

## Transforming Finance and Accounting with Gen AI

### **Context**

Finance leaders are at a pivotal moment to harness Generative AI, shifting from reactive decisions to predictive insights that can transform the financial landscape.

Generative AI will enable finance and accounting teams to move from reactive actions to predictive insights, fostering confident decision-making. Key areas of impact include:

- Predictive cash flow management
- Enhanced working capital management
- Dynamic period-end closing checklists

These advancements are set to revolutionize the functions of CFOs, paving the way for a more proactive approach in finance.

### **Finance & Accounting Transformation**

The 'Gen AI Express' is gaining momentum, and now is the time to get on board.

Open Gen AI platforms are empowering users to create original content effortlessly. Programmers are utilizing it to write code, students are leveraging it for their assignments, and legal professionals are employing Gen AI to draft documents and conduct research.

It's now crucial for finance leaders to embrace Gen AI, shifting from reactive decisions to predictive insights and transforming the financial landscape.

### **AI and Generative AI**

AI and generative AI are built on similar technology, but Generative AI distinguishes itself by creating new content rather than merely processing existing data.

While traditional AI has focused on outcome-based decision-making, Generative AI represents a shift towards creating new data instead of just analysing existing datasets or making predictions. For some time, AI has supported financial decision-making by powering processes such as:

- MRP
- Financial planning based on historical trends



- Risk assessment by actuaries evaluating loan repayment potential

In contrast, Generative AI is currently being utilized to create content, images, videos, sounds, and even conversational chatbots that mimic human interaction.

AI has already transformed Finance and Accounting to some extent, but Generative AI has yet to make a significant impact across most industry verticals. The Generative AI transformation wave is rising, and those who overlook it now risk falling behind, potentially facing a long and costly game of catch-up.

### Gen AI Use Cases - F&A

Finance and Accounting has traditionally been viewed as an 'after the fact' function, often reactive in nature. However, the advent of Generative AI is set to revolutionize this landscape, transforming Finance and Accounting into a predictive and generative function.

CFOs and finance leaders will soon have the capability to generate financial statements and key performance indicators (KPIs) for future periods with unmatched accuracy and confidence. This advancement will empower them to strategize effectively and adapt their approaches as needed.

By inputting historical financial statements, calculations, and details about other financial parameters into the large language model (LLM), the Generative AI engine will produce data for future periods. Moreover, Explainable AI (XAI) will provide transparency by showing the assumptions and calculations used, allowing for adjustments in subsequent prompts to refine the output. These adjustments will establish context and baselines for more accurate predictions and forecasts.

Some of the key potential use cases are:

1. **Predictive cashflow:** Ability to accurately predict cash balance in future gives the business an opportunity to efficiently manage and potentially reduce the interest expense, a significant overhead in manufacturing industry. This enables the CFOs/financial heads to strategize effectively and make informed decisions (like - discounting their receivables or prepaying their bills or deferring their capital expenditure). Gen AI engines will generate realistic cashflow statements for future periods based on the historical context (past receivables and payables trends and other parameters - structured data) and the effects and impacts of relevant financial, political, and economic information (unstructured data).



2. **Working capital management (WCM) dashboard:** “Working capital improvement opportunities will remain at the top of CFOs list. Monitoring and controlling the Cash Conversion Cycle (CCC) impacted by Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), and Days Payables Outstanding (DPO) is a challenging task. A Gen AI created predictive WCM dashboard will enable the CFOs/finance leads monitor and manage their working capital in real time. The context and continuous feedback, together with real-time political and economic factors will make this dashboard realistic and effective, unlike the traditional static reports-based output.
3. **Dynamic period closing checklist:** Period-end closing is one of the most important tasks in accounting and often a nightmare for finance leads and their teams. It involves closing different modules, reconciling multiple accounts, executing several repetitive steps, and following up with relevant teams, with the deadline approaching fast all this while. A Gen AI based dynamic period closing checklist will eliminate chaos and backlog impacting day-to-day business that can lead to a ripple effect. It will create a list of relevant incomplete tasks during a certain closing cycle and automatically address routine and repetitive tasks and timely suggest steps and activities for human approval/intervention.

## Potential Benefits

Takeover of Finance and Accounting functions and tasks by Gen AI will accrue several benefits to the CFOs/Finance Leads.

1. **Accuracy/Realistic:** Data controls and inbuilt automated checks and balances are essential for ensuring data accuracy, instilling trust among CFOs and finance leads regarding their own data. Additionally, Explainable AI (XAI) enhances this trust by providing transparency into the calculations and assumptions behind the data. Furthermore, generating forecasts based on market conditions and economic outlook will deliver a more realistic perspective, aiding in informed decision-making.
2. **No more human errors in accounting:** Automation is set to eliminate human errors, particularly when it comes to posting vendor invoices. With AI agents capable of reading and posting invoices, the mistakes that often occur during manual entry will be a thing of the past. This advancement will significantly reduce the effort required for corrections and minimize duplication of work, ultimately saving valuable resources.

3. **Repetitive work is minimized:** Repetitive work is being minimized as AI agents take over routine tasks from finance teams. Tasks such as account reconciliations, journal entry postings, and invoice postings are now handled more efficiently by AI.
4. **Efficiency:** The efficiency of AI is evident when comparing the time it takes for a human to post a vendor invoice versus an AI agent. AI can post the same vendor invoice significantly faster and without human errors. AI enables organizations to deliver highly personalized customer experiences, at scale, while driving higher levels of productivity and efficiency. This increased efficiency in Finance and Accounting functions leads to faster reporting, quicker decision-making, and more lead-time to respond to outcomes.
5. **Cost reduction:** Furthermore, cost reduction is a key benefit of integrating AI into finance processes. Authentic data, accurate information, minimal errors, and reduced routine work contribute to lower costs by eliminating duplication of work, minimizing communication back and forth to authenticate information, reducing effort, and achieving faster results.

## Challenges/Limitations

Although not significant, the great advantages of Gen AI in Finance and Accounting come with a few challenges.

These challenges can be addressed with minimal effort, paving the way for a smoother transformation to the Gen AI based F&A. Some of these challenges are as follows.

1. **Data privacy and security:** Finance and accounting data is confidential data. As such, strictest precautions must be taken while handing this data through Gen AI and exposing it to the LLMs.
2. **Bias:** Bias in the data model and the training sets can lead to faulty decisions and inaccurate results. This can put the credibility of the Gen AI solutions on the line. For accurate predictions and forecasts, removing bias from the model is imperative.
3. **Basis of results:** At times, the Gen AI models appear to be a “black box,” in the sense that establishing/identifying the basis behind a certain output or result becomes extremely difficult. This poses a huge challenge while convincing the users about the authenticity and accuracy of the results. However, with Explainable AI (XAI), there is an opportunity to win customer confidence.

4. **Efficiency means staff cutting:** Unfortunately, some people relate increased efficiency and automation to reduction in the team size. On the contrary, this shift is an opportunity to invest, train, and get future ready, rather than simply letting the teams go.
5. **Ethical use:** Considering the capabilities of Gen AI, the ethical use of this technology is the biggest challenge facing us. Proper regulations are required for its use to ensure that this technology is used for the betterment of the people and not otherwise.

## Future Outlook

Gen AI is not just a concept; it is shaping our future and poised to bring substantial transformation in Finance and Accounting. This technology will fundamentally change how we perceive and manage finance functions today.

The benefits of Gen AI for CFOs and finance leaders are significant and will far exceed any challenges encountered. An increasing number of ERP products are now integrating AI agents into their offerings. Notably, SAP has launched Joule and Joule Studio for Gen AI Agents across HR, Accounts Payable, and various finance functions. Oracle is also advancing with its pre-built AI agents and AI Agent Studio for developing custom agents. Additionally, ServiceNow has introduced its AI platform, further enhancing the landscape of finance technology.