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The Business Case for Streamlined Reconciliation

By Eric Werab, Global Product Line Manager, Financial Control Solutions, Fiserv

How much time have you wasted attempting to manually combine spreadsheets and data from across your institution? Hours? Days? Weeks? With today's digital resources at your fingertips, would you even consider spending hours manually searching through printed documents to ensure you have an accurate view of the balance sheet? Think about it. You don't manually search through a catalog to find books at the library or wait two weeks to develop film from a camera. Why would you still use an outdated method for reconciliation?

Yet more than half of North American companies surveyed in a 2016 study by the Financial Executives Research Foundation still reconcile accounts manually. The same study also uncovered the amount of time spent on this pursuit – accounting and finance managers work an average of 46 hours per week, peaking at month- and quarter-end. Respondents reported that trying to modernize systems to allow existing workers and resources to do more with less, harvest data and create efficiencies with technology are among the most common challenges facing senior-level financial executives today.

These challenges certainly come into play for community institutions. CFOs and finance professionals need to have access to a single view of an accurate and updated balance sheet at any given time. However, multiple systems and various teams managing the reconciliation process can cause delays and allow for human error across the accounting record.

Automating and streamlining the reconciliation process, on the other hand, can save valuable time and increase the likelihood that errors are identified and rectified quickly. Implementing a robust, accurate reconciliation process also ensures that organizations have the ability to stay ahead of the competition and remain compliant with industry requirements, while continuing to deliver a high level of service to customers.

So where do you start building a business case to achieve these potential benefits?

Step 1 – Determine the Total Cost of Manual Processes

The first step in implementing an automated reconciliation process is to realize the true projected cost for a manual system, which includes not only hard costs, but also the soft costs associated with maintaining the status quo.

One of the easiest hard costs to quantify is the cost of the manual work required to compare and reconcile data from different systems, manage the exceptions and certify the results. To do so, most organizations will start by calculating the number of hours spent on reconciliation each month, time that typically includes allocations to some or all of the following activities:

- Collecting and aggregating data from multiple systems
- Preparing reconciliations
- Matching balances and transactions
- Managing exceptions
- Printing reconciliations
- Reviewing and approving reconciliations
- Tracking approvals
- Reporting on approvals status
- Retrieving reconciliations for auditors

Once the total number of hours is calculated, it is multiplied by twelve to represent hours for an entire year period and multiplied by the average fully loaded cost (salary plus benefits) of a full-time-equivalent (FTE) employee working on the reconciliation and certification process. This calculates the annual hard-dollar expense (labor) of managing the current process.

After this calculation, other hard-dollar costs – including write-offs due to unresolved exceptions, annual audit fees and document storage fees – should be added in. Together, the sum gives the institution a good snapshot of the current hard costs of the process. This calculation should also include estimates of softer costs such as the cost of errors, late closings or the costs related to being out of compliance with corporate policies, industry financial standards or having to reissue financial statements to the market.

Step 2 – Outline the Benefits of Implementing an Automated Solution

Once the cost of the current approach has been fully tabulated, the next step is to understand the potential advantages of moving to a more modern, end-to-end reconciliation solution. The ability to bring transaction-level and balance-level data together in a single system allows the institution to see detailed information on why exceptions have occurred and how they can be resolved. Workflows are used to fully automate the process, including a series of automated checks that ensure organizations remain compliant with corporate and industry requirements.

By automating the end-to-end reconciliation process, companies can quickly and cost effectively track exceptions through to resolution, and realize the following potential benefits:

- Major increases in operational efficiency from centralizing the reconciliation process through a single service model
- More accessible, accurate and compliant balance sheets
- Reduced compliance and reputational risks
- A better customer experience, thanks to an effective, real-time service whenever they demand it
- A focus on more profitable activities throughout the organization, thanks to the time saved on closings, exception management, routine compliance and financial governance activities
- Though harder to quantify, an increased level of confidence among staff and executives, thanks to the greater accuracy of the institution's financial reporting

Step 3 – Choose the Right Technology and Partner

Individual systems often contribute to disjointed reconciliation processes, which is why choosing a technology solution to combine all of them, including the general ledger system, is vital. The solution an institution chooses needs to meet the demands of providing a single version of its accounting records.

In addition, ongoing reconciliation management will require updating from the management of manual processes. Reconciliation specialists from across the business should establish a set of rules that remain consistent across all aspects of the reconciliation process, and define these rules using comprehensive process templates to ensure clarity and transparency across the entire business.

The scope of a reconciliation system and the scalability of the model are additional factors to consider. The flexibility to meet any change in transaction size is essential, as is having the ability to easily integrate new acquisitions or business lines into the system.

Finally, the solutions partner an institution ultimately chooses should be one that focuses on client feedback and market trends, caters to the individual challenges and needs of the institution and continues to make significant investments in its product line.

The culmination of this process should ultimately be a more efficient, accurate and standardized end-to-end reconciliation process for your institution, ensuring streamlined operational efficiency and regulatory compliance.

Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of the Financial Managers Society.

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