



## Abstract

A UK Global Bank was experiencing difficulty in identifying and understanding the nature of the increasing profusion of emerging regulation. Furthermore it was not comfortable that the implications for its business and its ability to comply with the proposals were capable of being adequately evaluated. Avantage Reply was asked to the above issues by delivering a sustainable solution that could be taken on by the clients.

### The client

The investment banking division of a UK Global Bank.

### The challenge

The client recognised that with the profusion of emerging regulation in both the prudential risk and conduct of business arena, it was experiencing difficulty in:

- Capturing all the regulatory initiatives and distinguishing between those that:
  - Represent initial conceptualisation of new regulation,
  - Are or have been the subject of a consultative process, and
  - Finalisation of the principles and proposed rules and guidelines has been achieved.
- Determining the potential scope of impact upon its service offerings
- Evaluating the implications for and on the business operating model
- Assessing the potential costs and revenue implications

Furthermore, the priority of most departments impacted by regulation was primarily to ensure continuing compliance with existing regulation. Hence the current approach to the evaluation of proposed regulation was unstructured and not comprehensive.

The client was seeking an integrated and comprehensive approach to identifying emerging regulation and its scope in relation to its business offering and geographic footprint; recognising the implications for its business operating model and if considered material to evaluate the financial, operational and business implications in detail and assess quantifiably the costs and benefits that could accrue from conformance with the terms of the regulation.

The client required Avantage Reply to assess the weaknesses of the existing approach, recommend a solution, achieve consensus agreement and approval for the implementation of the solution, implement it and hand over into business as usual once completed..

### Approach and solution

It was recognised any recommended solution would require buy in across a significant number of stakeholders. In addition, a significant resourcing commitment would be required not only to develop the solution but also create the framework that delivers the solution.

The failure of a single function to take responsibility for evaluating the potential implications of emerging regulation led to the conclusion that a separate and distinct function would be required to work with stakeholders but with a single objective of evaluating the implications of proposed regulatory changes.

In so doing it was recognised that initially the role of horizon scanning the regulatory environment would not be included in the new function's remit nor would responsibility for lobbying for changes in proposals in advance of regulation being finalised.

One of the initial issues to be addressed was to agree and rank the skills required to fulfil the role of the function. In this regard it was clear that the following combination of skills would be required:

- Knowledge of both prudential and conduct of business regulation;
- Experience of reviewing and synthesising regulation;
- Understanding of risk types and risk measurement approaches employed to manage them; and
- Understanding of the business service and product offerings
- Understanding of the business support functions and particularly in the areas of clearing and settling transactions

Although leveraging existing specialist knowledge is preferable, it was recognised that deployment of resources outside the responsibility of the function may lack sufficient authority and hence previous experience of working in Finance, Risk Management, Compliance, Operations and Legal would be beneficial. However, given the focus of front end business staff on revenue generation and the varying degrees of application of regulation to business offerings it was recognised that the primary skill required of the new function was a clear and detailed understanding of the business offerings and operating models.

A stakeholder road show was embarked upon to obtain:

- Buy in to the concept of the function, its mandate (the evaluation of the implications on the client of forthcoming regulation) and its position within the organisational structure (reporting to the COO) and governance framework;
- Agreement to the engagement model with the key stakeholders, the initiatives to be prioritised and their commitment to adequately resource and support the delivery of the agreed initiatives within agreed timelines

Based on the above mandate recruitment of the appropriate mix of skills was commenced.

## Results and benefits

The creation of new function to provide a comprehensive and integrated approach to recognising and evaluating the implications of emerging regulation was agreed and implemented with the active participation of, and supported by a governance structure involving, the key stakeholders. Furthermore agreement was achieved to a narrower scope of responsibility focused on the evaluation of the implications of regulation on the clients operating model and businesses.

It was agreed to leverage the existing skills base of the Corporate Affairs function to perform the horizon scanning function and mobilise resources to exploit lobbying opportunities.

Criteria were established and agreed for:

- Adequately resourcing the new function and approval gained for recruiting in accordance with the skills criteria defined;
- Prioritising the regulations to be evaluated; and
- Determining whether the implications are material.

Detailed evaluations of the implications of specific regulations were undertaken where the initial assessment considered the impact would be material to the client and its operating environment, markets and clients.

Detailed evaluations assessed the implications on:

- Business offerings, products and the markets in which they were employed
- Business operating model and the adjustments required in terms of both prudential resources (capital and liquidity) and conduct of business
- Revenues and costs (distinguishing one off from recurring)

The client was provided with a focused department with a clearly understood and manageable mandate with a recognised role within the organisation and clear accountability to the businesses for delivering an evaluation of the implications of forthcoming regulation but also well-constructed, feasible and relevant solutions for meeting the new regulatory requirements.

An orderly hand over to the client was achieved successfully, once critical mass had been recruited.

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