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BRIDGING THE CFO-CRO DIVIDE

Answering The Call Of Converging Needs

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Pressing Need for Convergence

There is an increasing recognition that CFOs and CROs are not on opposite sides of the battlefield. Instead, it is more appropriate to think of them as two sides of the same coin. But, the question to ask is how can this realization actually add value to the organization?

The history of capital markets and the banking industry is steeped in the premise of risk management: The greater the risk, the greater the reward. The harsh side of the risk-reward equation is equally true: The greater the risk, the greater the probability of loss. Risk and reward have always been two sides of the same coin. That perhaps makes it easier to recognize why the roles of the Chief Finance Officer (CFO) and the Chief Risk Officer (CRO) demand better integration. The call for convergence grows even louder in the challenging environment of economic uncertainty with increased defaults, volatile markets, newer (exotic) and riskier products being launched, unpredictable consumer behavior, growing regulatory oversight and an increasing demand from stakeholders for more profitability.

National standards authorities and industry regulators have been busy confronting these challenges with progressively complex mandates. Regulators have been gradually seeking a unified view of financial and risk data using common and consistent templates (Basel III and Solvency II being good examples to go by). CFOs and CROs too are headed in the same direction. When the CFO-CRO relationship is strengthened, we can expect to reap the benefits of operational stability, predictability of returns, enhanced reporting, increased compliance and improved profitability. Further, whenever need be, they can respond to crisis with utmost resilience. The convergence of data, market and industry research, analytical and modeling tools, and reports across the two functions is inevitable. This convergence makes it simpler to balance operational and strategic decisions and to protect capital in order to meet the looming threat of business disruption.

The partnership results in giving a boost to efficiencies and reducing costs. Can there be better reasons for the urgency to integrate the two roles?

Bridging the Great Divide

The good news is that leaders in BFSI have recognized the need and are in the process of bringing the two roles closer. The bad news? For a majority of the industry, the two roles continue to operate in silos with staunchly held traditional belief that the more independent they are, the better it is for the business. However, the truth lies somewhere in between.

The operational niceties may vary from organization to organization. One may prefer to keep the two roles independent, while another may have a direct line of reporting from the CRO to the CFO. A third may see the two roles report directly to the Board. These are organizational structures and managerial hierarchies meant to minimize friction between roles and, operate in the best interest of the organization and its stakeholders. They certainly do not mean the two roles cannot benefit from greater coordination and integration.

The most immediate impact of the rising trend of CFO-CRO integration is on enterprise technology. Traditionally IT systems meet the adversarial needs of the two roles, delivering different sets and quality of data, reports, research and analytics to both. This can obviously be counterproductive and risky from a compliance perspective.

Clearly, IT must sit down to do a rethink with the CFO-CRO duo to rationalize and unify systems and workflows. The end result of the exercise should be aimed at improving the quality and consistency of information and reducing the cost to manage and process it.

Independence with Interdependence

The data used by financial institutions is processed through a variety of risk models. The output is consumed by the CEO, COO, CFO and the CRO. By their very nature, risk models are designed by the CRO's offices. Today, risk models must also be viewed from the lens of the CFO, if the two roles are to work in tandem. It is another matter that the CFO and the CRO may disagree over the interpretation of the output. But the differences, arguments, reasoning and decisions must be based on the results and actionable insights obtained from the same data and underlying models. If anything, it is even more important to ensure that the two roles remain fiercely independent in their perspective of business, even as they build on systemic and operational cooperation.

The re-engineering and unification of data and analytical systems are worth the pain. The impact in doing so is felt across the enterprise. In a sense, the concept of shared services and platforms needs to be extended to areas on either side of the CFO/ CRO wall. Many roles and functions within the organization will benefit when the data and analytics being shared is identical for operations, risk-management, reporting and strategic decision-making, across all levels.

Face-to-Face to Shoulder-to-Shoulder

If they haven't already done so, financial services organizations must re-asses their thinking related to the roles of the CFO and the CRO and to their approaches to risk, governance and oversight. Does narrowing the information, communication, process, workflows and systems gap between the two functions go beyond protecting value and, in fact, add value to the organization by helping it exploit new opportunities with greater confidence? In every instance, the answer to that question will be an unqualified and a resounding "yes".

About the Author

Sriram Kannan is a senior fin-tech and analytics consulting leader with almost 17 years of extensive and progressive experience in a suite of areas - BI, Analytics, EPM/BPM, Management controllership, Finance-technology, Risk & Compliance - with proven ability to manage large-scale, multi-discipline programs effectively and exceed expectations in delivery of results.

At Wipro, he seamlessly collaborates with sales-force and GTM teams in defining and crystallizing strategy, building target operating models, ROI driven road maps and business cases and contributes to crafting and shaping opportunities through "CxO level" engagements. Additionally, his role entails leading Finance, Risk transformation and Performance improvement engagements globally while encouraging the adoption of BI/Analytics solutions for clients - enabling customers gain sustainable competitive advantage through increasing speed and accuracy in reporting, analytics and decision making.

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