

**Deloitte.**

Regulatory change

It is not about “ticking the boxes”



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“The aftermath of the financial crisis spurred the creation of the most comprehensive set of new regulations in the last 70 years.”

*2013 Banking Industry Outlook – Moving forward in the age of re-regulation (Deloitte publication)*

Organisations are frustrated with the unprecedented amount of regulation that needs to be met in order to operate in local and global markets, while the direct business benefit is not always clear.

Over the last few years, numerous regulatory amendments have been introduced across industries, such as the Protection of Personal Information (PoPI), to protect individuals' constitutional right to privacy. The Financial Services industry faces the greatest wave of regulation, such as Foreign Account Tax Compliance Act (FATCA), Solvency Assessment and Management (SAM), Basel III, Treating Customers Fairly (TCF) and PoPI are being introduced in fast succession to:

- Provide appropriate protection for consumers;
- Protect and enhance the integrity of the financial market; and
- Promote effective competition in the interests of consumers.

With competing business priorities and scarce resources, several organisations are investing the bare minimum to meeting regulatory requirements. They are merely "ticking the box".

**In our experience, this approach could be a missed opportunity – "ticking the box" is not always enough!**



# The challenges

**There are several reasons as to why the “ticking the box” approach to managing the people impacts of regulatory change is not effective:**

- **Regulation is often too technical and vague.**

Change initiatives are often hindered by an inability to understand the regulation’s true benefits and impact on the business and its employees, and leads to inadequate time to plan appropriately for these changes. This results in confusing and mixed communications within the business which, in turn, results in frustration, ineffective implementation and the perception that it is simply not that important to the organisation as a whole.

- **The introduction of regulation often takes a long time, with several iterations of drafting regulation, shifting deadlines and content changes.**

Many organisations become frustrated with the regulatory process and therefore do not begin to plan for the regulatory change until the last minute. This approach lacks adequate and effective timing, resources, planning and implementation.

- **Employees are becoming irritated by the rapid growth of regulation and the corresponding growth in reporting, administration and work, on top of a full-time job and all the other transformational programmes that are already taking place.**

This shared discontent among employees makes it very difficult for leaders of organisations to properly embed the required changes in their business in order to meet even the bare minimum regulatory requirements.

- **There is a lack of focus on the impact regulation has on people as a result of policy, process, technology and reporting changes.**

The combination of employee resistance to accepting more changes and the business simply wanting to achieve minimum compliance, usually means that these regulatory change initiatives often lack sufficient focus on changing the attitude and behaviour of employees and understanding how these changes impact their ability to complete their work. This often results in poor adoption levels and crisis management styles.

**These challenges, combined with a lack of top leadership involvement and understanding, results in organisations applying a “tick the box” mentality.**



# How are leading organisations responding to regulation?

**Leading organisations (globally and in South Africa) are seeing regulatory change as an area for competitive advantage. In our experience, this means that an organisation needs to understand the rationale behind regulation, how regulation can become an opportunity in the business and how to position it as such to its key stakeholders such as employees, shareholders and customers.**

The main reason for the rapid growth in regulation and subsequent changes is simple. The regulators are looking after customers, safeguarding the future of your organisation and working vigilantly to maintain the integrity of the financial system, reduce financial crime and enhance confidence in the South African Market.

Isn't this something that all organisations should be doing naturally?

As a result, regulators often look to leading organisations in the industry, against which to mould their regulatory policies. In these instances, industry best practice becomes the new regulation that the rest of the industry is asked to embed, apply and live... not just "tick the box".

Organisations that apply the "tick the box" mentality are missing the point entirely and, even worse, are losing out on the opportunity to gain from the business value that can be derived from successfully embedding the latest regulatory practices.



# How can you derive the value from regulation?

A few simple places to start in your regulatory change programme:

	<b>Don't call it regulation</b>	Change your language today. No one gets excited and inspired about regulation, so stop referring to it as such. Talk about what you are doing, why you are doing it, and share the benefits with your employees. People get excited about doing the right things for the right reasons that will lead to the right results.
	<b>Position regulation as a business benefit</b>	Stop trying to "tick the box", and start to understand the value it holds for your business. Match this by investing the right amount of time and money needed to the corresponding value-add.
	<b>Don't be afraid to get into the technical</b>	Regulation is often drawn up in technical language that many Leaders, HR support and Change practitioners have never come across. Do not be afraid to dive into the technical content and simplify concepts for your stakeholders and your team. You need to fully understand the impact that the regulation will have on the business, if you are going to successfully challenge, manage or embed the required changes.
	<b>Be specific about your stakeholders</b>	Clearly identify your stakeholder audiences into core (directly involved or impacted) and peripheral (indirectly involved or impacted) stakeholders. Take the time to understand who needs what level of knowledge, skills and attitude in order to embed the changes effectively. Ignoring any of your stakeholders could erode the value of such an initiative.
	<b>It's about the behaviour change</b>	Behaviour is not changed at a roadshow. It takes time, guidance, patience and support to embed changes. All too often, project teams disband after the big CEO roadshow and employees revert back to their old ways of working.
	<b>Don't stop too early</b>	Between 80% and 100% of a project's change budget is commonly allocated to the launch of the project. In reality, there should be more of a 50/50 split between pre-launch and post-launch change activities so as to ensure that after the launch of the initiative, employees are provided with the necessary support, reminders and mechanisms required to truly embed these behaviours into the organisation.

A leading insurance company in South Africa saw the recent Solvency Assessment and Management (SAM) regulation as a competitive advantage for them and positioned it as such with their employees. Several benefits have already been realised, through the enhancement of their Risk Management practices such as a reduction in regulated capital requirements.

A recent PoPI implementation at a major retailer in South Africa, it was found that, despite there being a large core stakeholder group, there were large numbers of peripheral stakeholder groups. For example, sales assistants needed to be provided with sufficient information in order to communicate to and respond to queries from customers regarding the customer's personal data provided on the shop floor. This retailer believed in the right to protect personal information and that any personal information shared in signing up to the store would remain confidential.

A major Financial services organisation recently realised that Treating Customers Fairly (TCF) was more than policy, data and process changes, but more a significant behaviour shift that is required in order to effectively embed the principles of TCF. This behaviour shift would result in a fundamental transformation of their culture ('the way in which we do things around here') and are now embarking on a major programme to shift behaviours at all levels of the organisation.

# Deloitte can help you

In our South African practice, we have an experienced team of regulatory change experts who can provide:

- End-to-end support with full regulatory change implementation;
- Leading-practice examples and case studies providing a view on what other organisations in your industry are doing;
- Access to technical regulatory experts to “demystify” the concepts for you;
- Bespoke support to review, launch, improve, communicate or focus your regulatory change effort, in whichever phase you are currently in; and
- Tailored capability and approaches in addressing your unique operating environment.

To learn more about how the Deloitte team can help you to derive the business benefit from regulation, please contact:



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