Building the Business Case for Automated Reconciliation and Certification

Manual reconciliation and certification processes can be labor-intensive and error-prone. Automation can solve both problems. An automated reconciliation solution can strengthen compliance and internal controls while lowering the time, cost and risk associated with month-end closing.

It's neither acceptable nor smart to sign off on financial data without understanding exactly where it came from. Yet many executives are certifying data without visibility into the background of the numbers. Executives often have no choice because, short of checking every figure with a calculator, they can't confidently verify the data hitting their desks.

Manually managing reconciliation can create vulnerabilities such as noncompliance, fraud, errors and audit risk. And when exceptions can't be traced or resolved in a timely manner, they turn into costly write-offs.

Financial institutions don't have to accept those costs or risks when there is technology that can eliminate them.

Advantages to Automation

Automation can reduce paper-based processes, save time and lower operational costs, but it can do even more when applied to reconciliation and certification.

Automated reconciliation and certification ensure the right data is loaded automatically, eliminating opportunities for mistakes or fraud. Matching technology can outperform people in both accuracy and speed, and digital solutions leave audit trails that can be superior to any spreadsheet. As more banking tasks are managed remotely or by geographically dispersed workers today, the need for consistent and streamlined processes is even more urgent.

How much could you gain by removing repetitive, manual reconciliation tasks?

Here are five steps to help measure the potential value and start building a business case for automation.

Step 1: Analyze Current Processes

Look at current reconciliation and certification processes and ask:

- Can executives see underlying transaction details or the exception-handling process before they sign off on accounts?

- Could leaders be certifying incomplete or outdated information?

- Is there enough account detail to confidently comply with regulatory standards (such as the Sarbanes-Oxley model audit rule)?

- Do you use spreadsheets or manual methods for matching and exception management?

- Are accounting associates struggling with inefficient, cumbersome work or tedious manual processes?

- How do you track who changes or adds detail to an exception?

- Do you have different reconciliation processes for different types of accounts?

- Are reconciliation controls strong enough to hold up during an audit?

- Are inconsistent or ineffective processes lengthening the financial close?

Manual processes can affect productivity, profits and risk. If you can find room for improvement, it's time to build a business case for automation.

Step 2: Calculate the Cost of Reconciliation

Manual reconciliation drains productivity. That can hurt morale and lead to serious financial implications.

How much does it cost to reconcile accounts manually?

- Calculate the amount of time to complete each reconciliation step manually. In our example chart on the next page, manual reconciliation takes 220 minutes.

- Multiply that figure by the number of accounts you reconcile. If you reconcile 100 accounts manually each month, you're spending 22,000 minutes on reconciliation activities. That's more than 366 hours per month.

- Multiply the hours by the average hourly rate for reconcilers. If you pay $20 per hour, then it costs your organization $7,320 in manpower costs each month to manually reconcile accounts.

Automation can reduce the reconciliation and certification process from hours to minutes. What does that mean in terms of savings? Using the numbers in the chart, reconciliations that are completed 80 percent faster would cost only $1,464 in manpower – a savings of almost $6,000 per month.

Calculating the savings in time and money helps leaders understand the value of automation in concrete terms. Measurements also help you explain what success and key metrics will look like.

Frontier™ Reconciliation from Fiserv has helped us with faster processing times. Some reconciliations taking two to three hours to complete now take less than 20 minutes.

– **Kathy Scott,**
 Manager of Accounting and Account Reconciliation, Truliant Federal Credit Union

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How to Calculate the Cost of Manual Reconciliation

Manual Reconciliation Activity	Time Investment (Per Account)	Activity Details
Data Collection	5 minutes	Collecting and aggregating data from multiple systems
Data Preparation	10 minutes	Loading and enhancing data
Matching	45 minutes	Matching balances and transactions
Exception Identification	30 minutes	Identifying and resolving exceptions, adding notes and supporting documentation to transaction-level detail
Exception Follow-up	15 minutes	
Exception Close	5 minutes	
Posting	20 minutes	
Reconciliation	30 minutes	Printing reconciliations
Certification	45 minutes	Reviewing and approving reconciliations, tracking approvals, reporting on approvals status
Audit	15 minutes	Retrieving reconciliations for auditors
Total time spent reconciling	220	

Step 3: Measure the Effect of Automation

In addition to productivity gains, automated reconciliation has the following quantifiable benefits:

Resolving Exceptions

Based on preset business rules, robust reconciliation software will automatically find and flag exceptions so staff can dive directly into issues that require their time and focus. Related activities, such as notes and supporting documents, are stored in one platform so it's faster for reviewers to investigate and resolve discrepancies. That can lead to a 75 percent reduction in write-offs. Within a click or two, leaders can see exceptions and read supporting documents and notes so they can certify with confidence.

Reducing Risk

Manual reconciliation processes can be more error-prone than automated solutions. Formatting problems or small inconsistencies can turn into costly inaccuracies that are difficult, if not impossible, to trace and resolve. Errors lead to financial loss through late closings, written-off exceptions, noncompliance fines and wasted time. They also risk an organization's reputation. Financial institutions that automate data integration and transaction matching can reduce their risk of error by as much as 50 percent.

I don't know how an organization can perform true exception management through manual reconciliation. If you've got hundreds of thousands of transactions per day, it's a lot of work to load them all onto a spreadsheet, making sure to get the right balances, making sure you get everything matched up. I've got to believe the risk is high in those areas that are manual.

– **Ken Valentine,**
  Vice President and Senior Group Manager,
  Information Technology, Fifth Third Bank

Strengthening Internal Controls

Effective internal controls such as business rules, access and permissions lower the risk of financial misstatement. Internal controls are tighter when they're enforced by password-protected user groups and security settings, as opposed to papers being passed around or editable spreadsheets. Unlike spreadsheets, reconciliation software time and date stamps activities and protects the information from later changes. Automated workflows ensure review and attestation procedures are completed by the right people, within the predefined timeframes.

Step 4: State Your Case

A business case shows leaders that you're thinking about the organization overall and understand how different functions and levers affect performance. It also gives leaders a clear picture of what to expect in terms of time, value and investment. Using data, draw a short-enough path toward strong-enough return on investment.

A compelling business case for automation has three key elements:

Results-focused

Collaborative

Transformative
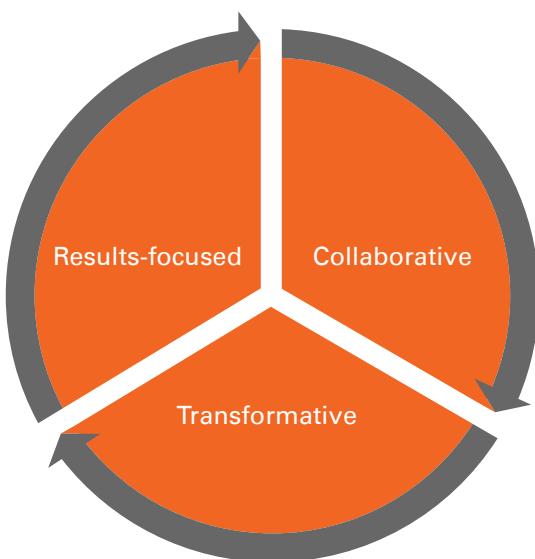
Results-Focused

Return on investment is often the driving factor in a successful business pitch and a critical component of getting the project approved.

That is where measurements come into play. Use data to demonstrate the effect. For example, one financial institution reduced its costs associated with processing errors from $108 million to less than $20,000 in six years with automated reconciliation.

Collaborative

Demonstrate how reconciliation and certification affect the entire organization. Engage stakeholders from across the organization and secure their support for process improvement and digital transformation overall.

Fifth Third Bank automated its enterprisewide account reconciliations, such as demand deposit accounts, general ledger, trust ledger, securities and others. About 98 percent of Fifth Third Bank's balance sheet is reconciled automatically.

Transformative

The proposal should change the way business is done and not just add digital elements to existing processes. Propose bold new processes, workflows or collaboration that will improve the entire organization.

For example, Fifth Third Bank applied automated reconciliation to nontraditional use cases, such as checking for fraud when a check is presented for cashing at a banking center. The bank can also isolate potential credit card fraud by separating card activity based on transaction details such as signature, pin and manual pin.

Another bank reviewed all repetitive reconciliation tasks across the enterprise with the goal of automating them. The bank applied the automated reconciliation system's matching capabilities to monitor external and internal account balances and make sure other applications, reports and third-party balances stayed in sync.

Northway Bank automated reconciliation and certification from a paper-heavy process in which it took 10 days for senior accounting staff to review and another full day for the controller. To prepare for auditors, the team took a full day sorting more than 1,000 printed report pages. Now, reconciliations and certifications are automated, saving up to 75 percent of employee time. Auditors get direct access to review and print whatever they need.

Frontier Reconciliation has allowed us to grow an additional $400 million in assets without adding any more staff to accounting.

– **Wade Bruendl,**
  SVP and Chief Strategy Officer
  Meritrust Credit Union

Step 5: Prepare for Roadblocks

Be prepared for obstacles. Try to anticipate decision or execution points that might impede efforts to pursue automation. These areas commonly need to be addressed:

- **Policy and process development** – Some organizations try to recreate paper-based processes using digital tools. To achieve the full benefits of automation, let go of "how it's always been." That may include revamping paper-based signature or document retention policies or simply trusting the security parameters of the digital solution. Propose a way to collaboratively change and improve processes to meet everyone's needs.

- **Training** – Digital tools must be supported by the right people and process. To meet individual learning styles and ease transitions, make sure your solution vendor offers a variety of training programs, including instructor-led virtual courses with hands-on exercises and self-paced, on-demand e-learning.

- **Leadership** – Every major initiative needs strong leadership and internal champions. Build a team of problem-solvers from accounting and IT who

can bridge the organization. Seek out a project champion, not necessarily a positional leader, who understands reconciliation, data flows and how different pieces of the organization work together. A strong champion can guide and promote the project toward a successful outcome.

- **Change management** – Regardless of the intent, change can be difficult to embrace. Some staff may fear efficiency gains will replace their jobs instead of bettering them. Try to paint a picture of the goal and emphasize the positive effects of change. In the case of reconciliation, the value proposition for staff is less time spent doing mundane tasks and more time working on rewarding, value-adding activities.

"We wanted a life outside accounting and with Frontier Reconciliation, we got our lives back. Reconciling the daily accounts helps facilitate a timely and accurate financial close. We can see the matches immediately and resolve exceptions much faster, in weeks instead of months."

– **Brooke Hand,**
  Senior Vice President and Controller,
  First Federal Bank

- **Competing priorities** – Change agents will always compete against other priorities. Connect your solution to challenges facing the entire organization, such as fraud detection. Automated reconciliation tools can support financial and operational reconciliations, setting the stage for numerous use cases. By extending one solution across an organization, the value increases and the business case becomes stronger.

Key Questions for Reconciliation and Certification Providers

- Does your application support transaction-level and balance-level data?

- Does your solution offer certification based on detailed transaction-level data or only balance-level data?

- On average, how many daily transactions can your platform successfully process?

- From what data sources, account types, systems or software can your solution import, match and reconcile information?

- What deployment options are available?

Improve Performance Together

Look for a partner to help bring your business case to life with an end-to-end automated reconciliation solution. A trusted partner can provide expert technical, process and business advice to help you grow and scale the solution.

Together, you can find ways to apply automation toward organizational priorities and increase the value of the investment.

Connect With Us

For more information about
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