Introduction

In a banking business environment characterised by a battle for the customer, where the need to grow in volume has given way to selective growth strategies (rather than messages about a slowing of new business), an undeniable competitive advantage is provided by robust, reliable and useful systems for measuring customer profitability or value, both current and potential, in connection with budgeting and pricing methodologies. This is due both to their capacity to identify where to generate value and to the capacity to direct the actions of branches and sales staff, identifying the real profitability of each customer in order to focus on those making the greatest contribution to the margin while at the same time that working on the profitability of those who at present contribute less.

At whom is this service aimed?

This application is aimed at banks, savings banks and credit cooperatives that wish to implement or improve their management information platform in three aspects:

- **Usefulness of the information**, improving the capacity to focus the commercial activity of branches and sales staff, on the lines or actions that define their current strategic orientation.

- **Scope or depth of the information**, introducing levels of analysis of the information that the current competitive and strategic framework requires to evaluate properly the value of the relationships created with the customers (the result after attributing costs, risk-adjusted return, charges from other centres, ...).

- **Simplicity and speed of response**, essential characteristics for the management information platform to be used and become a tool at the service of the sales management.

With the goal of having a system that allows:

- The provision of support for decision-making and for monitoring the business, by supplying regular information on the evolution of the business, allowing improved decision-making with regard to centres, products and/or customers or corrective actions: capital allocation, the acceleration of marketing actions, the approval of transactions or price setting on the basis of risk and profitability targets.

- Facilitating decentralisation and self-control.

- The establishment of indicators to measure the activity of business units, facilitating a discriminating and homogeneous evaluation of all business areas and driving increases in productivity and efficiency.

- The preparation of integrated and coherent management information, to be distributed throughout the organisation according to each level of management and responsibility.

Characteristics of the Management P&L Account

For the last 7 years, Afi has been working on a management accounting model based on volumes, profitability and risk. It provides an integrated vision of the critical success factors for management, supporting the control and management of the different business areas, and thus facilitating the achievement of sustainable and profitable growth. The model's scope includes:
→ Production of a P&L account for the Retail Area.
→ Production of a P&L account for the Wholesale Area.
→ Analysis of the relationship between these accounts and reconciliation with the company's financial accounts.

Compared with other similar tools, AfiMIS presents advantages which include:

- **Complete P&L account**, providing management information on both the Retail and Wholesale Areas through to the final result, even including a risk adjustment at the margin decided by the company.

- **Adapted to each financial institution** individually according to its business model, its strategic approach and its management philosophy.

To achieve this objective, there is a customisation phase, which includes the specification of parameters for the calculation of internal transfer prices, selection of criteria for the allocation of commissions and costs, solutions to possible deficiencies in the institution's data systems, etc., together with the design of the individualised reports that each company may consider necessary for the management of customers, branches or products.

- **Financially robust**:
  - Algorithms to "fine-tune" the distribution of the financial margin and to allocate commissions.
  - "Reasonable" solutions for the allocation of costs (allocation of all costs).

- **Parameter setting**. Several predefined solutions for algorithms for transfer prices, allocation of costs, capital consumption, aggregation of data by group/segment, etc., allowing the solution to be customised for each company, as well as varying the parameters over time.

All this is supported by a high performance management information presentation platform (or framework) that provides instant information on any management unit, with the following characteristics:

- Multidimensional permitting analysis of the information (central, managers, segments, products).

- Capable of drilling down to the contract or transaction level, fostering its credibility and adoption in the commercial network.

- Graphical, exportable (to Excel or PDF) and user friendly.

- Fully integrated with the institution's security systems and access controls.

- Integratable with the institution's data warehouse, or management information datamart.

Not only is it capable of presenting the information on the above-mentioned wholesale and retail P&L accounts, but all the content that each institution may develop: risks, associate companies, human resources, CSR, making it the frame of reference of a dashboard whose scope and contents define the company based on its strategic needs, combining actual information with budgeted, thus allowing measurement of hedges and fulfilment of targets, campaigns or incentives of the commercial network.

Previous implementations of the reporting framework for clients with high data volumes confirm the system's satisfactory reporting performance, whatever the level of information supplied, or the recipient thereof.
AfIMIS and the reporting framework form part of Afi’s proprietary management information solution, which also includes the following modules:

→ Distribution and negotiation of retail banking budgets by management units (SYNAPsis)
→ Simulator/negotiator of banking fees (STB)

The application in question is mature, robust and has been used for several years in large institutions (more than 10 million transactions).

What can the Management P&L Account provide?

AfIMIS Retail provides...

Daily information: real data:

→ On volumes
→ On margins and interest rates

Monthly information and analysis: actual data and comparison with budgets:

→ Profitability report (branch, customer…)
→ Business evolution: on and off balance sheet
→ P&L evolution: full P&L account (and complementary information)
→ Evolution of commissions and costs
→ Management ratios: profitability, efficiency, productivity, etc.

Differentiated...

Management units:

→ Customers, account holders and joint holders (or other relationships) and their corresponding groupings:
  – By segment and subsegment:
    • Functional: personal banking, businesses, private banking, etc.
    • Geographical, by income, by age, etc.
  – By portfolio, by relationship manager, etc.
→ By related customers or financial groups, etc.

Together with the breakdown of customer data down to the level of individual contracts/transactions, facilitating enormously a CUSTOMER PROFITABILITY FOCUS

→ Branches and their corresponding groupings:
  – By zone, region, etc.
  – By network and head office departments, etc.
→ Accounting and management products (where applicable)
AfIMIS Wholesale provides...

*Monthly information: actual data and comparison with budget*

→ Business evolution
→ P&L evolution: full P&L account
→ Management ratios: profitability, efficiency, productivity, etc.
→ Other reports:
  - Monitoring of capital gains
  - Detail of associate companies
  - *Maturity ladder of internal* transactions

*In all cases, distinguishing between the different activities: Profitability report (branch/customer)*

→ Balance sheet management
→ Investment portfolios (available for sale)
→ Trading portfolios
→ Associate companies...

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**Basic principles of the Management P&L Account**

The Management P&L Account is built on solid foundations:

→ Transfer prices are applied transaction by transaction (multiple pool with renewable fixed transfer prices), though parameters can be changed.
→ Commissions charged and paid allocated to the contracts that have generated them.
→ Application of the effect of offsetting balances: collection of taxes, social security, advance payment of pensions, etc.
→ Complete allocation of costs.
→ Internal invoicing between centres for transactions where there is no correlation of income and costs.
→ No allocation of generic provisions to the customer unit, but instead to the central unit and product.
→ Correction of value for impairment (specific provisions) once the depreciation has been recognised in the P&L account.
→ Inclusion of transactions with non-customers: buying and selling of banknotes, use of other institutions’ cards in own cash machines…
→ Full profitability analysis including: dividends from associate companies, CSR…
→ Risk adjustment, allocation of capital consumed to provide a measure of risk-adjusted profitability.
→ Without losing sight of the reconciliation between the financial accounts and management accounts.

*Which allows it to be…*

→ Understandable
→ Adapted to the business
→ Reliable
→ Comprehensive
→ Relevant
→ Graphical
→ Exportable to Excel/PDF

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→ CREDIBILITY IN THE ORGANISATION
→ MANAGEMENT TOOL
→ AGENT OF CULTURAL CHANGE
Application screenshots

Generic structure

- Locate customer
- Export data
- Pull-down reports menu
- Analysis dimensions and filters
- Dimension drill-down
- Orderable analytical measures
- Fullfillment traffic lights
- Access to trend data
- Automatic scaling

Example of product vision
Detail of customers

The tool adapts to the institution's look and feel
What technology is needed to implement Afi’s Management P&L Account?

Everything is implemented on a common technological architecture:

- Information repository: based on Oracle, though capable of integration with other database management systems (DB2, Teradata, MS SQL Server, ...). It stores both the information used and the calculation processes (PL/SQL processes).
- Application server J2EE.

Technical characteristics:

- Access via web browser, zero footprint (no software of any kind is installed on the client).
- Total integration with any user authentication system used by the client.
- Parameterisation of analysis capabilities and individualised viewing permissions by report and user role.
- Detailed access and performance log.
- Based on MVC framework standards (Struts).
- Implementation of the reports using AJAX technology drastically reduces the information flow through the network and unnecessary round trips to the server. Only the information requested in each call is transmitted, via JSON, eliminating page refreshes and the sending of HTML codes.
- Able to export to Microsoft Excel and Adobe PDF.
- It adapts to any screen resolution, always maintaining the page headers and columns.
- Commitment to average **per-query response time of less than** 800 milliseconds.
- Ability to carry out drill-down analysis in any dimension and filter conditions selected.
- Possibility of two-dimensional analysis.
- Trend graphs, comparison with previous year and budget.
- Customer and contract details.
- Includes a Java API that permits the client to add new reports.

Analyses derived from the Management P&L Account

The information produced by the management P&L account may be used to develop custom analyses which are extremely valuable for monitoring and identifying the institution’s sources of profitability, efficiency and productivity.
Recent references
Over the past 7 years, Afi has developed projects in management information systems with the following institutions, making Afi one of the leaders in the consultancy sector in this field:

Contact
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