

Challenges:

- Lacked the ability to measure and report on customer, product and organizational profitability within a single, comprehensive system
- Inflexible profitability solution that lacked sophisticated reporting capabilities and accessible data, resulting in operational inefficiencies

Solutions:

- Axiom's profitability, funds transfer pricing and cash flow solutions for financial institutions

Results:

- Consistent customer, product and organizational profitability reporting, FTP and cash flow-based customer modeling with one system to drive more informed decision making
- Actionable, data-rich reporting and analytics



Community Bank System Takes Profitability Management to the Next Level with Axiom Software

Challenges

Community Bank System, Inc. (CBSI) operates more than 190 customer facilities across upstate New York and Northeastern Pennsylvania through its banking subsidiary, Community Bank, N.A. With assets of approximately \$7.5 billion, the DeWitt, N.Y.-headquartered company is among the country's 150 largest financial institutions and was named to Forbes magazine's list of "America's Best Banks" in 2013, 2014 and 2015. In addition to a full range of retail and business banking services, CBSI is a leading provider of employee benefits administration and trust services and actuarial and consulting services to customers on a national scale. They offer comprehensive financial planning and wealth management services and operate a full service insurance agency providing personal and business insurance products.

To support its continued growth, the bank sought a profitability solution that could address its customer, product and organizational profitability needs including proper measurement and reporting. "We were fortunate to come out of the Great Recession stronger than ever, and while we are very safe, stable and profitable, as an organization, we believe that there is always room for improvement," said Rob

“ Now we know whether we are losing some of our top customers, if our customers are changing their behavior, the impact of new customer activity and the overall returns generated by each customer ”

Frost, Director of Financial Planning and Analysis for CBSI. “The current competitive environment, increasing regulations and imminent interest rate increases will have an inevitable impact on our profitability, so we did not want to get complacent and wait until problems emerged before we made process changes.”

According to CBSI, the bank’s previous profitability system was difficult for staff to navigate and they often struggled to access data when needed. Additionally, CBSI lacked the desired level of control over its previous profitability solution, so making any changes to the system presented an ongoing challenge. “One of the keys for us was that we were looking to build customized models, so that my department would have control over our profitability tools,” said Frost. “I wanted to be able to easily make changes as needed, so an out-of-the box solution just wouldn’t work for us.” CBSI was also seeking a profitability solution that seamlessly incorporated funds transfer pricing (FTP) and cash flows within the system, as well as provide the bank with more advanced reporting and analysis capabilities.

Solutions

CBSI implemented Axiom’s Profitability Management solution to gain greater visibility into which customers, products and business segments drive the greatest value for the bank, all within one unified platform. Relevant information is imported into the Axiom data repository from CBSI’s customer information files and loan and deposit transaction systems. FTP, along with the allocation of income, costs and capital are all processed within the system. Inclusion of these various sources and types of data ensures that all aspects of CBSI’s profitability equation are addressed. CBSI’s staff is then able to produce a wide variety of reports in a familiar Microsoft

Excel® format that can be disseminated efficiently throughout the organization. Additionally, CBSI implemented Axiom’s Cash Flow solution which converts individual customer records into future cash flows to enhance CBSI’s financial and operational planning.

“Our goal was to find a system that has everything – budgeting, reporting and profitability – all in one place, with the power, flexibility and customization that we need, and Axiom’s platform does just that,” said Frost. “Axiom also understands banking through and through, which is a huge value add for us, because frankly, there are a host of software providers out there that do not truly understand the banking industry and how it operates.”

Results

Customer Profitability Reporting & Modeling

Through Axiom Software, CBSI now has full control over its profitability modeling tools and can easily track balances, spreads, asset quality and overall profitability, helping CBSI’s bankers drive more informed decision making. “Now we know whether we are losing some of our top customers, if our customers are changing their behavior, the impact of new customer activity and the overall returns generated by each customer,” said Frost. “We have just started to scratch the surface of what we can do with the vast amount of valuable data we now have.” CBSI used customer profitability reporting as the foundation for building a solution that provides customer-level forecasting capabilities as well. They are now able to create forward-looking profitability models for existing customers and new loan and deposit accounts that take into account FTP, cash flows, interest rates, and product-based fee

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income, costs and capital requirements. CBSI allows its users to model profitability projections for new and existing customer accounts over a five-year period, which helps identify loan pay downs that need to be replaced via new business volume and other changes that may be necessary to improve performance.

Product Profitability Reporting & Planning

Through product profitability reporting and analysis, CBSI is able to gain a much better understanding of what its variable and fixed costs are at a product level and bifurcate expenses between general maintenance and activity-based costs. The historical results also enable management to evaluate the performance of all its banking products over time and identify areas for improvement. The wealth of information stored and calculated in Axiom allows the company to break down the financial performance of its products in a myriad of ways, including reviewing by origination period, collateral category, risk rating, closure date and much more. CBSI plans to leverage its product profitability reporting and customer modeling foundation to implement a more product-based approach to budgeting and forecasting in the future. “Product profitability planning should become an important component of managing our bank going forward, as it reveals where we may need to make product pricing changes and possibly fine-tune resource allocations,” said Frost. “Building these models into our planning process will help us determine how efficiently we are servicing our customers and how these products will perform financially over time.”

Organizational Profitability Reporting

CBSI has leveraged organizational profitability reporting to evaluate profit unit performance across the entire organization

by measuring growth, margins, efficiency and return on capital. The company also uses the results to determine when it is the right time to consolidate or open new branches and analyze the acquisition of branches or whole institutions. CBSI can model how merging or acquiring branches may impact its profitability. “Our bank has experienced tremendous growth over the years through mergers and acquisitions, and we expect that growth to continue,” said Frost. “Seeing how another bank’s businesses would fit within CBSI, and project how it could potentially impact our future profitability, has been a valuable tool used to support our M&A decision making.”

Analytically-Rich Reports and Data

CBSI now receives consistent, analytically-rich reports that help it better understand FTP and cash flows and transform raw data into actionable information it can use to improve profitability throughout the institution. CBSI has a clear representation of whether its income and spreads are going up or down, asset quality is getting better or worse, costs are going up or down and product returns are improving or deteriorating. Axiom Software embraces and extends Excel’s capabilities within a structured enterprise environment while eliminating some of the common deficiencies associated with standard Excel reporting. “The breadth and flexibility of Axiom’s performance management solutions have enabled us to greatly enhance our reporting and analytical capacity,” said Frost. “We import, transform, process and analyze data more efficiently, enabling us up to focus our efforts on identifying areas for improvement and working with senior management to achieve those goals.”