WHITEPAPER

The Modern Finance Department

How a modern subledger can transform your institution

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A Modern Subledger Can Transform Your Organizations

A modern subledger is vastly different than the subledgers of years past. While traditionally a subledger could help an institution have more granular data and allow for an easier GL reconciliation, the modern subledger can do much more than helping banks account for transactions. Subledgers can be the turning point for many organizations, helping them to meet several key strategic initiatives and drive the organization forward. Among other things a modern subledger can help institutions to achieve:

- A faster close, even allowing for a daily close, by combining a detailed accounting process with robust financial reporting, management analytics and controls; and,
- True actionable insights, enabled by domain-aware software, that can bring together information across the company and help banks stay ahead of stakeholder questions before they arise.

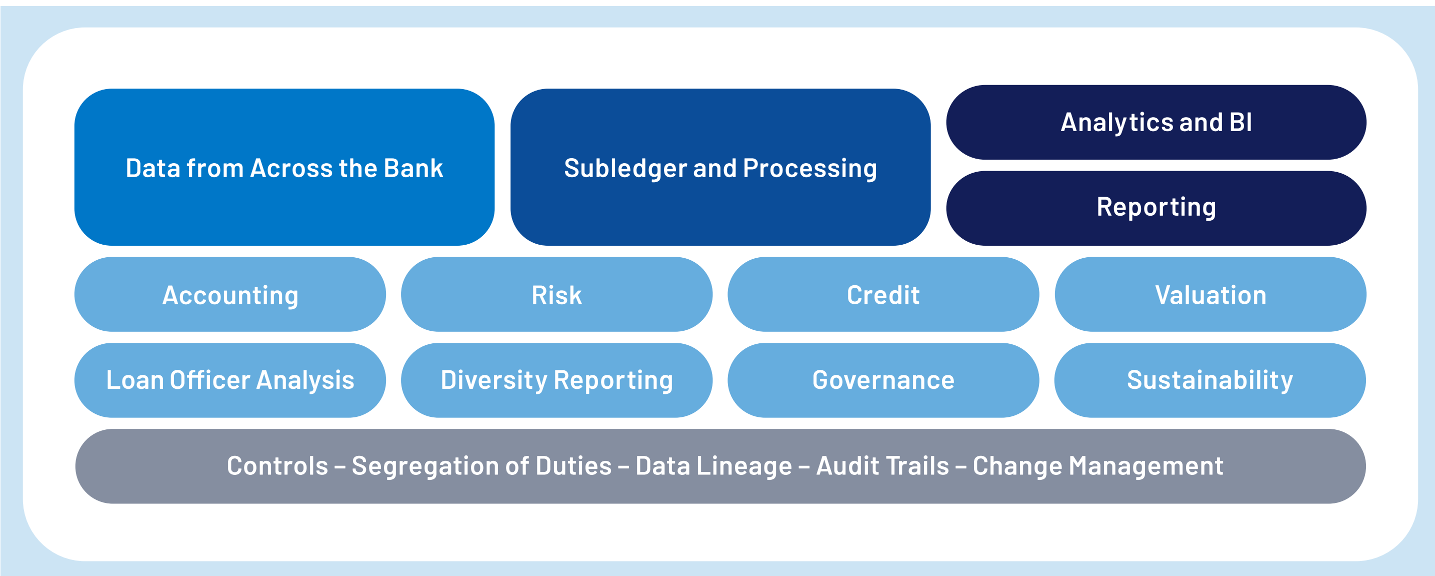
By combining data from various parts of the organization, a modern subledger can help finance organizations lead the charge to a more modern institution by doing more than accounting for past performance but being a central area for insightful analysis. While many companies in other industries can easily use a pre-built, off-the- shelf subledger, banks simply cannot. They are too complex, too unique, too regulated, and too tied to economic factors. Instead, they need a system purpose built for them to be able to reap the benefits of a subledger. This paper will address the key features and benefits of a domain aware subledger.

Faster Close

A modern subledger can accelerate a bank's close process by doing several key things:

- Combining information from different servicing systems, including third party systems for things such as serviced by other portfolios and subserviced portfolios, into one central repository and normalizing that data resulting in a single reconciled source of truth.
- Performing shadow servicing functions, such as interest accrual, so that banks are confident in the amounts reported to them by subservices.
- Accounting for all GAAP-required adjustments (nonaccrual, fee amortization, charge-offs) and combining these adjustments with the servicing data so that banks can have a complete view of each loan.
- Including built in controls, such as data lineage controls, internal reconciliations, and segregation of duties to allow for complete traceability and audit evidence.
- Adapting seamlessly to changes in a chart of accounts, allowing banks flexibility between a thick and thin GL and supporting a bank's vision for the finance organization.
- Allowing users to write custom rules against the data and facilitate the reporting by integrating business intelligence capabilities with the subledger's ability to ingest the disparate data and organize it in a functional way.

KEY COMPONENTS OF A MODERN SUBLEDGER



These items are typically performed manually and combined manually which leads to many issues:

- More time to validate and reconcile data through the various disparate processes.
- Several end-user-computing (EUC) applications that both open the organization up to more risk due to lacking embedded controls and make analytics and validation extremely difficult.
- Difficulty in ensuring consistency across various products and processes.
- Disjointed reporting that requires many manual overlays to account for various processes which would slow down the financial reporting process.
- Increased audit costs due to the audit risks raised by the items above.
- Inflexible and require complete reconfiguration as an institution changes its chart of accounts and transitions between a thick and thin GL.

A purpose built subledger can help banks address the issues above, leading to a faster close with greater comfort over results and automated reporting. And in addition to the traditional processes, a built-in robust reporting framework can be the additional element that allows banks to meet their goal of a more expedient close and better financial reporting in a cost-effective way, helping banks navigate their financial statement audit seamlessly. In summary, a well integrated subledger can facilitate a daily close process, if needed, and enables the month-end to be "just another day" in the close process while integrating reporting and controls to validate the monthly results. This would be impossible under traditional processes, that would take days to reconcile and additional time to consolidate and format for reporting.

True Actionable Insights and Forward-Looking Process That Are Always Ahead of the Trends

And a modern subledger can be much more than an accounting system. As the world continues to change at an unprecedented pace in ways previously unimagined, banks are also transforming, particularly in how they address client needs through new loan offerings and creative modification options. In recent years, the attention on other stakeholders has also increased, with the focus on ESG (environmental, social and governance) issues further intensifying the spotlight on how institutions do business. And these stakeholder demands have led to a concentration on better decisions driven by better data. And to add to the pressure, banks are facing new competition from FinTech firms that are agile, efficient, and have less regulatory pressure. This leaves traditional financial institutions having to find new ways to be profitable, to attract customers and to create value for borrowers and depositors. This means that different parts of an institution need to come together to create true actionable insights, to drive the bank's strategic direction, and to make fact-based decisions while simultaneously addressing the demands placed on them.

And these demands have increased the need for data driven insights putting finance organizations squarely in the center of these conversations as the end point of an organization's data. Armed with the right tools, a modern finance organization can lead the charge to a modern institution. And to aid in these transformations, many subledgers have arisen to help these departments to consolidate data and create insightful reporting. While these industry-agnostic, pre-built subledgers may be sufficient for many industries, they typically are not enough for banking institutions. Banks are more complex, more tied to the economy and demand fundamentally different reporting. The insights that banks require are fundamentally different and more intense. But a domain aware subledger with world class business intelligence tools can be transformative.

Adding to the uniqueness of banks is the complexity of the main products offered. Loans are challenging because each is individualized, illiquid and unique. In addition, the accounting and valuation for them is specialized. Banks will need a system that can consolidate data from various servicer and sub-servicer systems, do the adjustments for GAAP accounting that can allow for a true view of interest income, provide intelligence into the risk & allowance process, and combine it with data from the credit department in one place so that banks can really understand the risks and rewards associated with each loan, sub portfolio and portfolio.

And even more so, a purpose-built, modern loan subledger can bring together key information (i.e., loan office information, borrower information and branch organization information) from various parts of the bank and combine it with purpose-built business intelligence tools that can make that information fundamentally understandable and shareable and therefore reportable and actionable.

Armed with the right tools, a modern finance organization can lead the charge to a modern institution.

And these bank-intelligent subledgers can help banks to understand and report on key aspects of the business, including, among other things:

- Branch performance and online performance so banks know what's working.
- Sustainability reporting by transforming how banks understand and talk about loans and the types of impact these loans are producing. In addition, these types of analysis can help banks hone in on the type of incentives to offer.
- Diversity reporting and impact on underserved populations, including yield analysis to help banks have a holistic view of the types of loans being offered to various subpopulations and the effectiveness of each offering and to ensure that outcomes are in line with strategic vision.
- Governance reporting by having a process to review items that is specific to various individuals and roles, you can better manage your business in a controlled manner.
- Forecasting and budgeting by leveraging more timely and accurate granular data to facilitate these FP&A activities.

By bringing all the relevant information in one place, the right subledger can provide management an understanding of a bank's performance and the drivers of performance, thereby modernizing the finance department and with it the bank. In addition, the business intelligence tools can help banks take a deeper dive into emerging issues and allow all parts of the organization to be in sync with progress towards strategic vision and goals.

CONCLUSION

In conclusion, whether it is a more efficient close or ESG or workforce analysis by having detailed information combined with true business intelligence tools, the modern subledger can be more than accounting for past performance...it can lead to a shift to forward progress with true measurement against strategic initiatives.

CORE CAPABILITIES OF A MODERN SUBLEDGER

Manage and consolidate your Serviced by Other ("SBO") Portfolios to allow for consistent accounting and reporting

GAAP loan accounting across all different product types

Analyze information across multiple departments with best-in-class business intelligence tools for actionable insights

Journal entries and reconciliations interfacing with your specific general ledger requirements

Automated and controlled month end accounting close process

Data ingestion, validation, enhancementand scrubbing

Contact us today to speak to an expert.
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