



westMONROE
point^{of}VIEW

THE COMPLIANCE EXECUTIVE'S PLAYBOOK

PREPARATORY ACTIONS FOR THE
FORWARD-LOOKING COMPLIANCE
EXECUTIVES

BUSINESS
CONSULTANTS

DEEP
TECHNOLOGISTS

The high profile turmoil of the recent transition of power in Washington, D.C. has impacted a wide variety of industries across the U.S. corporate landscape. While disruptions in retail, manufacturing and technology have been front-page news, the impacts to the banking industry have been somewhat more subtle, and more clouded.

The most surprising element of the current environment is the breadth in the spectrum of potential outcomes. President Trump's campaign trail rhetoric of decreased regulation would suggest a rollback of regulations such as Dodd-Frank and a downsizing of enforcement teams. However, this simplistic view is countered by the at-times populist tendencies of the current administration. Depending on the day or even the individual speaking, it seems almost as likely a possibility that the tide may shift towards a populist crackdown on banking, including increased scrutiny from government regulators.

Most critically for many compliance leaders, this all comes at a time of internal uncertainty within the compliance organization itself.

Many groups have spent the last decade straining to grow fast enough to keep up with regulatory demands. As a result, compliance teams have not been able to staff up with the discipline and quality control they would normally demand.

An analysis of this combination of political turmoil and operational uncertainty indicates that compliance leaders have reached a critical assessment point.

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Since November, the overarching theme for observers in the banking industry has been one of cautious optimism, tempered by increased uncertainty – particularly with respect to the murky future of regulatory reform and enforcement. The potential for a dramatic change in the direction and tone of bank regulation has not been this high since the peak of the global financial meltdown.

Proactive Response: Preparatory Actions for the Forward-Looking Compliance Executive

Whether financial regulation will increase, decrease, or hold steady is currently unknowable, but compliance executives do have the power to manage their operational uncertainty, and the ability to proactively solve the latter while preparing for the former. During this speculative period where proclamations have not yet been translated into policy, forward-looking leaders need to take the opportunity to measure, evaluate, and plan for contingencies. These are the actions that will make a compliance organization both successful and efficient in the future.

MEASURE

Compliance organizations across the full spectrum of US Banking Institutions have been forced by regulatory pressure to grow at an unprecedented rate over the last decade. This rapid growth has led many compliance teams to loosen their operational discipline in terms of managing staffing levels, monitoring staff quality and ensuring sufficient output. In advance of any further swings in regulatory pressure, it is critical that leaders take the time to deepen their

understanding of their operations, and to develop a detailed picture of their current state.

Focus on the following questions:

- ◆ What are the core operational drivers of staffing levels?
- ◆ What are the sensitivities of these drivers to changes in regulatory pressure and demands?
- ◆ What are the true costs in terms of time and expense of current activities?

EVALUATE

Having asked the questions above and with a detailed picture of current operations in hand, the activities of the compliance organization must then be evaluated from the perspective of alignment, core business value, and potential efficiencies.

Leaders need to be asking questions along the lines of:

- ◆ How closely are current staffing levels aligned with explicit regulatory demands?
- ◆ Outside of regulatory requirements, where are core business operations directly or indirectly dependent on compliance team activities?
- ◆ Which activities have the potential for automation, process improvement, lower-cost sourcing, or reduction in demand / frequency?
- ◆ Are quick win improvement opportunities readily available, and if so where?

Given the inefficiencies that have been forced into many compliance programs through their

recent rapid expansion, it is not unreasonable to expect that this process of evaluation will yield efficiencies and improved organizational discipline even in the event that regulatory changes are minimal in the near term.

CONTINGENCY PLANNING

Leaders that have taken the care to measure and evaluate their operations in detail can then initiate scenario modeling and contingency planning. Through these processes, a well-prepared leader should ultimately develop a “playbook” that would allow for a thoughtful response to the broad spectrum of potential regulatory changes, including:

- ◆ Load-balancing of activities in response to modifications to enforcement procedures
- ◆ Rapid team-level staffing changes in response to modifications of rules through executive action
- ◆ Organization-level transitions in response to regulations revised through legislative action

About West Monroe Partners

West Monroe is a progressive business and technology consulting firm that partners with dynamic organizations to reimagine, build, and operate their businesses at peak performance. Our team of more than 900 professionals is comprised of an uncommon blend of business consultants and deep technologists. This unique combination of expertise enables us to design, develop, implement, and run strategic business and technology solutions that yield a dramatic commercial impact on our clients’ profitability and performance. For more information, please visit www.westmonroepartners.com.

A Disciplined Compliance Organization Poised for Change

The foundational uncertainty of the current regulatory environment demands vigilance from compliance leaders. A wait-and-see approach may seem prudent, but it is only viable if supported by a clear understanding of the current state and a vision for how to react quickly in the face of change.

By taking the proactive steps outlined above, the well-prepared compliance leader will have both a detailed grasp of current operations, and a playbook of options at the ready to respond to any sudden changes in regulatory policy or enforcement.

Six months from now, whether they need to staff up or scale down, the best compliance leaders will already know their path forward thanks to the preparation they start today.



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