

Reasons to be cheerful about regulatory information

By Matt Malone, James Maycock and Louise Thompson



Regulations are increasing in complexity as well as in number and it's easy to understand why they are seen as an unwelcome disruptive force.

In this year alone, we have the implementation of a whole host of new regulations, including IFRS 9, MiFID II, and the NIS Directive. But there are also reasons to be cheerful about a world where constant regulation is the new normal.

Leading companies are using mandatory spend on regulatory reform to pay for long-needed improvements throughout their organisations. They are viewing regulatory change with a positive lens; seeing it as a catalyst to reposition and transform risk management in line with business strategy and enhance key elements of their operating model, like reporting and data management, rather than as a burden and obstruction to their work.

Those transformational efforts give these organisations a competitive advantage and a more secure future.

The case for change

Regulation, along with digital advances and customer behaviour, is disrupting traditional business models, but some businesses are finding it hard to adapt.

Businesses have traditionally employed tactical solutions to incoming regulation. This kind of tick-box exercise that just "gets compliance done" can be a problem, since it risks adding even more complexity to the compliance function. This in turn will only serve to drive further resistance to regulations.

It also risks leaving out important elements or parts of the business that could be affected. One question to ask is has the solution considered the people and cultural element that will be affected by the incoming regulation?

Box-ticking businesses also haven't invested in the things that will simplify the process of navigating

the increased amount and complexity of regulation. By spending on risk services and solutions ahead of time, businesses can capitalise on the opportunity to use mandatory regulatory change to build the technical capabilities and the leadership skills needed, not just now, but for the future.

Steps towards practical transformation

Leading companies are driving continuous transformation through regulatory change, but what does this mean in practical terms?

Repositioning risk management

Risk management must move from being a marginal exercise to become a central function of the organisation, one that is embedded in its DNA. It has got to be seen as a critical tool in managing the disruption that is knocking on the door of every business.

Questions to consider include: is risk central to the strategy of the business? Is risk management articulated anywhere in the strategy documents? Is there anyone in the business who looks forward and scans the horizon for emerging risks? Perhaps most importantly of all, is risk management led and fully supported by the leadership team?

Using mandatory projects wisely

New regulations impose the need for mandatory projects. Organisations can capture this opportunity to use the budget and the momentum of these projects wisely, by planning beyond the tactical fix to the broader priorities of the business challenges. Compliance can't, and shouldn't, be done in a vacuum.

Implementing a holistic approach to change

An operating model is the practical articulation of the business model, which in turn is the articulation of the business strategy. It doesn't make sense to change one without thinking about the other. In the same vein, regulation may be the trigger for change, and that change will have a broad impact on the operating model.

Alignment with business objectives

The key message is that regulatory change should not be simply about ensuring compliance. It should be a driver for overall change, for cost and for efficiency.

Apart from the obvious avoidance of fines and penalties, not to mention unwelcome news headlines, adherence to regulations has the advantage of improving business flexibility, enhancing decision making, capturing efficiencies, driving productivity and of course, reducing risk.

Businesses that succeed in the future will have a business-led approach to risk management at the heart of their strategy. They will embed risk management into the operating rhythm of all teams. They will have an alignment of risk to the vision of what the business wants to do.

Let's not forget that, at their heart, regulations are about protecting customers and protecting markets.

But they can also be used to drive market disruption and to capture competitive advantage.

kpmg.com/socialmedia

