>
<tr>
<th>Management Priorities</th>
<th>IT Priorities</th>
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<tbody>
<tr>
<td>Increasing Enterprise Growth</td>
<td>Analytics &amp; Business Intelligence</td>
</tr>
<tr>
<td>Delivering Operational Results</td>
<td>Mobile Technologies</td>
</tr>
<tr>
<td>Reducing Enterprise Costs</td>
<td>Cloud Computing</td>
</tr>
<tr>
<td>Attract &amp; Retain New Customers</td>
<td>Collaboration Technologies</td>
</tr>
<tr>
<td>Improve IT application and infrastructure</td>
<td>Legacy Modernization</td>
</tr>
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</table>

*Source: Top 10 Business & IT Priorities for 2013, Gartner 2013*
Establish IT Priorities

• Start your budgeting process by defining your next year IT priorities by reviewing the following:
  – Strategic plan
  – Technology plan
  – Day-to-day operations
  – BCP/Disaster recovery
  – Operational efficiency / Revenue generation

*Source: McGladrey, 8 Areas to Boost Performance, May 2013
Review Known Expenses

- Existing software licenses
- Equipment depreciation
- Hiring and payroll
- Third party services
- Audits and compliance
Account for Anticipated Items

- New equipment (remember new hires)
- Upgrades of legacy equipment
- Third party services
- New technologies
Evaluate your Efficiency

- Compile a list of all of your key technology systems – both in-house and outsourced
- Determine the main purpose of each listed system and if there is overlap between the capabilities of the systems
- Survey system users to identify the user’s data entry process to identify if data is being re-entered into multiple systems

*Source: McGladrey, 8 Areas to Boost Performance, May 2013*
Budgeting Considerations

- Strategic/Technology plan initiatives
- Software end-of-life
- Out of date equipment
- Provider contracts
- Product/process efficiencies
2012 IT Budgets by Activity

- Expansion of Capacity to Support Business Growth
  - SMB: 22%
  - Enterprise: 20%
- Ongoing Operations and Maintenance
  - SMB: 50%
  - Enterprise: 50%
- New IT Initiatives and Projects
  - SMB: 28%
  - Enterprise: 30%

*Source: Forrester Research, October 2012
2012 IT Spend by Category

- Full-time IT staff: 31%
- Software costs: 17%
- Hardware infrastructure: 19%
- Contractors: 9%
- Third-party IT services: 10%
- Telecom and network services: 11%
- Other: 3%

*Source: Forrester Research, October 2012*
Technology’s Impact on Enterprise Risk Management (ERM)
What is ERM?

- Risk management practices that provide a holistic view of all material risks of a financial institution integrated within key decision-making processes across the enterprise

*Source: McGladrey, Scaling ERM to fit community banks, November/December 2012*
What is the benefit?

- An enterprise-wide view of risk can help financial institutions improve profitability and ensure an efficient use of limited capital resources.
  - This can be accomplished by comparing returns to risks and using this information to target business lines or portfolio segments with the highest returns.

*Source: McGladrey, Scaling ERM to fit community banks, November/December 2012*
The ERM Process

- **Strategic Plan**
  What are our goals?

- **Monitoring**
  What are the key indicators?

- **Risk Appetite**
  What risk are we willing to accept?

- **Controls**
  How do we limit our risk?

- **Risks**
  What are the risks we face?
Key Concepts

• To identify **controls** you must know what **risks** are present.

• To know the **risks** you need to understand the **objectives** being sought.
Getting Started

- Establish a risk culture
- Define your risk appetite
- Develop your line of defense
  - Business line employees
  - Risk oversight committees
  - Internal audit
- Keep open lines of communication
- Establish a forward-looking approach

*Source: McGladrey, Scaling ERM to fit community banks, November/December 2012*
Develop your KRIs

- Review the key activities in your business lines, remember to include operational areas
- Determine which of those activities are critical and measurable
  - Network Uptime
  - Security Breeches
  - System/Subsystem integration issues
  - Timeliness of Updates
  - User / Customer Issues
  - BCP Preparedness/Testing
  - Exam Results
- Based on your risk appetite determine the acceptable range for risk
- Consistently monitor and report – watch the trends!
Monitor your KRIs

- Create a tracking method
- Define:
  - Responsibility
  - Frequency
  - Risk range
  - Tolerance
  - Trending

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KRI Tips

• Create a reasonable number of KRIs
• Make them meaningful
• Think about how these impact other areas within the organization
• Communication and accountability is vital
Regulator Hot Topics

- Cyber security
- Mobile banking
- Risk management
- Fraud prevention/detection
QUESTIONS?
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