The Shift In Operations In The Financial Services Sector 2021

Changes and business adjustments in the finance industry since the pandemic

White Paper

Computer Resources of America

Introduction

As the pandemic continues to affect businesses worldwide, many countries are still imposing complete or partial lockdowns and travel restrictions.

A year later, no industry remains unaffected, including the financial services sector. This stop-start nature of work has impacted the financial services sector on three fronts: financial, employee protection, and operational risks.

Therefore, this white paper will focus on how the finance industry has shifted as a result of the pandemic. What has changed, and what will need to change moving forward?

Financial Institutions and the Pandemic

In the wake of the pandemic, financial institutions have seen a major shift in operations, as employees have started working remotely. This has created many problems for the finance sector, especially in their operating models. For instance, previously, decision-makers and senior executives would travel for work-related reasons.

As a result, they ensured that they wouldn't be forming extra permanent establishments as they worked — a PE being a fixed business place that gives rise to value-added or income tax liability in a specific jurisdiction.

Apart from that, businesses have to increase IT and tech investment to meet the growing requirement of customers, especially in areas that facilitate distanced buying: Fintech.

Lastly, financial institutions may also have to revise their transfer pricing policies to prevent potential losses or avoid making support payments. TP policies refer to the methods used for pricing transactions between and within enterprises under common ownership.

Background

How are financial institutions changing? To answer that, it's essential to know what financial models and TP policies are.

Financial Models

Financial models represent a real-life financial situation; they are meant to be employed as crucial decision-making tools. Business executives may utilize financial models to measure the projected cost and profit of a newly proposed project. They help steer the historical evaluation of a business by projecting and forecasting its financial performance in various fields.

These models are used predominantly by financial experts and are quite helpful. For example, financial models support a company's overall financial analysis.

Though there are several types of financial models, here are two established types:

1. Three Statement Model

    The three-statement model connects the cash-flow statement, income statement, and balance sheet into one dynamic financial model. It is the foundation on which other advanced models are constructed. These include merger models, DCF model, LBO model, and numerous other economic models.

    The three-statement model falls under the classification of both Integrated Financial Statement Models and Reporting Models.

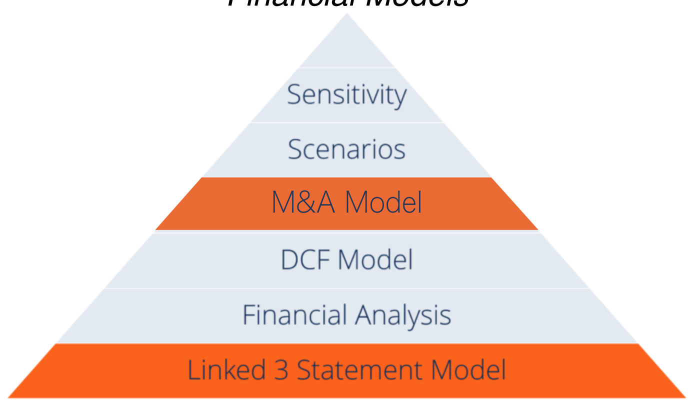
2. Merger Model

    The Merger Model, also known as the M&A model, is a part of the Valuation group of financial models. As the name suggests, it aims to evaluate a Pro-forma dilution/accretion of an acquisition or merger.

    It is common to utilize a single-tab model for every business where consolidation is defined as company A and company B coming together.

    The complexity level of merger models can differ as they are commonly employed in investment banking or any other corporate wing of the financial services sector.

Financial Models



Source: Corporate Financial Institute

Transfer Pricing Policies

Transfer pricing (TP) is the accounting practice representing a price for services and goods sold from one part of a business to another internally. It provides prices for services and goods exchanged between an affiliate, a subsidiary, or commonly owned companies.

TP policies can often lead to massive tax savings for companies as businesses may use intercompany TP policies to minimize the overall tax burden.

However, tax authorities can easily contest the claim through tax audits. Suppose a company is making a loss for years. In that case, the chances are the company's transfer pricing policy doesn't comply with the arm's length principle (a condition where parties of the transaction are on equal footing or independent). This argument is also supported by the OECD.

The Solution

Based on the changes in the financial services industry, here are a few potential practical solutions:

1. Changing Models

With an unprecedented shift in the global economy, businesses need to overhaul the existing financial models. One such shift could be to a forecasting model.

Financial forecasting is the process of describing the economic picture of the company's future. To put it simply, it usually includes forecasting the prospects of a company's future results. On the other hand, financial modeling is based on taking these expectations and predicting the impact of a particular future decision.

Using this approach, companies can minimize the burden on their resources and time allocation. As per the study, the forecasting model approach saves about 450 hours of workload annually.

Though it can be time-consuming, the financial services sector needs to make immediate decisions and go for holistic future planning with the central forecasting model.

2. Evolving TP Policies

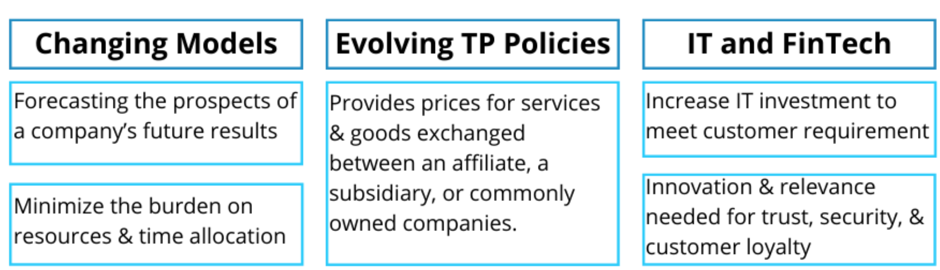
Transfer Pricing models have never been designed with outbreaks in mind. Hence, the recent operational shifts have put extreme pressures on these procedures, especially where routine actions like limited-risk distribution, services, and manufacturing are designed to ensure certain profits.

Therefore, tax and finance professionals should perform an extensive review of a company's operations to minimize TP risks as well as identify TP prospects. Doing so will help company management to tackle their operational and cash concerns.

3. Collaboration Between IT and FinTech

The pandemic has accelerated the need for digital payments. In some instances, it has even replaced the merchant and retail experience. A significant reason behind it is that these FinTech companies had not stopped working even during the lockdown. Hence, collaborative effort is the new normal.

The collaboration approach gives the financial services sector the innovation and relevance they require while providing FinTech start-ups much-needed trust, security, and customer loyalty.



Computer Resources of America: The Financial Firm Solution

The pandemic negatively impacted almost every industry, with the financial services sector also taking collateral damage. Like other businesses, financial institutions have also had to switch their operations to remote working, demanding an overall shift in the financial industry.

A massive part of this change was centered around operating models, TP policies, and the need for more investment in IT systems. The only successful way forward is for companies to incorporate different financial models, like the forecasting model.

Additionally, they must adopt evolving TP policies for their business and invest time and effort into developing FinTech collaboration.

Need help with FinTech software? We aim to help you increase your performance and profit by giving you the services, products, and providers that will help you adapt to the changing financial landscape. Call us today!

CRA™ Transform IT
Computer Resources of America

Corporate Headquarters

729 7th Avenue, New York, NY 10019 – 212-376-4040 – www.consultcra.com – hello@consultcra.com