



## The Strategic Dimension of Regulatory Initiatives

How Financial Services companies now link regulatory requirements directly to company strategy

Since the financial crisis of 2008, the permanent flow of new regulatory and compliance initiatives within the financial services industry has seemed endless. Across the world, governments and regulatory bodies have been empowered to push reforms for financial service institutions in order to reduce their risk, increase their stability, provide greater transparency, protect their customers, exchange information between tax authorities, strengthen their capital basis and increase their liquidity. Today, regulations cover the whole value chain for financial services institutions.

Regulation is nothing new to the financial services industry, but where financial services institutions previously passively implemented regulatory requirements, these companies now link regulatory requirements directly to company strategy. Most financial services institutions have gone through three phases in terms of how they have managed regulations:

### **Phase 1: Operative Implemented**

As a first step, the majority of financial institutions managed the process of handling regulatory requirements in a more traditional, reactive mode. New directives from the regulator were analyzed in detail in order to understand their impact on the company. Finally, these new requirements were implemented in as lean a way as possible in order to minimize the distraction to business.

### **Phase 2: Business Combined**

In recent years, as a result of the enormous regulatory requirements and the involved costs, financial institutions have begun to consider additional aspects and recognize the value of proactively combining regulatory and business requirements in order to achieve a competitive advantage and contribute to the bottom line. As a result, banks increasingly linked large regulatory initiatives with business requirements. A shift took place and several financial institutions started to consider such a project as an opportunity rather than an annoyance. They started to combine the regulatory requirement with business initiatives such as efficiency improvement, business process reengineering and CRM revitalization in order to achieve several objectives at the same time.

### **Phase 3: Strategy Linked**

Today, several financial services institutions are even one step ahead, with regulatory matters having become a key part of their strategic agendas. The link-up between regulatory strategy and business

strategy is becoming increasingly important – something that other industries, such as life sciences and aviation, have known for years. The necessity of understanding the strategic dimensions of the regulations and their impact on a business is one reason why Senior Regulatory and Compliance Managers are increasingly involved in strategic planning.

### Changing Requirements

This rapid development has had an enormous effect on the composition and structure of Regulation and Compliance departments, and projects within the industry. The requirements for key professionals have continuously changed over all phases.

During phase 1, the priority is primarily to understand the regulations legally and technically, and more or less 'instruct' the relevant businesses what to do and how to comply.

In phase 2, a comprehensive and combined understanding of business, product and regulatory issues is required in order to contribute to the bottom line of the business; subsequently a different set of capabilities is necessary, for example: experience in business process reengineering & target operating modelling, understanding of change management, knowledge in client relationship management (CRM) and technical experience (e.g. digitisation, FinTech, InsurTech), etc.

Today, several global institutions have already reached phase 3, and have established special departments in order to combine strategic regulatory initiatives and projects with business strategy. The overall complexity involved in handling these initiatives is enormous, and the requirements for the professionals working in these areas are immense. For example, to coordinate a TBTF project (Too Big To Fail), which, on the one hand is a global initiative, but, on the other hand is largely driven on a national level, requires professionals with much more than just technical regulatory capabilities.

Currently, based on our experience, a combination of the following requirements is needed in order to successfully deliver on a strategic regulatory project:

- Strong consulting background (e.g. strategy and organization development, target operating model, business process reengineering, etc.)
- Comprehensive financial services knowledge (e.g. asset management, wealth management, payments, EAMs, insurance, etc.)
- Broad legal and regulatory understanding (e.g. legal background and the capability to get into regulatory content very quickly)
- Sound stakeholder management experience (e.g. actively driving the interface between business and regulatory, etc.)
- Experienced project management (e.g. strategic decision support, change management, etc.)

Depending on the regulatory initiative and its objectives, the characteristics of the required capabilities might differ, but the overall combination remains more or less the same.

At a-connect, we focus on establishing a full understanding of our clients' business challenges and project needs, allowing us to choose the best talent for them from our unrivalled network of independent professionals, who usually combine a top-tier consulting skillset with extensive industry, regulatory and management experience.

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