



How Asia-Pacific banks' Finance functions can maximize Digital Transformation through the Cloud?

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Many banking organizations will need to consider replacing their General Ledger driven by a number of operational and risk based factors



67% of banking organizations expect a high impact on the finance function from increasing regulator demand for more timely and comprehensive data.

80% of large banking organizations have already implemented cloud and SaaS programs.

5% of surveyed participants have a mature business as usual analytics capability, despite analytics and big data being ranked as the most critical technology to enable the future finance function.

In today's market, we are seeing many banks across Asia-Pacific making critical decisions around replacing their General Ledger (GL) with a Cloud-based solution to enable their Enterprise Digital Transformation. The primary factor for this is to address current operational risk exposure due to many technology vendors ending support life of the on-premise versions over the next 10 years. Other factors include the need to enable Finance to better service their respective businesses through real time data and enhanced analytics, and supporting regulatory compliance.

Regardless of the specific case for change, we believe that before you embark on your GL Cloud Migration journey, it's key to spend time upfront conducting your due diligence and working through the business case. This would achieve support for the investment and an understanding of the associated deployment risks that will generally cause executives to act with caution when giving the go-ahead with the program of work, especially in this current pandemic climate. To support clients with a robust business case, we have prepared a set of questions to consider and a point of view across the key design and implementation phases when migrating the GL to the Cloud.

Process and Operating Model

- ▶ Do you need to review your operating model and capabilities to be Cloud ready?
- ▶ Do you have any process improvement and automation outcomes expected from migrating to the Cloud?

Compliance

- ▶ What is the risk of non-compliance with the regulatory bodies?
- ▶ What attestations can be made available to provide the expected level of comfort?
- ▶ How can you ensure continued control and oversight over the outsourced service and furthermore ensure compliance?
- ▶ Are any material findings from internal/external audit that need to be met through the new Cloud solution?

Management and Legal

- ▶ Which Cloud providers offer the best long-term alignment to the business goals?
- ▶ What are the legal risks involved, and how are they mitigated in the legal provisions?

Business Continuity

- ▶ How is business continuity ensured in case of a technical disaster impacting the Cloud infrastructure?
- ▶ How can the services outsourced to a Cloud provider be moved to another provider or taken back if need be?

Business Risk Management

- ▶ What are the main operational and financial risks and how are they mitigated?
- ▶ How is an end-to-end control environment implemented and sustained?

IT Architecture and Security

- ▶ What components of the Cloud architecture is needed to meet your outcomes?
- ▶ Does the architecture build comply with the group standards?
- ▶ How is strategic information including customer/personal data protected at all times?

Third party selection and governance

- ▶ Has the vendor been selected using the third party selection and risk management process?
- ▶ Will you utilise the third party governance framework for ongoing management?

Key success factors for a Cloud-based General Ledger program

Getting the following success factors right will be key to ensuring the program is setup for success with minimal surprises along the way

Technology

Single, integrated solution blueprint across all technology components to drive standardisation

End-to-end detailed design across full architecture to consider holistic impact of the technology

Align the technology team and work with the change management team to drive the right adoption

Limit impacts to upstream and downstream systems and processes to reduce the remediation effort as part of the initial phase

No over-engineering of the technology solution to enable easy upgrades and maintenance

Leverage the advanced Cloud technology to guide and inform the target operating model

Data

Adjustments to source system data will be made at source to enable a consistent data model and allow full traceability

Introduce strong data governance and ownership early-on to agree roles and responsibilities to source and provision data

Allow ample time for pilot run and real data testing for a successful go-live with reduced risks

Validate the data model against the outputs of the system to limit re-work once the report build begins

Design Reporting and Analytics to provide insight for improved decision-making

Build scalable data integrations and data conversion models that can be optimised and extended for future use

Process

Adopt not Adapt to eliminate all customisations and streamline business processes

Design must be business owned, process driven and technology-enabled for maximum efficiencies and savings

Iterative prototyping of all end to end business processes for users to experience the tool

Program Delivery

Establish Steering Committees and Design Authorities with key representation to drive decisions

Embed early change management and the right communication to enable early user adoption

Validate governance framework with clear RACI to avoid duplication of effort

Key considerations for the General Ledger

Ledger design

Chart of accounts (CoA)

Reporting

Change management

Deployment options

Data migration

Cloud Support Model

Risk & Compliance

The ledger design is one of the most important design aspects faced when embarking on the new ERP, and ensuring you take a comprehensive approach to design and changing your mindset when implementing a SaaS product will be key.

- ▶ **Thick or thin ledger:** Agree on the role of the ERP solution in the broader Finance architecture as this will drive the chart of accounts design. Is the ledger a control ledger, primarily designed to meet statutory requirements, or will it also support more detailed management and performance reporting and analysis?
- ▶ **Sub-Ledger:** As you decide to migrate your GL to the Cloud, another factor most organizations need to address is a requirement for a sub-ledger to “house” more granular data. Some decision factors for this include the role of the GL in financial analysis and reporting. The decision for the use of a sub-ledger (whether part of the ERP vendor suite or best of breed solution) will impact the overall GL design and delivery of the Cloud program. Some key benefits we see with the implementation of a sub-ledger include:
 - ▶ Consistent data transformation and data quality
 - ▶ Full traceability that enables systems to “talk” to one another
 - ▶ Finance data is reconciled from the multiple GLs/COA back to the source data
 - ▶ Consistent rules based, accounting logic under Finance’s control
 - ▶ “Finance accurate” granular data for reporting and analysis
 - ▶ Automation of granular accounting activities
- ▶ **Primary and secondary ledgers:** Identify requirements around local/group reporting currencies, calendars and alternate accounting presentations. Consider the range of ledger options to establish the most effective and efficient set of primary and secondary ledgers.
- ▶ **Leverage the embedded controls:** Use the system capabilities to embed process controls, decentralise approvals and manage by exception. Minimise the time spent by on transactional processing to free up Finance for business partnering and performance insights.
- ▶ **Ingest data once:** Consolidate legacy platforms and effectively integrate with source and target systems to drive streamlined end-to-end processes. Consider an accounting hub to centralise and streamline accounting rules and extend ERP insights into source system transactions.

Key considerations for the Chart of Accounts Design

Ledger design

Chart of accounts (CoA)

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Risk & Compliance

Similar to the ledger, the design of the chart of accounts is another important element in your design phase and will shape the overall scope and scale of the transformation program - full change, minimal change or no change - each option will impact your cost, benefit and deployment risk considerations.

- ▶ **Reporting requirements:** Establish the key reports and enterprise metrics that you require out of your ERP and determine if you want the chart of accounts to serve just statutory reporting requirements or also management and regulatory reporting. Getting this right is key to reduce re-work if the decision is not clearly made or relitigated later down the track.
- ▶ **Avoid multi-purpose segments:** As you design your Chart of Accounts segments and segment values, validate that only one type of information is captured within each segment. This allows each measured dimension to be recorded against any transaction. It avoids complications in isolating data and simplifies cross validation and security rules.
- ▶ **Drill through for detail:** Segments should not be created that replicate information that exists in other sub ledgers within your ERP solution. Use the capabilities designed into the sub ledger to ledger relationship, in support of an effective ledger design.
- ▶ **Leverage hierarchies:** Carefully consider different hierarchy requirements across reporting, allocations, cross validation rules, revaluations and chart of accounts mapping. Simplify where possible to minimise maintenance.
- ▶ **Governance and control:** Put in place a governance process to oversee that the principles designed into the chart of accounts are maintained and segment values are managed in a controlled and co-ordinated way across all impacted systems.
- ▶ **Scalability and flexibility:** A well thought out chart of accounts should first and foremost minimise the need for frequent change. However business growth and future restructuring must be catered for effectively through the use of logical numbering conventions, values incrementing by 5 or 10, the avoidance of coding intelligence and the inclusion of spare segments.

Key considerations for Reporting

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Information delivery and reporting is one the most important streams of work to get right when migrating the Cloud as it will impact both internal and external stakeholders, is the main mechanism used by business stakeholders when making key decisions.

- ▶ Developing a reporting strategy upfront during high level design will be crucial in capturing not only the key requirements across statutory, management and regulatory reporting but it will also assist in your overall Finance application design and selection by confirming the understanding of required data attributes and the associated authorised consumption points within the Finance technology layer.
- ▶ The more complex the reporting requirements the higher chance you will need a more sophisticated reporting suite as part the technology layer beyond the BI tooling that accompanies most applications - it's important at this point to seek as much guidance as possible as it can be overwhelming with the number of application choices and methods available. Some simple principles to help with include: reduce complexity in design and method as much as possible, keep end user performance front of mind and use the application for its core purpose.
- ▶ Another aspect to consider when developing your strategy is the approach for upstream and downstream process, system and reporting remediating including the opportunity to rationalise and reduce reports and the uses of UDAs either to prepare financial data or manipulate for reporting purposes. Your impact analysis should clearly identify the upstream and downstream focus areas for remediation and identification for process improvement. Sufficient consideration for this will also inform the organisation's overall adoption approach reducing the transition risk for the user community.
- ▶ Finally, the reporting strategy should consider the optimal point in the architecture which the consolidation process will occur. Dedicating sufficient focus up front in the design phase will enable an organization to assess the group and sub-group consolidation requirements and the associated solution architecture to support it. Organisation may opt to deploy their consolidation solution within their GL, in a separate consolidation tool (often part of the ERP suite) or within their reporting process. The decision should be informed by the complexity of consolidation as well as the costs and benefits within the business case. Some factors to assist with this decision include: size and complexity of the legal entity structure, the volume of intercompany transactions, the number of GLs in target state, the need for process and workflow management and consolidation frequency required. These factors will contribute to overall performance of the consolidation application and should be weighed up when deciding if you choose to consolidate from the GL or to utilise a consolidation application.

Key considerations for Change Management

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The traditional one size fits all approach to conducting change management is no longer an option for organisations in this ever changing and disrupted environment. Increasingly, there is a need to 'engage with impact' using a different and tailored set of principles and tools to conduct and drive successful user adoption.

- ▶ Some core principles for setting out the change strategy and change impact assessment include:
 - ▶ **Data led:** Change impact analysis should be a data led initiative to ensure objectivity.
 - ▶ **Humanistic:** Change impacts are analysed in relation to human experience and behaviours to drive change adoption at the individual level.
 - ▶ **Tailored:** The way change impacts are assessed is deliberately different and tailored for each organization to drive faster business adoption.
 - ▶ **Organisationally aligned:** Change impacts are analysed and outcomes produced against the organisations structure to drive effective implementation.
 - ▶ **Adopt not adapt:** The focus of design should be on the required configuration of out-of-box functionality. Maintain flexibility and anticipate business process change in seeking to adopt standardised processes and standard functionality.
- ▶ Change planning, management and coordination seems like an easier task when it comes to transformation programs, but more often than not, we find change management is always planned for at the tail end of the program which results in associated activities not being as successful or effective as they could be. Changing that mindset to support that migrating the General Ledger to the Cloud is a people first change is critical. Below are some key principles and considerations to drive the right behaviours for your program:
 - ▶ **Stakeholder alignment:** Ensure stakeholders are known and managed throughout the program on a journey from awareness to commitment and ownership of change.
 - ▶ **Communicate and engage:** Inform and engage all stakeholders on the change journey to promote awareness and understanding of the change and enable them to adopt and then commit to the new ways of working .
 - ▶ **Change impact and readiness:** Understand the change impact to people, processes, and systems, and define actions to prepare teams leading the implementation of the required changes.
 - ▶ **Adopt and sustain:** Train and support end-users and other stakeholders to embed the new ways of working into BAU, and assist in embedding sustainable change post-live.

Key considerations for deploying the solution

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An agile approach with the control elements of a waterfall methodology is the practical way to deploy a Group-wide solution. This value-led approach which focusses on early system 'show and tell' and iterative prototyping will enable your organization to be actively involved in understanding all the key design elements of the implementation and configuration of the Cloud ERP solution. In addition, for the key testing phases, it is crucial you get it right and include the more traditional waterfall stage gates, controls and documentation elements to prove the solution meets the key requirements before progressing to go-live.

- ▶ Deployment needs to be anchored around strong principles that are at the core of the decision making process which include:
 - ▶ Adopt the enabled SaaS process as much as possible
 - ▶ Buy once, develop once, review once and (re) use multiple times
 - ▶ Design needs to demonstrate that it has traded off implementation risks and costs against features and functionality
 - ▶ All designs will be future-proof and have risk and a robust control environment at their core
 - ▶ Design should always seek to remove complexity and drive effective decision-making
 - ▶ Only one definition and source of finance reference data
- ▶ Developing the implementation plan should be done using data and organisational context to truly assess a viable go-live date, such as number of application modules, number of requirements and user stories, number of integration points, number of reports that need to be built, number of testing cycles required, etc.

Key considerations for Data Migration

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Risk & Compliance

When it comes to migrating historical data it's key to minimise as much as possible and only migrate data required for ongoing finance and comparative reporting activities. The rationale for this is purely to reduce the deployment risk of having to convert and reconcile millions of rows of data that is not a hard requirement. To help organisations draw a line and determine the scope of the data migration strategy, see below some key principles for consideration.

- ▶ Where possible only migrate trial balance unless there is a strong business case to migrate more detailed data sets. For Balance sheet as a minimum all opening balances are required. If migration takes place at year end only migrate P&L items required for comparative reporting.
- ▶ To support the data under governance (DuG) regime, the program should have an appointed lead taking accountability for Finance Critical Data Elements (CDE's) and ensure any documentation produced as part of the stream can be leveraged and used as an input as part of the DuG framework.
- ▶ Finance usually don't have the skills and experience when it comes to data and need to rely on the Technology Function to enable the process. To ensure proper understanding and key decision making, below is our proposed approach for data migration that will help guide the key steps required to achieve the outcome:
 - ▶ Determine the scope and define the data clean up strategy for each data object before migration takes place
 - ▶ Extract data using data extract scripts from legacy ERP system
 - ▶ Analyse the extracted data to remove any duplicates, incorrect items or incompleteness
 - ▶ Map source data to the new GL CoA and data model so that it can be imported into the SaaS solution
 - ▶ Load data into the SaaS solution, this is normally done by loading the data through an interface
 - ▶ Verify the data by using error reports and reconciliations
 - ▶ Test the data migration approach across multiple test cycles to reduce the risk of defects in the live environment
- ▶ Lastly, data security is a key factor and compliance is a must, so before any data is migrated to the Cloud you will need to confirm the Cloud environment is secure and has the appropriate controls in place to protect confidentiality, availability and integrity of the data.

Key considerations for establishing the Cloud Support Model

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When migrating to the Cloud there will be a change in the operating model required to support your new investment and it's important to get this right as it will be the key function that supports, maintains and governs the solution once transitioned from the program.

- ▶ The support required for an ERP SaaS solution and key differences to on premise support. The Cloud provider will carry out all system upgrades to provide you with the latest component functionality. Your IT support function will need to review the component functionality, decide what to use and carry out regression testing with a focus on any non-standard functionality. Your support team will need to have a good understanding of the upcoming releases and stay well connected with the Cloud provider to understand when and what releases are due.
- ▶ The capability mix of your support team will need to change and become more business centric. The support team will need to become more business centric and be able to manage the SaaS vendor including contracts, adherence to SLAs and overall governance duties. The team will need less IT resources as it will not need to do system configuration or support the IT infrastructure.
- ▶ The transition service process can take some time to upskill and establish the new function so it's highly recommended this outcome is part of the program's remit and tackled early on. Identify the key individuals who have been part of the full process who show interest in continuing their involvement as part of BAU and conduct a proper supplier selection process when considering an external party to perform support. Getting the talent right is key to ensuring you realise the full potential of your investment in later releases and deployments and that the platform is governed in a robust manner so it's sustainable and fit for purpose for all users - and not just the loudest.

Key considerations when assessing Risk & Compliance

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Understanding your internal risk appetite statement for material outsourcing of the general ledger is one of the first steps when embarking on your Cloud journey. This will drive many decisions around vendor selection, infrastructure requirements, data protection requirements and overall regulatory compliance.

- ▶ As most larger Financial Institutions have already embarked on migrating applications to the Cloud, internal Risk functions have established frameworks for which applications are deemed permissible for migration to the Public Cloud which should be the starting point when as part the overall risk assessment. As the General Ledger is generally considered the 'source of truth' for accounting purposes there will be a higher degree of due diligence required around assessing the associated risks of outsourcing and with most internal Risk Functions requiring Finance to define a contingency plan if something were to go wrong.
- ▶ Another key factor is to understand your regulatory posture and assess the key compliance requirements that will need to be met to allow for a 'no objections'. Generally most regulators will look to understand the level of due diligence, degree of risk assessments and overall governance and stage gating process as part of their decision making process. Below are a set of common requirements that we generally see the regulators requiring in the vendor contracts, before providing their no objections:
 - ▶ Ability for a regulatory audit of the premises and datacentres sub-processors
 - ▶ Cloud provider to inform the customer within 24 hours of a break of security breach conduct
 - ▶ Cloud provider to perform annual vulnerability testing for security purposes
 - ▶ Cloud provider to perform and update the SOC reports at least 12-18 months
 - ▶ Cloud provider to inform the customer of their intent to on-board a new sub-processor at least 14 days prior
 - ▶ Consideration of a contingency plan if the platform is down and you cannot access the General Ledger

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Senior Finance Transformation Leaders are available to support you when it comes to making the most important decisions when embarking on your General Ledger migration to the Cloud

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