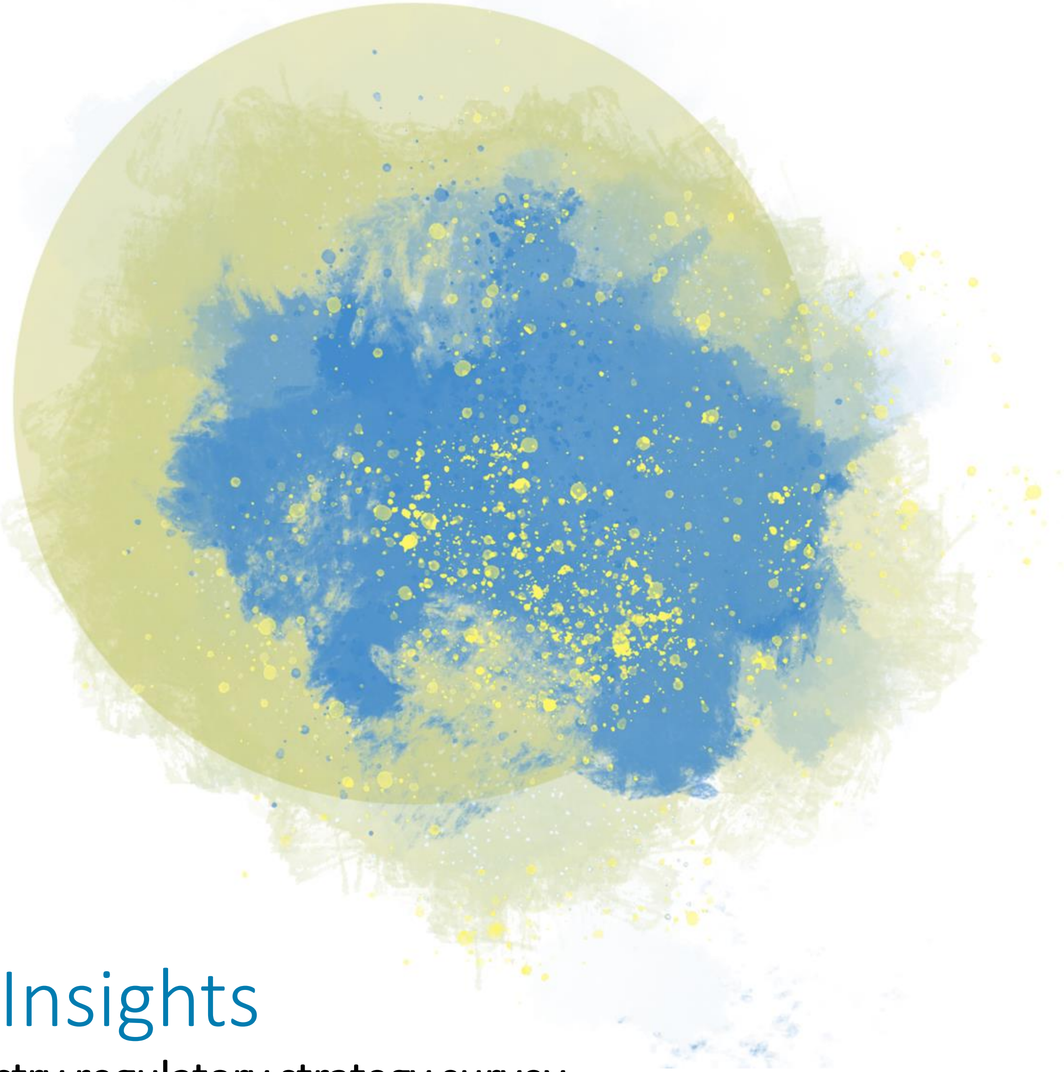

# Regulatory Strategy Insights

## Results of the financial services industry regulatory strategy survey

Managing regulatory risk and aligning regulator activities and engagement to business objectives

October 2023

# Background

In the four years since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the FS Royal Commission), Australian financial services organisations have faced increased regulatory focus, greater frequency of regulator interactions and engagement and intensified reporting requirements. Part of this includes an increased focus in the last two years on how organisations have developed strategies to both proactively and reactively manage regulatory risk, demands and priorities.

We have observed the rise of the enterprise regulatory strategy being adopted by financial services organisations, with a large variance in maturity of this thinking across financial services organisations. A regulatory strategy if designed and executed well manages regulatory risk exposure and aligns regulator engagement and response activities to forward looking organisational business objectives.

The key strategic benefit of a regulatory strategy is the alignment of regulatory agenda with the broader business strategy and objectives. For example, in the financial services organisation's consideration new and potential products and services, business planning, and in the context of prioritising and uplifting compliance initiatives. Other strategic benefits of an effective regulatory strategy include:

- Agreed approach to addressing regulatory queries and concerns
- Ability to effectively cascade regulatory messages throughout the organisation
- Understanding and management of regulatory expectations
- Utilisation of various regulatory tools and techniques to drive efficiencies.

A well designed and executed strategy encompasses:

- Enterprise-wide principles for engagement
- Priority areas for proactive for regulatory engagement
- Formalised approach for dealing with regulators
- Accountabilities for decision-making regarding regulatory matters
- Alignment of forward-looking organisational strategy with the regulatory agenda
- Approach to engaging industry bodies and influencing proposed regulation
- Utilisation of tools to assist in implementing Regulatory Strategy, such as automated workflow tools.

# Executive Summary

Deloitte conducted a benchmarking survey across several Australian financial services organisations. Survey respondents were split across four sectors:

- Banking
- Insurance
- Superannuation
- Wealth management/diversified financial.

The purpose of this survey was to shed light on current regulatory strategy and engagement practices across a sample of regulated Australian financial services organisations. The survey consisted of 25 questions, across four categories:

- Regulatory strategy
- Regulatory interactions
- Processes and tools
- Influence and impact.

Through analysis of the 25 survey question's responses, we have identified six themes below that ultimately capture the key emerging perspectives around regulatory activities and engagement. Key insights from the survey are detailed on pages 4 to 6 and are intended to provide insight into how financial services organisations responded.

Many financial services organisations are interacting with regulators on a daily basis

Financial services organisations are adopting tools and technologies to assist in managing regulatory interactions. However, there is inconsistency in the maturity of tooling used

Many financial services organisations with daily regulatory interaction do not yet have in place a formalised regulatory strategy

Regulators have a high level of influence on organisational priorities

Boards have oversight and visibility of regulatory matters

Regulators are viewed as clear and transparent

# Survey insights

## Many financial services organisations are interacting with regulators on a daily basis

1

More than half of survey respondents indicated that they interact with regulators on a daily basis. These interactions mostly take place via email and video calls, with a decline in face-to-face meetings post the COVID-19 pandemic, as financial services organisations have transitioned to a more virtual environment. APRA and ASIC were noted as the regulators most frequently interacted with. AFCA, OAIC and ACCC were noted as other commonly engaged domestic regulators.

In recent years, the financial services industry has noticed a shift in the expectations of regulators and increased regulatory supervisory scrutiny. The release of the Final Report of the Royal Commission into the Misconduct in the Banking, Superannuation and Financial Services Industry in 2019 saw a significant shift in the industry regarding regulatory expectations and interactions. The Commission identified a range of areas where the regulation and supervision of financial institutions must be strengthened.

Two examples of where regulators have updated their approach to supervising financial services organisations include:

- An updated Memorandum of Understanding between APRA and ASIC, setting out a framework for the agencies to maintain a proactive, open and collaborative relationship
- Updates to regulator supervisory and enforcement strategies, such as the updated APRA Supervision Risk and Intensity (SRI) Model which supersedes the PAIRS and SOARS framework. This updated model embeds a degree of flexibility in supervisory approach to cater for new and emerging risks and ensures a greater elevation of non-financial risks.

The survey results align with the changes in industry, where financial services organisations are needing to engage with regulators frequently to stay on top of requests and also to meet increased expectations of transparent and entity-led engagement.

## Many financial services organisations with daily regulatory interaction do not have a formalised regulatory strategy

2

Despite an increase in regulatory interactions and heightened supervision and enforcement, we observed some financial services organisations who are interacting regularly with regulators do not yet have in place a formal regulatory strategy.

Given the regulatory pressure on financial services organisations is at its peak, as regulators strive to secure the financial system, building a successful relationship with regulators should be a priority for financial services organisations. This takes thought, planning and commitment to a solid strategy on how the entity will manage various regulatory relationships and scenarios.

Having a thought-out, Board approved, regulatory strategy improves an entity's governance maturity by having clarity on the process for different regulatory interactions. This may include:

- How communications are to be handled depending on topic (for example, how SME's are included in the process to respond to regulatory requests)
- Standard practices for how to approach regulatory meetings (for example, who in the organisation should attend meetings)
- What training is in place for key stakeholders in the financial services organisation to ensure expectations are clear?
- The tools the financial services organisation uses to manage regulatory interactions (for example, document management systems to track regulatory requests and deadlines).

Having a regulatory strategy also increases an entity's resiliency when dealing with potential regulatory issues or risks. Successful regulatory strategies prepare financial services organisations for being investigation-ready at all times, which in turn can manage the burden that increased regulatory interactions can have on 'business as usual' activities.

# Survey insights

## Boards have oversight and visibility of regulatory matters

3

With the implementation of the Banking and Executive Accountability Regime (BEAR) and APRA's impending implementation of the Financial Accountability Regime (FAR), increased regulatory engagement with Boards is expected.

Majority of survey respondents said, where a regulatory strategy exists, that their Boards do have input into the regulatory strategy. This includes both reviewing and challenging the strategy. All respondents to the survey said that the Board has oversight of regulatory interactions, and this is mainly done through the receipt of reporting on regulatory engagement.

With expectations of Boards increasing, regulators are much more likely to engage Boards on a regular basis, especially where adverse outcomes have occurred in the business. Boards should be asking themselves how they are considering the regulatory perspective in their decisions, and what steps they can take to better understand regulatory expectations.

Best practice in ensuring, being able to demonstrate, that Boards have oversight and visibility of regulatory matters is to define clear thresholds for issues escalation to the Board, and the timeframe for doing so. One survey respondent provides weekly snapshots of material regulatory and interactions. Another survey respondent notifies and briefs the Boards on significant regulatory matters as soon as possible. A mature regulatory strategy should capture this escalation process and also consider how these thresholds may be influenced by other factors, such as an entity's APRA Supervision Risk and Intensity (SRI) model rating, ASIC's end-to-end product responsibility, and in a circumstance where the matter may relate to significant breaches that are on the regulator's radar.

## Financial services organisations are adopting tools and technologies to assist in managing regulatory interactions

4

Successful regulatory strategies are best supported by efficient tools to streamline and manage regulatory engagement. The majority of respondents to the survey are investing in tools that drive efficiencies and streamline processes. This includes the use of in-house tools and registers, workflow systems and GRC tools.

Despite this, there were some respondents, who despite having a regulatory strategy in place, do not support this strategy with the use of tools and technologies. It was also noted that, for the financial services entities who are adopting tools to support regulatory strategy and engagement, the types of tools and usages varied considerably.

The use of software systems that provide a single point of reference for entity stakeholders to capture all forms of information exchange between the entity and regulators is a better practice example of how financial services organisations can mature in the use of regulatory engagement related tools. Such a system can also be used to store relevant documents so that business stakeholders have access to the most up to date information and status on the regulatory matter.

Not only are financial services entities looking to mature in their use of tools and technologies to manage regulatory information exchange, regulators are also investing in significant technological upgrades. For example, APRA intends to collect deeper, broader data sets through its new data collection system, APRA Connect. The move to richer, more flexible data collections will be enabled by a transition away from APRA's current data collection system, D2A, by 2027.

# Survey insights

## Regulators have a high level of influence on organisational priorities

5

The increased amount of regulatory change and supervision since the FS Royal Commission has seen an increase in regulatory influence over an entity's business decisions and priorities. Almost all survey respondents indicated that regulators have a high level of influence on their organisation's business priorities, and that initiatives within their organisation gain traction once they have regulatory attention.

The tangible increase in regulatory influence can be observed through many survey respondents indicating that full time employees dedicated to regulatory strategy and interactions increased in the past 18 months.

When asked what is the top item on your entity's regulatory agenda, the most common survey response was influencing regulatory change. Despite this, only a limited number of survey respondents proactively engage regulators with the objective to do so. When they do, these discussions take up only a minimal amount of their team's time. This was the case regardless of the size and maturity of respondent's regulatory strategy and engagement function.

More broadly, only a handful of respondents considered regulators' current focus areas in developing their regulatory strategy despite citing preparedness for regulatory change as a key focus area and point of influence.

## Regulators are viewed as clear and transparent

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Globally, better practice regulators are transparent, open and responsive to feedback on how they operate. They engage in genuine two-way dialogue with financial services organisations and the broader community on their performance.

There was a positive response by survey respondents to the statement 'our interactions with regulators are transparent, constructive and the dialogue is clear.' The majority of survey respondents also noted that they seek feedback from their main regulators regarding the constructiveness of the relationship. Transparency is pivotal to financial services regulation and regulators must uphold their duty to clearly communicate regulatory processes and be transparent about decision-making criteria.

Regulatory requests and interactions have changed post COVID-19, where survey respondents have seen a shift from face to face regulatory meetings to email, phone and video calls. While respondents held the view that overall regulators are clear and transparent, there survey respondents noted that that there is an opportunity for regulators to provide more detail on their reasons for enquiry and for their requests to provide clarity to the entity in receipt of the request.

# Looking to the future

Developing and maintaining a regulatory strategy in the dynamic landscape of financial services is an intricate and ever evolving process. The financial services industry is in a constant state of change and regulatory requirements are evolving rapidly. Communicating and engaging with regulators is critical, and financial services entities should have a regulatory engagement strategy in place, guided by set principles to ensure consistency across regulatory interactions. A key benefit of having a regulatory strategy is to provide key stakeholders with a clear understanding of roles, accountabilities and regulatory engagement intent for discussions. This includes at the Executive and Board level, which will support the ability to exercise proper oversight. Having a regulatory engagement strategy can also enhance the management of regulatory risk exposure and alignment of regulator engagement and response activities across the financial services entity. Looking to the future:

Disruption in the financial services sector will create an even greater need for financial services entities to have a clear view of their own regulatory strategy in order to anticipate the regulatory horizon. Technology and product innovation, to a scale we have not seen before, will also be a key driver for financial services entities to get their regulatory strategy house in order.

With so much change, the need for regulators and the financial services industry to ensure effective consultation, supervision and communication will be paramount. Having a clear strategy to enable more effective regulatory interaction will not only serve both the regulators and financial services entities themselves, but will contribute to the best interests of the Australian financial ecosystem.

Financial services entities will need to prioritise investment in robust technological tooling to enable proactive risk management and to help in adapting swiftly to changing regulatory requests and requirements. Many Regulatory Affairs divisions are highly manual, and using technological tooling to help manage regulatory strategy and interactions will help reduce the burden on finite employees and can reduce the number of FTE, which have surged as a result of the FS Royal Commission.

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