Regulatory Change Management
Preparing for an Uncertain Future
Introduction

Regulatory change is proceeding around the world at a rapid pace and on an unprecedented scale. Coping with the sheer volume of new regulatory requirements imposes a high degree of complexity upon financial institutions.

New rules and regulations started appearing rapidly after the global financial crisis. Financial institutions—preoccupied with their own profitability and, in some cases, with their very survival—typically adopted a series of interim measures to deal with new requirements. As regulatory reforms have continued, however, and as new sets of rules appear on the near horizon, it is becoming increasingly evident that models established to deal on a timely basis with urgent problems may need to be revisited to deal with the next era of regulatory change.

What is important now in our view is not so much responding to immediate needs as putting into place a robust and sustainable regulatory change management model to help the institution prepare for the future. According to respondents to the Accenture 2015 Global Risk Management Study, regulatory pressures will continue to be a major challenge over the next few years; 55 percent, for example, see regulatory risks rising over the next two years, with 54 percent seeing legal risks becoming more severe, while 59 percent believe business risks will become more severe.¹

In the face of rapid and unprecedented regulatory change, financial institutions should be moving to more holistic models, designed, not so much in response to proposed regulations, but to help banks and other financial institutions establish and maintain a competitive advantage. The good news is that the collective experience of firms dealing with regulatory change management points the way towards more robust ways of addressing this major business challenge.

A key priority is addressing increasing compliance costs and performing regulatory change management using an efficient and sustainable model.

The Changing Regulatory Landscape

Just in terms of size and scope, the volume of regulatory change represents a significant problem in data management. Financial services firms confront regulatory requirements that are increasingly complex, that cross multiple borders and jurisdictions, and that, in some cases, conflict or compete with each other.

A global financial services institution with multiple product offerings and a presence in many different regions can find itself monitoring over 400 regulatory and rule-making entities across regions. To create transparency in the marketplace, regulators publish new and updated rules, requests for comment, guidance, frequently asked questions (FAQs), notices, enforcement and disciplinary actions, speeches and letters. This requires reading and absorbing content from thousands of regulatory publications each month.

This challenge is compounded by firms’ continuing, acute focus on cost reduction, which limits available resources. To deal with the flow of information—let alone use this information to create competitive advantage—financial institutions are encouraged to become much more efficient and effective in the way they process this data flow.

SCALABLE TOOLS AND PROCESSES
Existing Regulatory Change Management Models

Broadly speaking, global financial services firms have developed three basic models for responding to regulatory reform.

1. Single ownership

The first model is single ownership, in which the end-to-end regulatory change management process is owned and managed by a single group, starting with change identification and ending with closure validation. The primary benefits of the single ownership model are that the firm gains the ability to determine broad regulatory themes and potential cost synergies. There is clarity of ownership, and the model supports a single strategic vision for the firm’s regulatory agenda.

The challenges with this model include the possibility of duplication of effort with other functions such as internal audit. There can also be over-reliance on a limited number of subject matter experts (SMEs). The firm with a single ownership model may find it difficult to secure needed talent.

2. Fully segregated

The second model is fully segregated. In this model, the end-to-end regulatory change management process is coordinated and facilitated by a segregated group or groups within each business or region. This model helps the organization align activities with actual expenditures and leverages assets within existing businesses and partnerships.

The potential downsides to a fully segregated model include the potential for conflicting governance structures and solutions; the lack of transparency into firm-wide regulatory change management activities; and, as is the case with the single ownership model, the limited capacity of key SME resources.

3. Federated model

The third model is the federated model. In this model, a central function acts as the starting point for regulatory management, providing support in the identification and initial impact analysis. The businesses act as “suppliers” of regulatory implementation. The federated model minimizes potential disruption and provides central management and storage of all identified changes, while ownership of responsibilities is shared, with roles clearly defined.

While the federated model has certain advantages for larger and more complex organizations, all three models arose out of the need for rapid response to regulatory change; there is no industry standard. Those that were established in response to the Dodd-Frank Act should be regularly reviewed so that they can still respond to increasingly global obligations. Based on our experience, for most organizations, long-term, sustainable solutions are not yet in place.

While the models and processes vary, the broad challenges are often the same for major players:

- Assigning ultimate ownership and accountability from identification through implementation, especially for cross-functional regulatory changes;
- Addressing conflicting strategic priorities causing funding challenges at the business unit level; and
- Apportioning limited dedicated resources with the needed skills to effectively support regulatory change initiatives.
Roles and Responsibilities in Regulatory Change Management

Different organizations have different interpretations of regulatory change management. We define the four key phases of regulatory change management as follows:

**Identification**
The initial identification of a regulatory event is typically accompanied by—or preceded by—advocacy activities that may be outside the purview of the regulatory change management team.

**Review**
This is the preliminary study of the identified regulatory event, usually including an assessment of its applicability and potential impact. The review looks at affected areas and the executives who will be responsible for managing this change.

**Implementation**
Implementation involves detailed impact assessments, gap analysis and planning for actual execution of a regulatory change management plan. The key to successful implementation is cross-border and cross-functional coordination.

**Validation**
Validation occurs at the end of the program and encompasses independent assurance testing as well as steps to transfer program structures to a business-as-usual basis. Validation also incorporates ongoing policies, procedure control and program maintenance.

Within these phases, the documentation and communication of roles and responsibilities is a critical success factor for any regulatory change management program.

As seen in Figure 1 below, some roles are critical at more than one phase of the process.

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**Figure 1. Regulatory Change Management Process**

<table>
<thead>
<tr>
<th>Role</th>
<th>Typical Responsibility</th>
<th>Typical Rule Lifecycle Phase</th>
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</thead>
<tbody>
<tr>
<td>Risk and Control</td>
<td>Identification of regulatory events as risks requiring communication and mitigation control. This is typically a compliance function.</td>
<td>Identification Review</td>
</tr>
<tr>
<td>Compliance Advisory</td>
<td>Advisory and interpretive rule guidance. The focus is compliance risk.</td>
<td>Review Implementation</td>
</tr>
<tr>
<td>Legal Advisory</td>
<td>Advisory and interpretive rule guidance. Legal obligation determination.</td>
<td>Review Implementation</td>
</tr>
<tr>
<td>Regulatory Change Accountable Executive</td>
<td>The overall accountable executive with oversight responsibility for delivering the changes required.</td>
<td>Review Implementation Validation</td>
</tr>
<tr>
<td>Regulatory Change Coordination</td>
<td>The overall “command and control” over implementation activities. This is typically for larger scale regulatory changes.</td>
<td>Implementation</td>
</tr>
<tr>
<td>Regulatory Change Program Manager</td>
<td>This role works very closely with the regulatory change coordination for larger programs. Responsible for program management over specific regulatory changes.</td>
<td>Implementation</td>
</tr>
<tr>
<td>Regulatory Change Implementation</td>
<td>The key implementation role. Typically, this will be functionally aligned (e.g. operations, technology).</td>
<td>Implementation</td>
</tr>
<tr>
<td>Regulatory Intelligence</td>
<td>This unit provides additional regulatory context and support for communication of regulatory changes.</td>
<td>Identification Review</td>
</tr>
<tr>
<td>Testing and Assurance</td>
<td>Closure and validation. This is typically a compliance assurance or internal audit function.</td>
<td>Validation</td>
</tr>
</tbody>
</table>

Source: Accenture, November 2015
In particular, accountability and ownership are key success factors for long-term sustainable management of regulatory change. For improved effectiveness, they should be combined with clearly defined roles and responsibilities, with hand-offs identified for each stage and every function within the organization. Our experience has been that firms that have assigned ownership based on regulatory themes have been able to effectively integrate and coordinate these hand-offs across regions and product areas. Another success factor in our view is the ability to capture the complete scope of regulatory change items and provide well-disciplined "command and control" throughout the entire regulatory change lifecycle.

In our view, a holistic business framework, supported by empowered resources, consistent processes, and appropriate technology, is essential for making regulatory change management part of a financial institution's business-as-usual operations.
Checklist:
Ten Ways to Make Regulatory Change Management Part of Business as Usual

1. Establish robust regulatory monitoring processes to help identify changes and have these addressed by the appropriate parties in a timely manner.
2. Set up consistent processes to document hand-offs of information and ownership, with a proper audit trail.
3. Create a well-articulated cross-functional and cross-product coordination process, with active participation from all major business and functional areas.
4. Employ scalable tools and processes that can be phased throughout the organization.
5. Dedicate regulatory change resources with the appropriate skills, empowered by senior management, to help support compliance, legal and business areas.
6. Define roles and responsibilities to increase employee engagement and reduce unnecessary duplication of effort.
7. Build governance structures with broad representation and involvement of senior leadership.
8. Use interactive technology to support the integrated regulatory change workflow and update stakeholders in real time.
10. Review and revisit so programs are ready for future regulatory changes.

How Accenture Can Help

Accenture has extensive experience in helping companies address the end-to-end lifecycle of regulatory change management. Our global Finance and Risk team includes risk management specialists and practitioners with local regulatory knowledge, and we have developed a regulatory change identification capability including seasoned business-as-usual delivery teams.

We use proprietary change management tools, including program design and roadmaps that help support prioritization, planning and delivery, and can be customized to the needs of each institution. We also have extensive experience and credentials in the design of regulatory change operating models, as well as detailed tactical process maps for program implementation. To support program objectives, we also assist financial institutions with the selection and implementation of regulatory change management technology.
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