REGCENTRIC

SEIZING THE OPPORTUNITY

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How Australian firms can turn regulatory burden into business opportunities.

In recent years, Australian financial services companies have been facing a deluge of regulatory initiatives with no signs of the pressure abating any time soon. This situation, however, is not all doom and gloom for businesses. In this report, we explore how financial services organisations – regardless of their sizes and financial strength – can turn the current regulatory requirements into business opportunity by addressing regulatory change strategically at the enterprise level and by embracing innovation and leveraging technology.

How Australian firms can turn regulatory burden into business opportunities

Executive Summary

TACTICAL APPROACHES INCREASE THE BURDEN

Reactive and tactical approaches to regulatory compliance compound the burden over time.

A strategic and long-term vision increases corporate agility, efficiency and ultimately competitiveness.

Turning the focus away from the "how to comply" question to the "how can this help us" question unlocks business benefits from regulatory catalysts.

Focusing on improving infrastructure, processes, governance and operating models, as well as gaining better insights to support decision-making, helps improve business growth.

DATA GOVERNANCE FROM THE GROUND UP AND FROM THE TOP DOWN – IS OF PARAMOUNT IMPORTANCE

Getting the data right should be a key focus.

Business-driven data governance ensures improved enterprise data quality, thus benefiting internal and external stakeholders.

Empowered CDO role or its equivalent can drive real change.

TECHNOLOGY IS YOUR FRIEND

Process automation through technology can reduce cost.

Australian and global "regtech" companies are offering viable alternatives to incumbent software companies.

PEOPLE ARE POOR ROBOTS ROBOTS ARE POOR PEOPLE

Automation of the recurring processes has a twin advantage of increasing efficiency and freeing up the human capital to perform high value activities.

Robots & systems are not the panacea to all business problems. Even though they can facilitate, augment and make people more productive, they cannot replace humans altogether.

Australian firms face increasing regulatory scrutiny

The Australian financial services industry has long been the envy of other financial institutions in developed nations. The sector has come out of the global financial crisis largely unscathed. While regulators across the globe had to intervene directly and dramatically into the financial services sector to avoid a systemic collapse, Australian regulators have mainly played an indirect role in managing the operations of financial institutions. Hence, until recently, the focus of regulators has been on ensuring that the Australian regulatory regime complies with international standards such as the Basel Accords. A range of scandals and an increased unease with the developments in the housing market, however, have led to a range of regulatory initiatives that have started impacting banks' bottom line. At the same time, bankers are faced with increased accountability requirements as the federal government introduces the Banking Executive Accounting Regime (BEAR).

Given the intensity of regulatory scrutiny, one might think that the Australian financial services sector is facing a gloomy outlook: declining interest margins, increasing competition, more regulatory complexity, and more personal accountability for executives. However, we believe the current conditions create a unique opportunity for Australian firms to leverage the regulatory imperatives as catalysts for transformation.

Recent actions of Australian regulators have shown that it is no longer business as usual when regulatory initiatives were considered as “tick-the-box” exercises. Applying tactical solutions to individual requirements is not the best solution to wriggling out of the regulatory web; in fact, such move would only compound the problem and cost. If banks strategically address regulatory requirements, not only will they be able to prove compliance, but they will also increase the corporate agility, efficiency and ultimately competitiveness. In short, there is no better time than now for banks to turn regulatory burdens into business opportunities.

TACTICAL APPROACHES INCREASE THE BURDEN

LCR/NSFRS, EFS reform, FRTB, IRRBB, IFRS 9, IFRS17, APRA Stress Testing, CCR, securitisation and the open banking regime. The list of current regulatory reforms faced by any financial institution in Australia is long. Traditionally, financial institutions respond to regulatory imperatives reactively and tactically with the aim of answering only one question: how to become compliant in the most cost-effective way based on the current set of requirements? This thinking has led to a long list of issues, many of which are surprisingly consistent amongst banks of all sizes:

- Departmental silos.
- Departments compete for budget.
- IT delays activities.
- Multiple data silos.
- Overly complex system architecture.

TACTICAL APPROACHE INCREASE THE BURDEN

- Overly reliant on spreadsheets and databases.
- Overly reliant on key people who know the system.
- Any system change requires significant regression testing.
- Problems still exist despite the testing.
- Poor data quality.

Addressing regulatory requirements in isolation has led to disjoint operating models and system architectures.

By limiting the focus on the "how to comply" question, organisations are also potentially falling short of the regulator's expectations. It can be argued that firms would be better off if they can proactively manage the risks which the regulators aim to address rather than merely complying with the regulatory requirements. Let's take stress testing as an example. The Australian Prudential Regulatory Authority (APRA) conducts periodic stress tests across all regulated sectors. APRA does not only run stress tests to see how regulated institutions would fair during a period of stress; it also challenges senior management to consider different severe but plausible scenarios, to understand their probable impacts across all risk types and financial metrics, and to anticipate corrective actions and business strategies that can mitigate those risks in a formalised recovery plan. The primary use of stress testing is to drive decision-making within the institution, as an integral part of risk management and the setting of capital buffers. And yet, for the vast majority of banks, receiving an APRA stress testing scenario is still a stressful event. A team of specialists from various areas of the bank are tasked to run the particular scenario, often at the expense of ongoing projects or BAU activities. More so, firms devote a disproportionate amount of time to gathering the relevant data and running and modelling their projections. Many firms rely on tactical or manual solutions, a situation that results in inefficient and error-prone processes which have to be rerun multiple times. Worse, there is little or no time left to evaluate judgements, analyse results and provide meaningful mitigating management actions. Even though little or no business value is derived, the same process will be repeated subsequently.

Now what would happen if organisations would shift their focus away from the "how to comply" question to "how can this help us" question for each regulatory initiative? Let's consider the following questions:

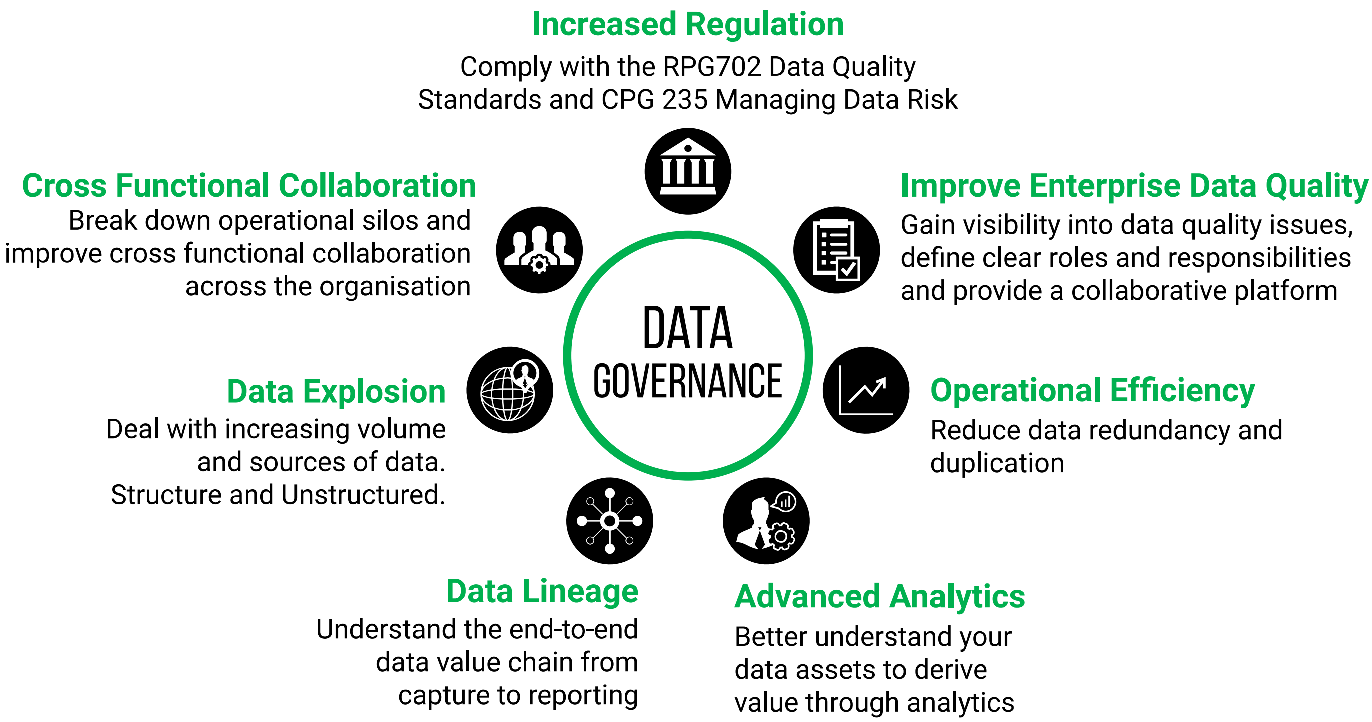
- How can we use stress testing to improve our capital planning process?
- Which insights can we derive from new data captured in EFS that can support better decision-making?
- How does IFRS 9 expected credit losses change the way we look at our customer or product segmentation?
- Can we leverage the regulatory data to derive enterprise benefits through analytics?

By asking these questions, organisations would realise that real tangible benefits could be derived by taking a strategic and enterprise approach to regulatory changes. Hence, it is paramount that they use regulatory changes as catalysts to improve infrastructure, processes, governance and operating models.

DATA GOVERNANCE
FROM THE GROUND UP, AND FROM THE TOP DOWN -IS OF PARAMOUNT IMPORTANCE

Most – if not all – regulatory initiatives in the past few years have one theme in common: the need for more granular, consistent, integrated data sets. Rolling out an enterprise-wide, business-driven data governance initiative will not only drive efficiencies across regulatory initiatives, but it will also lay the necessary groundwork for big data or advanced analytics initiatives.

Launching data governance initiative can provide accurate, comprehensive and progressive data cataloguing as well as consistent, centralised management of data-related policies and processes. Moreover, it facilitates an institutional approach to data quality and supports the establishment of clear definitions of data ownership, data criticality and data use across the enterprise.



As with most governance initiatives, the tone from the top is a critical element to create enterprise buy-in. Chief Data Officers (CDOs) have become more common in the Australian financial sector, especially at larger organisations. Findings reveal that they have started to lay the foundation for centralised data management strategies and coordinated information across organisations. Hence, empowered CDO's, or their equivalent roles within smaller organisations, should bear overall responsibility for data governance and quality. By embracing a central data governance authority, all parts of the organisation – from the front office staff to the compliance manager – will benefit from accurate, timely and meaningful data and insights that not only meets regulators' demands but also supports key decision-making.

Given the high degree of similarities between different regulations, now is the ideal time to establish standardised ways of managing data for every regulatory requirement. By investing in an enterprise-wide data infrastructure, organisations can focus their effort on a single comprehensive data strategy rather than creating separate processes to satisfy each regulatory requirement individually. Besides, an integrated view of data across internal borders will lead to more consistent, accurate reporting with clear sources that can be traced instantly.

Note that our focus is on centralised data strategies, not on a centralised data platform. Centralised data warehouses or data lakes may be part of the overall data strategies, but they are not indispensable. Recent advances in technology may allow for a "leave the data where it is" approach to avoid the ETL processes which are often seen as the key breakpoint in data lineage.

TECHNOLOGY IS YOUR FRIEND

Technology is a weapon of change used to drive business growth and development. Because of this, many organisations have invested significant amounts of money in technology for many years, including in regulatory technology. Yet – due to some of the reasons outlined above – only a few of them can confidently claim that they have eliminated all manual, end-user computing and data manipulation processes involved in regulatory compliance and reporting tasks. This shows that many companies still need an additional investment in regulatory technology. The good news is that technology continues getting better and more affordable every day. Moreover, a new set of companies are fiercely competing with incumbent technology providers. They are doing this by providing "regtech" solutions which leverage the recent advances in technology to provide better and more cost-effective solutions that can redesign traditional methods of regulatory and compliance management.

PEOPLE ARE POOR ROBOTS. ROBOTS ARE POOR PEOPLE.

Robots are extremely adept at repetitive tasks. Apart from being proficient in business rule-driven work and in processing large amounts of data, they are becoming increasingly good at analysing data, discovering patterns and even predicting likely outcomes or behaviours. But despite the buzz around Artificial Intelligence (AI), Machine Learning (ML), Deep Learning (DL), robots are still far away from thinking like humans. They lack imagination, the ability to think outside the box. They also lack the ability to combine IQ with EQ to solve complex problems.

Therefore, in the context of regulatory requirements, we encourage companies to leverage technology with the aim of systemizing and automating processes which can be considered mundane and repetitive processes. However, they should employ staff members who can use their intelligence, critical thinking and imagination to perform the value-added analytics and decision-making.

Who we are and how we can help your company

RegCentric was founded in 2017 with a single mission: to help the Australian financial services industry leverage advances in technology and to create better outcomes for all stakeholders: customers, employees, members/shareholders, Australian regulators and the society as a whole.

We provide advice and implementation services to Australian financial services organisations to address regulatory requirements and deliver strategic business process improvement initiatives. Our team consists of highly experienced business and technology consultants who are passionate about assisting our customers to leverage technology, drive efficiencies, deliver insight and ensure regulatory compliance.

Our risk, finance and regulatory reporting experts cover

- APRA prudential standards
- APRA reporting standards
- CPG 235 managing data risk
- RPG 702.0 ABSRBA data quality for the EFS collection
- Data governance
- IFRS9
- Integrated finance and risk
- Enterprise risk management
- Governance, risk and compliance

The Author

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Thomas has over a decade of extensive experience in providing consulting and implementation services across finance, risk management, governance, compliance and audit functions at major financial institutions across Europe, Asia and Australia. He is passionate about leveraging new technologies to provide improved insights, business processes and user experience to his clients.

Prior to joining Wolters Kluwer, Thomas worked at PriceWaterhouseCoopers. He earned his Master's degree in Commercial Science - Finance and Risk Management at Hogeschool-Universiteit Brussel (HUB) Brussels. He is a member of the Project Management Institute and Prince II and PMP certified.