



THE FIVE 2020 GOALS FOR RURAL BANKS SERIES

GOAL #2

Automated Accounting and Finance Processes for Rural banks

Automated Accounting and Finance Processes

How to improve your financial performance with real-time and forward-looking insights

Financial technology has disrupted the way rural banks manage their day-to-day operations. To keep ahead of the competition and fast-paced technological changes, rural banks are shifting from rigid legacy finance and accounting processes to flexible cloud-based solutions. This shift granted leaders of rural banks an instant, full overview of their portfolio's performance in **real-time**. Instead of diving into journals or books for hours - or even days – leaders of rural banks rely on real-time accurate financial data to discern risks and opportunities and make fast, well-informed decisions. However, some rural banks are still lagging behind and slowed down by traditional accounting processes. This results in growing pressure when it comes to generating accurate, yet timely financial statements in compliance with regulatory requirements. Leaders of a financial institution have the responsibility to choose the digital solution that is catered to their business needs to reach their growth objectives. What are the benefits of automation and how is it key to growth?

Real-time monitoring matters because it automates what is a clunky, time consuming, often inaccurate, and quickly outdated manual process¹.

Boosting efficiency with automated accounting With continuous accounting, no more End-of-Day and End-of-Month process

In the past, rural banks used to spend days to consolidate data and prepare reports. With cloud computing solutions, what used to take hours across piles of spreadsheets and collective efforts of several staff members, can now be done in a few minutes. Financial statements are consolidated and available in real-time. **With access to up-to-date financial data at all times**, rural banks can generate accurate reports across all branches in a few minutes, or even seconds.

“**Continuous Accounting** is the modern approach to close accounting. It combines modern finance strategies and cloud technology to deliver **real-time reporting**, faster analysis and operational efficiency.”² All relevant calculations, transactions and entries happen in real-time and automatically and no need any more to wait until the end of the day to get an insight on financial statements.

¹ <https://www.datacenterknowledge.com/industry-perspectives/how-real-time-monitoring-lowers-data-center-power-and-operating-costs>

² <https://www.blackline.com/continuous-accounting>

“**Continuous Accounting** provides a way forward, transforming tasks like reconciliations, intercompany processes, transaction matching and variance analysis, so they aren’t just automated: they’re real-time.”³

Less time spent on data consolidation, more on data analysis

Traditional manual accounting is a tedious process. Data re-entry increases the likelihood of human errors that might go uncorrected or require more time and labour to fix. **With Automated processes**, only one data entry is required for each transaction, including recurring ones, and it links to all other pertinent records. All portfolio transactions are posted automatically and in real-time on the relevant General Ledger accounts, regardless of the chosen accounting method. For example, your banking software would record all journal entries (General Ledger transactions) corresponding to the transactions entered by the users: Disbursements, Repayments, Deposits, Withdrawals, Interest Posting, Fees and Penalties.

For **recurring transactions** and fixed expenses, a standard template is used. With **standard bookings** functionality, your core banking system can identify the recurring transactions and save you the time of data entry every time you need to record a transaction. Eliminating the duplication of efforts gives finance and accounting teams much more time to focus on analysing financial performance rather than processing data.

Less time spent on data entry means more time spent providing value-added analysis that the business can use to make key decisions.



³ <https://www.blackline.com/blog/continuous-accounting/what-is-continuous-accounting/>

Flexible features tailored to business needs

Gaining control over financial operations

Leaders of rural banks assume the responsibility to choose a technology that fits and responds to their business needs. One challenge rural banks face is working with standard chart of accounts with no option for customisation. **Chart of Accounts** should be flexible and provide unlimited number of levels. Only one Chart of Accounts should be required for the entire organisation, across all levels to simplify operations and provide synchronised accounting.

It is also important to be able to generate data from any given period of time, without any manual adjustments. Backdating allows for accessing journal entries beyond end-of-period closing, granting flexibility while reducing error-prone manual adjustments. Backdating also offers the possibility to analyse and compare past and current data to reliably identify areas of growth or foresee any shortcomings.

Enhanced data accuracy with digitised reconciliation process

Generating accurate and reliable financial statements

Account reconciliation is the process through which discrepancies are found and resolved. It is a crucial process to generate accurate financial statements. Despite its importance, a manual account reconciliation process can result in inaccuracies, human errors and thus, misrepresentation of the balance sheet. Fortunately, digital solutions turn this process into a seamless automated operation ensuring the processing of accurate and reliable financial statements. Now, accountants do not have to waste long hours comparing accounts. With all data available in real-time, e.g., in a cloud-based solution, all the reconciliation steps are performed automatically.



Regulatory reporting is simplified and more efficient

Compliance with regulatory reporting process is no longer a burden

The right cloud system should empower leaders of rural banks to provide decision-makers and regulators with accurate financial reports in a timely manner. While complying with the [Bangko Sentral ng Pilipinas \(BSP\) reporting requirements](#)⁴ is crucial for all BSP-regulated rural banks, it can be an administrative burden. It's time-consuming to consolidate financial reports across organisational units and at times difficult to adjust to the required reporting format. Streamlined processes with predefined automation rules throughout the month can greatly increase data integrity. With the ability to filter data by organisational level and access to customer report builder it became easy to choose, filter, and sort different data necessary for each specific and custom report. Therefore, complying with BSP's reporting requirement becomes a much simpler and efficient process.

Improving your financial health with informed decisions

Real-time insights into the current status of your portfolio

Financial statements are crucial pieces of information that guide **strategic decision-making**. By analysing balance sheet, income statement and cash flow, a financial institution can calculate key performance indicators (KPIs) that gauge its **business's health** and operations. Therefore, it's crucial to have access to instant information on portfolio performance - at all times. With no instant full insight into financial performance, it won't be possible to address any shortcomings in a timely manner. Cloud computing solutions allow rural banks to get **insights on all transactions the moment they occur**, granting decision-makers much greater opportunities to **foresee any potential delinquency threats**. The faster you have information about your financial health, the better the decisions you can make while counter-actions can still be taken. Knowing and controlling your financial data empowers you to make smart business decisions on the spot.

Knowing the balance sheet is improving a business's net worth

As explained by BBVA, a leading global financial services group, a bank's balance sheet is "a key way to draw conclusions regarding a bank's business and the resources used to be able to finance lending."⁵ A financial institution's balance sheet is like a pulse point that enables it to assess its business' vitality. Before planning to improve the financial status, it is mandatory to have an up-to-date balance sheet accessible and available when needed. When there is clarity and visibility of the specific line items within the balance sheet, rural banks can make **informed decisions towards improvement**.

Managing cash flow to avoid missed opportunities

Your **cash flow** statement "measures how well a company manages its cash position."⁶ Monitoring cash flow can be challenging due to lack of consolidated financial information. In order to manage any financial portfolio's health, it is of a vital importance to have comprehensive cash flow statements available - at all times.

⁴ *Bankgo Sentral ng Pilipinas (BSP): Compliance with PFRS/PAS*
<http://www.bsp.gov.ph/regulations/compliance.asp>

⁵ <https://www.bbva.com/en/interpret-banks-balance-sheet/>

⁶ <https://www.investopedia.com/investing/what-is-a-cash-flow-statement/>

According to a U.S. Bank study, 82 percent of business failures are due to poor cash management⁷

Automating transactions offer a visibility over the cash balance and thus ability to better manage liquidity. By managing liquidity in real-time, your rural banks could foresee when liquidity is going low or high. Therefore, it is possible to prevent problems before they happen. For example, low cash flow slows down operations and prevent rural banks from meeting their business needs, which has such an impact on the overall portfolio's health. With cloud computing solutions, rural banks can generate reports that show accurate view of expected repayment collections and delinquent loans.

Automating provisioning to better manage risks

Loan provisioning is an important indicator for conducting an accurate assessment of your portfolio's performance and overall financial health. Automated provisioning reduces manual computation and migration errors which ensures consistent, transparent calculations according to BSP requirements. When all calculations are automatically done by your core banking system, rural banks can instantly generate a status report on loans in arrears enabling them to discern threats and vulnerabilities, thus better handle clients at the early stages of arrears and cover potential losses.

Conclusion

Manual finance and traditional accounting processes can drain staff's productivity and strain resources that could otherwise be used on value-adding activities. Leveraging automation enables you to make well-informed decision based on real-time data rather than outdated data. Continuous accounting and access to the portfolio's performance do not just help to identify risks, but also to act upon them at the earliest opportunity.

Automated accounting has myriad of advantages:

- Access to real-time data
- Instant financial statement generation
- Reduction in data-entry and manual transaction errors
- Simplification of accounting and operations processes

Automation is no longer just an option, it is mandatory for every financial institution which aims to stay competitive and grow.

About Oradian

Oradian is a financial inclusion company serving rural banks in remote, hard-to-reach communities. Using insights from our community of customers, Oradian builds a cloud-based core banking system that rural banks plug into to access best practice and efficiency. Their global community is made up of over 80 rural banks in 12 countries serving over 4 million end-clients.

⁷ *Entrepreneur Europe: 10 Critical Cash Flow Rules*, [November 30, 2007]
<https://www.entrepreneur.com/article/187366>