Reconciliation realities:
operational control as a strategic asset

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Reconciliation – and we're not talking about the restoration of friendly relations – remains an integral part of the international financial system. In its simplest form, reconciliation helps users identify differences between two data sets. As regulatory and compliance pressures intensify, so too do the requirements of end clients be they asset managers, retail clients, pension funds, high net worth investors or corporates.

With the change in stakeholders, the objective has changed from 'data comparison' to 'management of operational control'. This change has organizations searching for ways to find greater value from the data derived from reconciliation while seeking opportunities to modernize how this function is performed.

The upshot: organisations are awakening to the realisation they must view the data received and compared as part of reconciliation as a strategic asset. All too often, they spend too much time and too many resources collecting and comparing data and too little time analysing data to improve efficiency and mitigate operational risk. Often, this challenge emerges because organisations either reconcile their data sets manually or reconcile with an application but fail to fix data in the source system. (One 2014 study indicates that nearly three-of-five U.S. companies still employ manual workarounds.)

It's critical that financial institutions implement a stepwise change in reconciliation protocols that will enable them to leverage data proactively to gain better business intelligence and actionable insight across their organizations.

To achieve that outcome, an enterprise must review the five key characteristics that define reconciliation maturity and answer a few questions associated with each to realize a more mature model:

1. Knowledge management: Are you developing a learning organisation with staff trained and deployed across the breadth of the services offered?

2. Process management: Does your operational control function meet responsiveness expectations of both internal users and end-clients? Are you standardising best practices, resource allocation and work priorities?

3. Technology management: Does your current technology deliver intelligent, "clean" business insights from data? Is your technology organisation flexible to evaluate and deploy modern solutions to generate operational improvements?

4. Service management: Is your operational control function aligned to meet the service demands of your business partners and clients?

5. Governance: Are the priorities of the firm and its end clients addressed through your operational control function?

This framework can help organisations better understand the readiness of their operational control functions to extend beyond basic comparison of data sets.

To stay on the path to generating business insights, though, they must leverage several critical enabling technologies. These include data-driven risk management technology, which leverages reconciliation data as an asset to generate business intelligence and better mitigate risk associated with loss of capital, and advanced technology.

Cutting-edge technology will drive automation and help enable robotic process automation (RPA) and machine learning. When applied to an operational control function, RPA helps organizations handle high-volume, repeatable and laborious tasks. At some organizations, for example, employees manually download and extract financial data from web portals and enter them into a different system that aids the reconciliation process. RPA software captures and interprets existing applications for processing a transaction. It manipulates data, triggers responses and enables communications with other applications and functions.

Machine learning turns operational control data into a new opportunity by automatically discovering data patterns by mining historic user learnings. With this discovery, machine learning makes predictions, proposes resolutions to exceptions and even adjusts without intervention. It facilitates a faster time to market on application and onboarding by interpreting new data automatically and predicting the required reconciliation and matching requirements.

So, recognising that new technologies must be harvested, how does an organization re-imagine its operational control function? One key question arises: Is the current in-house or vendor-provided technology an enabler or a constraint? That answer can help identify, cultivate and define strategic plans that can be executed to leverage reconciliation as a strategic value-added opportunity.

Once an organisation thoroughly comprehends its operational control function and compares it to characteristics of a mature model, it can define an executable vision leveraging advanced technology to help achieve organisation-wide goals. And this places them firmly on the path to the next frontier of value generation. ∎