AN EXPERT VOICE:
HOW TO THRIVE IN AN INCREASINGLY REGULATED ENVIRONMENT

Mark Foulds

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has over 25 years experience in the financial services industry, holding senior front office, operations and technology roles at global institutions such as Deutsche Bank, JP Morgan and BNP Paribas.

Before he joined Dassault Systèmes in 2013, Mark was Global Head of Business Strategy & Change Management for the Equities & Structured Retail Products division of RBS.

A hugely experienced transformational change professional, a champion of FinTech and an enthusiastic mentor, Mark believes in supporting start-ups to realize their potential of becoming sustainable, forward-thinking businesses that will change the financial services industry for the better.

Here Mark gives his perspective on the current regulatory climate in Financial and Business Services.

Q. Please can you paint a picture for us of the regulatory environment that financial services companies are currently operating in?

MF. It's 10 years since the Global Financial Crisis began. The evolving regulatory landscape is placing a raft of new obligations on all divisions of the Financial Services industry: the challenging macro-economic environment; global politics; normalization of interest rates; Brexit; China's transition to a consumer-driven economy, and the potential changes in US policies on regulation, tax and trade… these all increase uncertainty and are likely to have a significant influence on regulatory policy and rule-making.

What's more, the costs associated with adjusting to new regulations, such as MiFID II and GDPR, aimed at delivering better value for money to the end-investor, are mounting. Rightly or otherwise, regulators believe that the conflicting interests of financial firms means that they failing to prioritize the financial wellbeing of end-clients and broader society.

Q. How are regulations going to change over the next 5-10 years and why is it becoming more difficult to comply with them?

MF. There is a growing divergence in regulatory priorities. 2017 brought Brexit and a new US political administration which led to significant uncertainty. We also saw pressures on the banking and life insurance sectors from sluggish economic growth and low interest rates in Europe and the US, and competition from new FinTech entrants.

Looking ahead, most of these challenges and uncertainties remain. Financial services firms need to be prepared to deal with the challenges of diverging regulatory frameworks. Technological innovation, aging populations, and climate change have all caught the attention of the regulatory and supervisory community as emerging risk areas.

The overriding challenge for firms remains coping with uncertainty. Supervisory pressures continue to grow on regulated firms to improve their governance, culture, risk management and other controls. We expect that some supervisors will challenge boards, risk committees and senior management to demonstrate that they understand the impact on their customer bases, business models and risk profiles, and are set to take effective, mitigating actions where needed.

Q. Speaking from an industry perspective, what steps can companies take to overcome these challenges?

MF. Financial Services firms need to be prepared to deal with the challenges of this diverging regulatory framework. They will need globally coordinated approaches to understand overlaps, incompatibilities and potential synergies.

Businesses in other regulated industries like aviation, life sciences and the automotive industry have been using digitalization – the integration of digital technologies throughout the business – to automate processes to improve governance and compliance, increase efficiencies and reduce costs. Financial institutions are beginning to realize they can benefit from the experience of these other industries to harness digitalization and achieve their goals.

Regulatory change must become ‘business as usual’ for Financial Services firms. To successfully insulate themselves against the impacts of future downturns on financial performance and business continuity, banks need to complete the transition from regulatory-driven transformation to innovation-led change. They will need to make meaningful investments in end-to-end processes and infrastructure aimed at driving real efficiencies across the entire organization, as opposed to spending their innovation dollars on tactical projects and front-end customer interfaces.

They should also take a long hard look at their culture, before others do. The Financial Stability Board is prioritizing ways to increase individual accountability of senior managers and promote governance frameworks that address cultural risk.

Trust among investors in the financial services industry remains woefully low, even after a decade of strong gains for equity and bond markets. Indeed, younger generations appear to trust non-financial services brands more than traditional financial firms. These low trust levels are linked to concerns about transparency, investment performance and the management of conflicts of interest.

The lacklustre recovery in confidence has led to large amounts of investors’ money being parked in cash. This has, in turn, reduced the availability of capital to fund new investments by companies and reduced global economic growth over the past decade.

Q. We hear about a disconnect between the hype of digital technology and the number of Financial services companies implementing such technology in their businesses – why is this?

MF. Interestingly, according to a recent survey by EY on the Global Banking Outlook for 2018, 85% of banks and 221 financial institutions cited ‘implementation of a digital transformation program’ as a business priority for 2018.

Technology provides opportunities to do old things better and to introduce new products, services and ways of working. But it also creates risks for firms whose business models will be challenged, and risks for consumers where its use is not well understood or controlled.

However, this requires a digitally enabled business model and the right talent to support a digital business. This is what customers expect. Both wholesale and retail users now demand a digital experience from their financial institutions. It’s all about creating differentiated customer experience, providing what customers want, when they want it, and how they want it. And that’s true whether you’re a bank, an insurer, or an asset manager. This goes back to the business model and the supporting operating model – and having both the talent and the skill-sets needed to think differently about how to solve problems.

Q. How does the use of dashboards help improve project traceability?

MF. There are several aspects that need to be considered when talking about dashboards. First and foremost, you must establish the information you want to see. That means you need to be sure of your objectives.

Visualization of data – having the ability to see the required output and knowing the information instantly – without having to search for it, is hugely beneficial and greatly improves efficiency. However, the visibility of the data is the final stage of analysis. The real value is in all the linkages made before this: ensuring the right sources of data, both internal and external, are used. And then asking the right questions of the data.

Data is useless if it is incorrect, inconsistent or too noisy. Regulatory compliance demands transparency of data, processes and people across business units and geographies. Data-driven decisions with real-time alerts and automated reporting provide an opportunity to improve the customer experience as well as organizational innovation. Get it right and you will drive critical business insights that will enable you to evolve actionable intelligence into business-wide innovation.

Q. Transitioning an entire organization onto an integrated digital platform is no easy feat. How would you advise customers to approach such a significant move?

MF. As previously touched on, digital transformation needs to be a priority business initiative. But organizational and strategic alignment needs to be in place before embarking on the journey to digital transformation.

Strategy needs to be driven from the top of the organization and should take culture, governance and training into consideration, as well as the technical implications of a digital transformation. Coherent strategies and investment plans must be put in place, addressing legacy concerns related to poor data and disparate risk and control processes.

The end customer is shifting away from traditional banking in investment channels, such as bank branches and face-to-face financial advice, relying more on smartphones and online tools. Although, a lot of financial institutions would rather be a fast-follower than a first mover, not having the right organizational flexibility, agility or capability to resource or execute change and deliver success.

Q. Can you outline the steps required for a Financial Services client to move from 100% reliance on manual processes for compliance to seamless automation using digital tools?

MF. If your organization and strategy are aligned, with a clear understanding of the kind of organization you want to be and the plan to get there, there is one thing that needs to be clear: what are your capabilities? What are you capable of doing yourself and what should you partner on?

Technology is a conduit, it enables business problems to be addressed. Therefore, it's imperative that a problem-based approach to technology implementations is adopted rather than an IT-centric approach. This means that financial institutions can phase their technology investments realistically and that early savings can help fund future digitalization and reinvestments in other less mature technologies.

Take one hurdle at a time. Getting success early in the transformation journey builds success. There will be multiple phases, across business lines and geographies, so internal simplification and process alignment is a must in phase 1, to ensure that digitalization is based on the 'best of breed, to be' state rather than the 'broken, as is' state.

The end state of a digital transformation program is dependent on the desired outcome of the firm and the organization that firm wants to be in the future: its strategic objective. Meeting that objective not only depends on the right technology but also on having the right talent to run the digital company of the future.