WAVESTONE

BRIDGING THE COMPLIANCE AND OPERATIONAL GAP

THE REGULATORY ENVIRONMENT HAS MADE IT MORE CHALLENGING FOR FINANCIAL INSTITUTIONS TO INCREASE REVENUE AND PROFITABILITY AS WELL AS MEET THEIR CUSTOMER EXPECTATIONS OF MODERN BANKING SERVICES. FINANCIAL INSTITUTIONS SHOULD TACKLE THE REGULATORY CHALLENGE AS AN OPPORTUNITY TO TRANSFORM THEIR CORE TECHNOLOGY PLATFORMS TO BE AN ENABLER OF FUTURE PROFITABILITY AND GROWTH AND LEAD THE CHARGE TO BECOME 'CUSTOMER-CENTRIC'.

1. INTRODUCTION

The wave of regulatory reform has forced financial institutions to re-address their core technology infrastructure, which has heralded a new approach to how technology is being used within financial institutions to meet regulatory demands as well as customer expectations. Those financial institutions that transform their core technology platforms to become 'data-centric' will in turn become 'customer centric'. As a result, those that can transform will be the most competitive in the future. The clock is ticking to transform in time.

2. THE RISE OF THE REGULATOR

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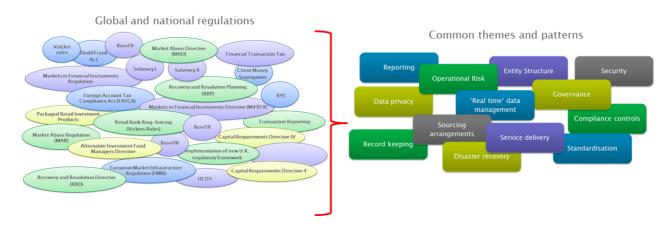
The regulatory agenda has heralded a new customer focus for financial institutions. The prominence of the regulator (whether national or international) has meant that the regulator should be viewed as a direct customer and not as a side-line nuisance that financial institutions have to deal with. Regulators' globally are more empowered than ever to enforce operational and cultural change as well as impose penal and financial penalties. It is important that the regulator and compliance are at the heart of a financial institution's operations.

INSIGHTS

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3. COMMON REGULATORY THEMES AND PATTERNS

Financial institutions have to comply with international as well as national rules and regulations within the jurisdictions in which they operate. This can be a regulatory headache for an organisation that operates within all the major global financial centres.



Financial institutions should not have to deal with each regulation separately - which will be operationally inefficient and costly - instead, financial institutions should focus on designing a core technology platform that addresses the often overlapping regulatory themes and patterns.

Accordingly, compliance and technology functions should adopt an integrated approach to technology across all business lines in order to be more efficient and cost effective, but above all 'future proofing' compliance in an increasingly evolving regulatory financial world.

4. THE INCREASING IMPORTANCE OF DATA

A significant barrier during the financial crisis in 2007/ 2008 was access to real time data to determine exposure levels and risk. The difficulty in obtaining real time data was largely due to the combination of out of date data sets, legacy and non-integrated technology systems, and business line and operational siloes. From now on data is king and will be the drivina force for regulatory compliance and future customer targeting.

Wavestone predicts that a central theme for financial institutions will be to transform into 'data centric' organisations. But what does this mean for compliance technology and customer targeting?

In order for compliance functions to meet the array of compliance obligations, end-to-end data-flow and compliance information is critical.

As a by-product of the regulatory changes, compliance functions are being pushed to assess how they collect, aggregate and report their data. This has always been done in the past but in an extremely ineffective, manual, and costly way.

Financial institutions must transform their current and future technology platforms and ensure that their governance frameworks and operating models are understood, resourced, owned and governed properly.

In effect, these are massive operational changes. Setting the right technology transformation strategy will be a key priority.

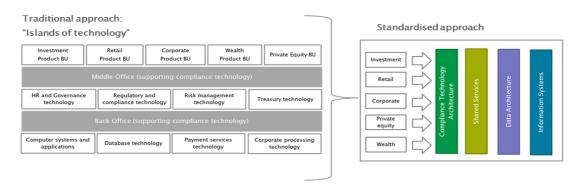
5. SETTING THE PATH TO TRANSFORMATION

Historically compliance technology has been dealt with on a 'point solution' approach along separated business lines. This approach has to change. Instead, compliance technology will need to be integrated across all business lines in a centralised architecture in order to meet future compliance requirements while minimising the on-going operational cost.

The technology strategy needs to support critical compliance as well as enable processes business agility so that a financial institution can effectively adapt and be more agile in responding to regulatory market conditions. This will ensure that there is a 'futurecompliance technology platform that is designed to meet the frequently overlapping themes that regulatory from national emerging and international rules and regulations.

Continuing to stick to a 'point solution' approach risks perpetually reacting to what becomes an insurmountable regulatory workload. Moreover, financial institutions risk losing competitive advantage to those that are investing in implementing datacentric operations.

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6. BECOMING DATA-CENTRIC

In order to transform into a data-centric organisation the technology transformation strategy should:

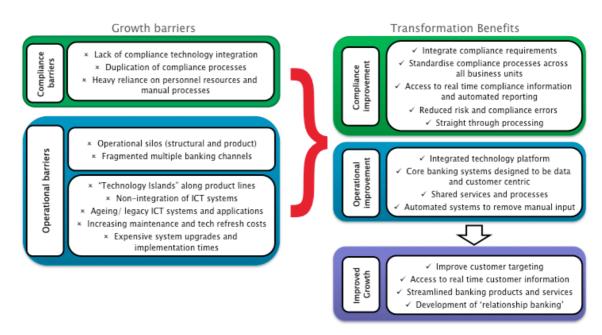
- address systemic risks and gaps in current technology architecture and in particular integrating disparate systems into a centralised shared technology platform across all business lines;
- standardise compliance processes across all business lines to remove duplication and manual inefficiencies in collating different data sets, monitoring, and manual reporting;
- eliminate structural and operational siloes to improve technology effectiveness and access to cross business unit data information sets;
- minimise the number of external third party technology arrangements to a small number of key 'strategic' partners where traceability and vendor governance is more manageable; and
- overhaul the governance framework and operating model to eliminate duplicated and dispersed processes across different business lines.

CONCLUSION

Financial institutions will benefit from optimising their core technology platforms to become data-centric. This will enable them to meet the current and future regulatory and risk management challenges as well as become more customer centric.

The transformation benefits that can be realised include:

- improved customer targeting and personalisation;
- access to real time customer information and regulatory data;
- streamlined banking products and services to allow shared sales centres in order to develop into 'relationship banking'; and
- improved compliance operations through automation and minimising manual errors.



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Wavestone has developed a framework to assist compliance and technology functions to transform their core technology platforms to become data-centric and customercentric. We envisage the need for compliance and technology functions to be more involved in the management decisions on technology service solution, delivery and assurance.

ABOUT US

Wavestone is an international consultancy that provides connected thinking, insight and capability to industry leading organisations. We work collaboratively with our clients to plan strategic business transformation and seamlessly turn strategy into action.

FIND OUT MORE

If you'd like to find out more, please contact us by calling at +44 20 7947 4176, or via email at enquiries@wavestone-advisors.com or visit our website at www.wavestone-advisors.com



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