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Financial Services: Compliance Center of Excellence

A Navint Partners White Paper

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navint.com

+1 (888) 607-6575

Introduction

Banks seeking the best way to respond to increased regulatory burdens understand that well-structured organizational processes driven by skilled people and well-designed technology are required to achieve and maintain compliance. Clearly most Banks would agree that meeting the new standards imposed by this age of Regulatory Compliance has become increasingly strategic to their success.

The opportunity exists to address this challenge and to gain value from a strategic planning and operational platform to manage and support the people, processes and technology necessary to meet regulatory compliance requirements.

"High performing companies find clever ways to improve the process of process improvement"¹, so too high performing companies find clever ways to organize themselves to leverage broad organizational knowledge to achieve better business outcomes.

"Several business models have been fashioned to promote the exchange of critical knowledge, such as Centers of Excellence (CoE). CoE are teams of specialists who work together to develop and promote best practices in their area of responsibility. CoE may provide subject matter guidance to the rest of the enterprise, or deliver business services. This can include areas such as human capital management, project management, quality assurance, regulatory compliance, business analysis, continuous process improvement, and enterprise performance management."²

Leading banks are leveraging CoE principles to develop an enterprise level approach to regulatory compliance, which is critical to

support a platform with new processes, performance metrics and reporting expectations.

What is a Center of Excellence?

It is not new. But it is finally emerging as an organizational structure well suited to develop strategy, operational approaches, business processes, and, ultimately, to support regulatory compliance.

The COE is a coordinated team bringing together resources that have a range of interrelated skills and responsibilities, in a collaborative working forum, designed to share knowledge, promote best practices and drive successful business results. COEs deliver the best value when they are clearly aligned with company goals and objectives. In this case, nothing less than the collective goal of regulatory compliance is at stake.

CoEs thrive best when the environment is collaborative in nature, where business decisions, even those that are dealing with competing priorities, get made in the context of the supporting this overall goal. In other words, a CoE is designed based on its objective. For example, some CoEs are focused on delivering and managing large transaction-based processes like a service center. A second type of CoE is focused on internal consulting or advisory services with subject matter specialists supporting the broader organization. To support regulatory compliance the latter design is required but CoEs designed this way (e.g. to support the broader organization with subject-matter specialists) must also deliver demonstrable and tangible results to the business. Thus, a CoE must have a clear mission focused on the business and the overarching regulatory compliance requirements that must be addressed.

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- 1 Building a Business Process Center of Excellence- WSJ. Retrieved from <http://online.wsj.com/ad/article/enterprisetech-building>
 - 2 The CFO as Corporate Catalyst: The Role of Finance ... - FSN. (n.d.). Retrieved from http://www.fsn.co.uk/channel_enterprise_financials/the_cfo_as_corporate_catalyst

This form of CoE meets the goal through a model that includes subject matter specialists, but also includes other resources that become an integral part of the regulatory compliance function, supporting the business in an advisory capacity and delivering discrete services. A successful CoE will help the company understand and set priorities, create a roadmap, standardize approaches and support processes that improve the underlying structures of regulatory compliance over time.

What is the Goal of the CoE?

The CoE relies on careful and structured decision-making processes, leveraging quality data and sound processes for analysis and planning of options and scenarios. The overall collaboration and decision model relies on a governance framework that ensures all constituents have

Using the CoE framework, in conjunction with business as usual planning and strategy development that stays attuned to changes in regulators expectations will ensure the CoE stays in alignment with the business and the rest of the industry as a whole.

CoEs bring interdisciplinary knowledge and know-how to the broader enterprise helping to expand its understanding of the regulations and compliance considerations and the resulting impacts to business unit operating procedures.

Early identification of key process and data requirements that come from new Regulatory rules, understanding the impact on people, process and technology and determining how to satisfy regulator expectations and reporting requirements must be a key role of any Compliance driven CoE.



an appropriate role in the analysis, inputs and decision outcomes. A collaborative approach fosters a common understanding of problems.

The CoE works with the business and infrastructure functions necessary for compliance such as the Front Office, Risk, Compliance, Regulatory Reporting, Legal, Finance, Operations and Technology. Collectively these teams work to develop a roadmap based on careful planning and analysis, including understanding how, through scenario planning efforts, the organization will pivot one direction or another, to initially address regulatory compliance and improve it over time.

CoE Fit to the Organization

A well-designed CoE covers a broad range of competencies, capabilities and departments. A sufficiently senior manager that can work effectively across departments and has a direct reporting line to senior management (e.g. Chief Risk Officer or Chief Compliance Officer) is the best person to lead such a team.

A CoE loses its value and efficacy when buried deep within a department. In these cases, the department may view the CoE as a non-core function and over time it

may look for ways to eliminate it and the responsibilities that go with it.

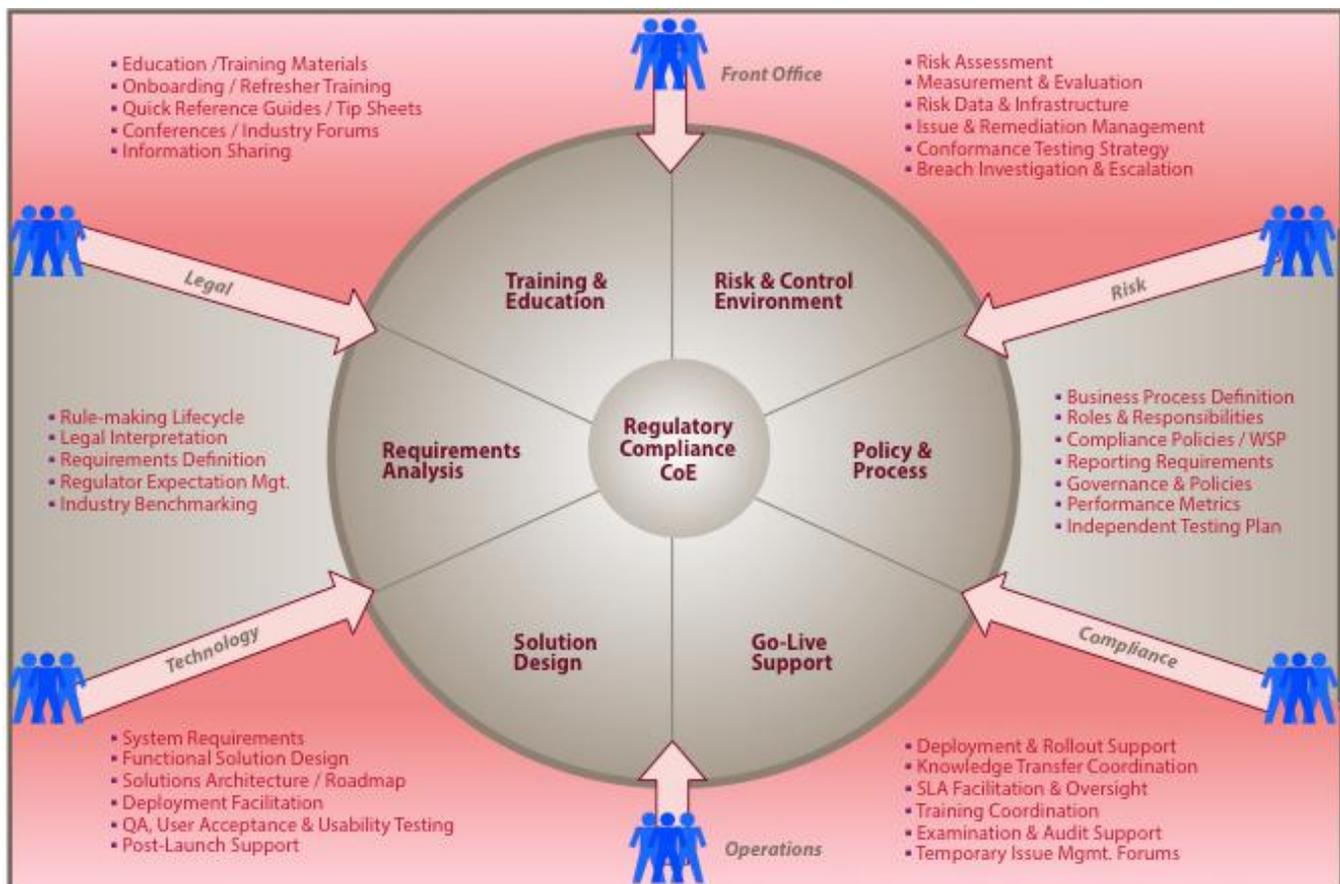
The long-term success of the CoE comes when the senior executive who owns the results approaches the CoE operating model with a holistic view of the larger organization, supported by the position and influence of executive leadership. Some companies use the CoE leadership role as a grooming position for high potential executives and “rotate them in and out every few years”.³

CoE Objectives

The CoE, working in conjunction with executive leadership, also needs to determine the objectives of the CoE and how best to design the CoE to deliver on those objectives.

For example, an objective may be “coordinating the participation and response, if required, to regulator audits” or “leading the remediation of policies and procedures to support Compliance”. Staffing of the CoE must reflect its objectives.

A key function of the CoE is to help educate the organization on the regulations and to inform the organization of the capabilities and competencies of the CoE. At the same time, the CoE members must be willing and able to collect the best ideas from within the organization, so all knowledge and learning is shared. A successful CoE must be proactive about the sharing of ideas to drive continuous improvement.



3 Building a Business Process Center of Excellence- WSJ. Retrieved from <http://online.wsj.com/ad/article/enterprisetech-building>

Fit for Purpose Design of the CoE

CoE success is due in part on assigned resources having advanced levels of knowledge and competencies, including training and certifications as required. CoE staff must be capable of working in a consensus-based organization and committed to knowledge sharing, developing and leveraging various standards and methodologies and be able to communicate new approaches and leading practices to the organization.

Keep in mind that CoE's play an important role as an intermediary, dealing with sometimes complex and conflicted issues. Their role is to support broad inclusion and collaboration, but they also are best to rely on a comprehensive governance model and decision-making framework so that efforts don't bog down in analysis-paralysis.

Risks and Trade-offs

It's likely that few would dispute the general benefits of establishing and leveraging a CoE or similar type of environment to drive business improvement or to address critical operational challenges. So the critical issue isn't whether the work they're doing is

important to the business rather it's how to ensure there's no wasted effort.

Potential risks to consider and work to mitigate might include:

Success Criteria

A Compliance & Regulatory COE aligns business people, process and technology to governance, policy and strategy, enabling companies to:

- Build a tighter and frictionless alignment between the business and infrastructure units -- especially Compliance, Risk, Regulatory Reporting and Technology
- Improve adoption and adherence to regulations with end user solutions supporting compliance and regulatory reporting with better design, planning, training and fit to purpose tools
- Increase the success of designing and deploying the solutions and technology required to meet regulatory requirements, delivering more value, less cost and less time.
- Develop the strategies and business priorities to meet regulatory compliance initiatives
- Achieve overall business agility by increasing the success of processes and technology through ongoing improvements

- The CoE is too quick to take on the Ivory Tower position, not dig into the details of the business issues, or work to develop innovative but still operational sound remedies
- Assuming that any business process or systems design, while "fit to purpose," is automatically a new "world class standard" without having done the important work of industry benchmarking and determining regulator expectations
- A corollary is that the CoE can't stray too far from its charter and purpose when it looks to solve regulatory compliance problems. The CoE needs to balance its "change the bank" portfolio with inputs from the business to help them identify and execute against transformational improvements.
- Though the focus of the CoE is on tackling the big, meaty and often-complex business issues, it can't just focus on communicating the transformational "To-Be" future end state. There are many incremental improvements that can and should be targeted, communicated and celebrated along the way. Failing to communicate progress against one or more strategic regulatory objectives and incrementally improve the operations along the

way is setting the CoE up for a success "vacuum" and will be viewed as a non-value added resource sinkhole.

- There is a risk that a CoE focused too narrowly on the obvious needs to address regulatory compliance and risk management may take away from other potential benefits. For example, the CoE can bring improved capabilities to analyze and develop business processes, design a more holistic enterprise architecture, more broad-based improvement in data quality

and timeliness and compliance monitoring tools to name just a few.

Summary

Successful global banks constantly need to reinvent themselves, both in how they serve their customers as well as how to meet the demands of regulators and shareholders. As was stated at the outset of this paper, meeting new regulator standards has become increasingly strategic to global banks. A CoE, supporting Regulatory Compliance, leads the whole organization in developing the competencies and capabilities through reusable knowledge, benchmarking and leading practices to achieve better and more reliable results.

New actors — regulators, shareholders, and customers — have become stakeholders in a new governance strategy that is designed for transparency. Meeting the Compliance and Reporting expectations of regulators, shareholders, and customers will remain a top priority for senior executives, along with the business and infrastructure teams they manage.

Developing and delivering on the Regulatory Compliance needs of global banks requires an integrated approach, which requires an interconnected organization aligned to support a common set of goals and objectives. Deploying a CoE requires the broad participation of the enterprise and the commitment of senior leadership to drive the organizational transformation. This transformation requires a clear vision of the people, process and technology required, properly aligned to support policy, strategy and governance. Applying the principles of a CoE will provide organizations with the strategic platform they need to meet the challenges of the age of Regulatory Compliance.

About Us

Navint Partners is a different kind of management consulting firm, blending unique industry experience and innovative thinking to address clients' business challenges in imaginative ways. Navint is the right partner for organizations facing business transformation and regulatory change. We help our clients build bespoke project teams that deliver sustainable environments that can adapt to the evolving business and regulatory landscape.



About The Author

Mark Vaughn, Managing Director, Navint Partners
Over 20 years of experience working with financial services companies to lead mission-critical regulatory change, business

transformation, and technology integration initiatives. Responsible for Navint's financial services practice including building and managing Navint client delivery teams. You can reach Mark via email at: vaughn@navint.com

