How can we generate forecasts that quickly improve resource allocations and business decisions under changing conditions?

YOUR GOAL: Improve the accuracy of financial and operational forecasts

Business decision making is, at its core, about allocating resources in alignment with strategy and appropriate to the changing external conditions your financial institution faces. The primary resource allocation tool available to management is the budget, but the typical budget is unwieldy, inflexible, resource-intensive to produce, contentious to negotiate, and often obsolete by the time it's approved. And once in place, it gives finance and business unit management few options if conditions change, other than reducing head count, reallocating capital and freezing customer credit.

What's missing is the ability to adapt quickly to changing conditions while maintaining a certain level of fiscal, operational and strategic control. Such agility requires scenario planning – the ability to devise optimistic, pessimistic, most-likely and worst-case scenarios that you can deploy quickly across the enterprise. Effective scenario planning, in turn, requires accurate and robust forecasts built not just on historical data or recent trends, but also the drivers (i.e., rates, yield curves, turnover, econometric indices, volumes, mixes) that affect revenue, interest expenses, head count, processes employed, capital requirements and marketing spending. Too often organizations rely only on the long-range plan or just one forecast source, while overlooking multiple internal and external forecast sources – e.g., econometric, operational, marketing and financial forecasts, industry and government data, and experienced business judgment. When taken together, these can be the foundation for effective scenario planning.

OUR APPROACH

Proper and agile resource allocation requires sound financial management coupled with accurate financial forecasting, incorporating the tools, technologies, software, services, processes and best practices appropriate to the task. SAS approaches the problem by delivering software and services to help you:

- **Access actual and planning data on demand** with a secure link to a common data repository for all financial and operational data, supported by automated extract, transform and load (ETL) processes that validate the incoming data from disparate systems.
- **Gain confidence in the accuracy of your financial planning process** with a highly automated point-and-click forecasting solution that uses an extensive library of models and functions to automatically select the best forecast model, optimize the model parameters and generate the forecast.
- **Assess your risk and evaluate your risk-adjusted options** by developing multiple, simultaneous scenarios and their triggers, based on operational, market and credit risk profiles.
- **Quickly adapt, guide and control your firm through inevitable changes** using predefined scenarios (e.g., optimistic, pessimistic, best case, most likely, etc.) that use powerful what-if analysis.

SAS® brings intelligence to the forecasting process, enabling finance to work in partnership with line management to improve business performance, not just report on it.

Business Impact

Scenarios and predetermined triggers let you implement backup plans quickly and run your financial institution based on hard data – not guesswork.

"Sophisticated [forecasting] tools increase the accuracy of predictions, as they can analyze a number of factors and scenarios that would otherwise have not been taken into account."

Head of assets and liabilities at a large European bank

Challenges

- **Inaccurate forecasts.** Forecasting that's exclusively driven by domain knowledge and biased judgment is time-consuming and inaccurate.
- **Quick-fix approaches to change.** Operating in crisis mode leads to pessimism over long-term results due to the potential negative impact on customers and revenue streams.
- **Lack of collaboration.** Multiple processes and perspectives – from branches, regions, business units, headquarter operations, economic research, marketing, etc. – are difficult to consolidate and integrate.
- **Manual processes.** Spreadsheet-based planning and budgeting cannot support complex, high-volume modeling and multiple scenario planning, and cannot generate what-if scenarios and multiple model options.
- **Insufficient resources.** Often there aren't enough trained analysts to support analytically rigorous forecasting, and spreadsheet forecasting tools offer limited statistical models and options.

THE SAS® DIFFERENCE: Analytical forecasting for business scenario planning

No other vendor offers a single solution that lets you spend more time analyzing financial information than creating it. Only SAS provides:

- **On-demand consolidation.** Consolidate multidimensional financial and nonfinancial information on demand while performing all relevant financial calculations, then display the results in a familiar Microsoft Excel viewer.
- **Automatic forecast generation.** A statistical forecasting engine automatically determines the most suitable forecasting models for each item being forecast based on user-defined criteria, and model parameters are optimized automatically.
- **New project wizard.** An easy-to-use wizard guides even novice users through data selection, assigning roles to variables and selecting forecast criteria. Forecasters can also override the statistical forecast to incorporate judgment or outside information.
- **Operational planning and predictive analytics.** Detailed operational planning capability at the employee, branch, customer or individual loan, loan portfolio or business-unit level is fully integrated within the overall financial planning and reporting system, so you can embed predictive intelligence into your budgets and plans to enable more accurate forecasts.

Built on the SAS Business Analytics Framework, SAS forecasting solutions integrate financial and operational planning, forecasting and budgeting with embedded analytical intelligence.

CASE STUDY: A large European bank

Situation

The bank needed a planning environment that could incorporate interest rate and credit risk into its forecasts, provide insight into scenarios for future asset and liability structures, mitigate threats of insufficient liquidity, and meet regulatory reporting requirements.

Solution

SAS provided an intelligent forecasting solution that:

- Includes a forecasting engine with an easy-to-use interface.
- Extracts data from multiple sources: six internal operating systems; external sources, such as credit reporting firms; and 350 economic indices with 25 years of forecasts.
- Serves as a single, highly flexible and integrated forecasting, consolidation, reporting, planning and budgeting solution.

Result

- Risk managers generate forecasts five years ahead, optimizing liquidity and predicting the necessary asset/liability structures.
- Loss forecasts are based on demographic data, targeting potential problem areas.

What if you could ...

Consolidate financial and nonfinancial data on demand
What if analysts could spend significantly more time analyzing financial information and much less time creating it?

Produce financial reports, forecasts and budgets faster
What if your budgeting process could be transformed from a time-consuming distraction to an integral part of the overall management tool kit?

Automatically generate the most suitable forecasting models
What if your forecasts were based on real cause-and-effect relationships and not just hunches and best guesses? What if forecasts were done using powerful analytical tools requiring only minimal training and IT support?

Tie into and drill down through one version of the truth
What if you could consistently and confidently tie forecasts and related impacts to the income statement and balance sheet?

Incorporate all relevant drivers and inputs into the forecast
What if your analytical tools could sort, select and properly weight inputs and drivers (e.g., interest/currency rates, credit trends, refinancing and mortgage/loan product mixes, spreads and commissions, consumer confidence indices) in one integrated forecasting process?

You can. SAS gives you THE POWER TO KNOW®.

SAS FACTS

- SAS customers make up 97 percent of banks in the FORTUNE Global 500®.
- More than 3,100 financial institutions worldwide are SAS customers.
- SAS has more than three decades of experience working with financial institutions all over the world.

Learn more about SAS software and services for banking at: www.sas.com/industry/fsi

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