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Regulatory management as strategy

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Center *for*
Regulatory Strategy
US

Gone are the days…

The trend is clear and continuing: As discussed in our 2024 banking regulatory outlook, regulatory requirements and supervisory expectations have continued to increase significantly over the past decade, ratcheting up with each financial market cycle and round of bank and financial institution failures. But it is this very significant level of regulation and supervision that separates banking institutions from other industries, providing the gateway to the unique benefits that banks enjoy and the public desires: deposit insurance, access to the payment rails, and the assurance of prudential oversight. Regulation and supervision are the ticket to entry into banking and the price banking institutions must pay.

Gone are the days when the board and a banking organization's senior management could leave "regulatory matters" to compliance, legal, regulatory affairs, or some other control or support function. Siloed regulatory management functions—across (i) the entire life cycle of regulatory issues and regulatory examinations, (ii) regulatory change from new and proposed laws, regulations, and supervisory guidance or priorities, and (iii) regulatory remediation management—may prove to be inadequate for consistent and sustained success, requiring a more strategic approach.

In discussions with many bankers and CEOs of large US and foreign banks operating in the US, some believe that mastering regulatory compliance and having an efficient operating model that clearly addresses regulatory expectation is the competitive differentiator for them. Increasingly, as many banking products feel more and more similar, many bank leadership teams are focusing on the speed at which they address new regulatory requirements in a sustainable fashion.

The new paradigm: Strategic end-to-end regulatory management

Based on our continuing discussions with financial institutions' boards of directors, senior management, regulators, and other industry stakeholders, as well as our work in helping institutions preparing for and responding to examinations and their outcomes (from non-public remediation matters to public enforcement actions), we believe a new regulatory management paradigm has emerged. In this new paradigm, regulatory management is a key strategic imperative, embracing an integrated and coordinated approach owned by the board and senior management and led by an empowered senior leader.

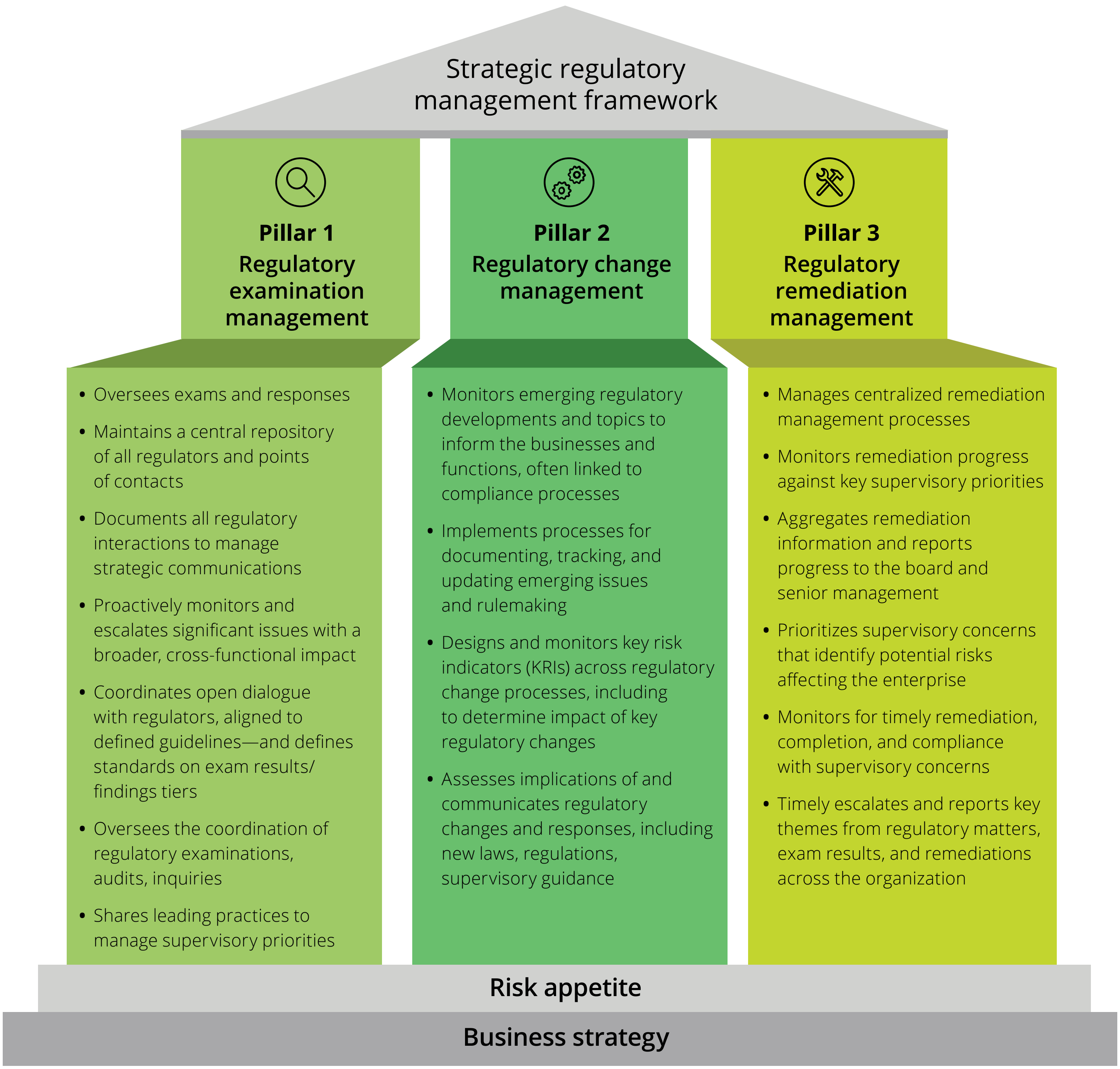
End-to-end regulatory management should now be top of mind for the board and senior management as part of strategic regulatory management. This is true especially during the following events:

- Addressing specific regulatory issues (e.g., supervisory matters requiring attention or their equivalent)
- Analyzing how proposed or finalized new laws, regulations, and supervisory guidance will affect your existing businesses
- Undergoing organizational changes that will have regulatory and supervisory impacts (e.g., new products and services, mergers and acquisitions, approaching asset and other regulatory thresholds)
- Addressing two or more of these regulatory management triggers at any one time

The three pillars of an integrated and strategic regulatory management

A holistic strategic regulatory management framework pulls together in one integrated program three regulatory management pillars that are often fully or partially siloed: regulatory examination management, regulatory change management, and regulatory remediation management.

In our experience, these three pillars are made up of the following activities:



Strategic regulatory management considerations

In designing effective strategic regulatory management processes, deliberate ownership and alignment among legal, regulatory affairs, chief operating officer or chief administrative officer, and business lines are key. The objective should be to arrive at a model that equips the institution with an optimized structure for execution at scale across the three pillars.

In this design process, a number of factors should be considered in the context of the size, complexity, geographic footprint, and other matters specific to the institution and include the following:

Leadership and positioning: Who will lead the framework? What will their position be in the corporate hierarchy? What will be the scope of the lead officer's command and control? Will leadership be positioned in the first line or second line?

Skillsets and other functions: What skill sets are necessary for the leadership role, without the function replacing or supplanting responsibilities of compliance, operational risk, and second-line functions?

Scope: Are all parts of the enterprise covered, across regulators and jurisdictions? Which regulators and regulations will be covered? Is this focused on a global approach or focused on specific jurisdictions?

Timing: For centralized management oversight functions aligned with the framework, what will be their meeting cadence, and how will that be aligned with executive reporting cycles?

Reporting lines and organizational stature: How can reporting lines drive consolidation of regulatory issues management and oversight with aligned executives' scope, prioritization, and outcomes of regulatory initiatives? How can consistent messaging be best achieved? How are roles and responsibilities across the three key pillars aligned to avoid redundancies?

Communication: How can communication of regulatory matters at governance-level forums and committees improve control mechanisms and accountability?

Centralization: Will the approach be driven by a central team working in partnership with execution teams and front-line units, or will a central team play more of a coordinating and aggregating role, with the lines of business or functions retaining responsibility?

Organizational consistency: How far will the framework go in centrally defining standards, roles, and responsibilities and driving enterprise alignment?

Regulatory engagement: Will regulatory engagement be coordinated through a centralized regulatory office? Will multiple points of contact be permitted and, if so, under what constraints?

Data and MIS: What type of management information systems (MIS) are necessary to be most effective and be reflective of the entire regulatory issue life cycle and bringing together components? What gaps in data capabilities, if any, exist to effectively monitor status developments across the regulatory management cycle? Are there enhanced analytics and automation tools that could be deployed?

Diving deeper

This is the first of three additional perspectives we will be issuing as part of our "*Regulatory management as strategy"* series. In our next editions, we will expand on the design and execution of each component—regulatory examination management, regulatory change management, and regulatory remediation management. Each of these future editions will provide perspectives on the question posed and the design choices that we believe are more likely to drive strategic regulatory success in this complex and challenging space.

Contacts

Richard Rosenthal
Principal | Deloitte & Touche LLP
rirosenthal@deloitte.com

Monica Lalani
Principal | Deloitte & Touche LLP
mlalani@deloitte.com

Shruti Sinha
Principal | Deloitte & Touche LLP
shrutsinha@deloitte.com

Richard Mumford
Independent Senior Advisor to
Deloitte & Touche LLP
rmumford@deloitte.com

Joanna Connor
Managing Director | Deloitte & Touche LLP
jconnor@deloitte.com

Deloitte Center for Regulatory Strategy, US

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, US
Principal | Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Kyle Cooke
Manager | Deloitte Services LP
kycooke@deloitte.com

Aaron Salerno
Manager | Deloitte Services LP
asalerno@deloitte.com

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About the Center

The Deloitte Center for Regulatory Strategy provides valuable insight to help organizations in the financial services industry keep abreast of emerging regulatory and compliance requirements, regulatory implementation leading practices, and other regulatory trends. Home to a team of experienced executives, former regulators, and Deloitte professionals with extensive experience solving complex regulatory issues, the Center exists to bring relevant information and specialized perspectives to our clients through a range of media, including thought leadership, research, forums, webcasts, and events.

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