ANNUAL REVIEW

Financial regulation

REPRINTED FROM
ONLINE CONTENT
AUGUST 2015

PREPARED ON BEHALF OF

Deloitte.

FINANCIER WORLDWIDE corporatefinanceintelligence

NETHERLANDS

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Q TO WHAT EXTENT DO YOU BELIEVE TODAY'S FINANCIAL INSTITUTIONS ARE OPERATING IN AN ENVIRONMENT OF INCREASING REGULATORY SCRUTINY AND ENFORCEMENT ACTIVITY?

ROTHWELL / WAARDENBURG: Due to recent global macro-economic events, as well as local issues and scandals, the solid reputation of the financial system in the Netherlands has taken a blow. As a reaction, European and national authorities are becoming more and more demanding and continue to define new requirements with a prudential – e.g. leverage ratio – and behavioural – e.g. customer due diligence – impact. Since the Netherlands operates within a European context, the government is continuously balancing local and European requirements. In many cases the local legislation is more strict – e.g. banking bonus – impacting the level playing field.

Q COULD YOU OUTLINE SOME OF THE BROAD LEGAL AND REGULATORY CHANGES AFFECTING THE FINANCIAL SERVICES SECTOR?

ROTHWELL / WAARDENBURG: Supervision is becoming more binary and rule-based, fuelled by the ongoing developments in technology and big data. Banks, in particular their finance and risk functions, are currently leading the pack when it comes to implementing demanding requirements on internal operations. These requirements are partly related to the disclosure of granular data on a timely basis for regulatory purposes, such as analytical credit data. The requirements also contain principles, under BCBS #239, regarding how banks have organised their data and information environment and how it is used by senior management for decision making.

Q WHAT ARE THE IMPLICATIONS OF THESE RECENT REGULATORY REQUIREMENTS FOR FINANCIAL INSTITUTIONS?

ROTHWELL / WAARDENBURG: The regulatory changes are affecting the sector in a number of ways. Firstly, supervision is strongly data-driven and data is requested at the most granular, transactional level. This impacts the way in which financial institutions collect, store and disclose data. Conceptually speaking, the distance between supervisors

and the industry is diminishing since supervisors – the ECB In particular – have access to large amounts of source data that can be used for analytics purposes. The ECB is able to compare data across banks, sectors and countries, identifying unique insights that can be used to challenge the outcomes of the risk models and the management decisions of the banks. Because of this, the added value of bank-specific internal risk models is currently up for debate since the analytical power of one financial institution can never compete against the vast amount of data and power represented by the risk models of the supervisor. However, local exceptions still need to be considered. The lines between regulatory and commercial data are blurring, and financial institutions are struggling to develop a common language that unifies the functional silos so that a consistent message is communicated to all stakeholders.

Q IN YOUR EXPERIENCE, HOW ARE FINANCIAL INSTITUTIONS RESPONDING AND ADAPTING TO THESE REGULATORY CHANGES? HOW IMPORTANT IS IT TO ESTABLISH A STRONG INTERNAL GOVERNANCE FRAMEWORK TO MAINTAIN COMPLIANCE?

ROTHWELL / WAARDENBURG: Even though the regulations are becoming more rule-based, there is still a lot room for interpretation. Banks, for example, are learning to define what 'good' operations look like within their own context. Financial institutions are being faced with the fact that they have a lot of legacy that should have been cleared up a long time ago. Back to the banks, they also have to deal with a new supervisor that has less regard for local issues and characteristics. Historically, financial institutions have been organised in silo-functions that are not aligned. However, new regulations and laws require a holistic view of the organisation, if the essence of the requirements is to be adopted. It would be very inefficient, incomplete and rather short-term to treat new regulations in isolation. In short, an integrated approach is fundamental to the success and financial institutions are inexperienced in this area.

Q WHAT POLICY AND PROCESS CHANGES MIGHT FINANCIAL INSTITUTIONS NEED TO IMPLEMENT TO MAINTAIN COMPLIANCE WITH NEW REGULATIONS?

ROTHWELL / WAARDENBURG: We believe that if financial institutions are to adequately respond to these changes, they need to implement an integrated view of the relationship between policies, guidelines, processes, risks and controls on the one hand, and information, data, rules and IT system infrastructure on the other. Processes need to be re-implemented in order to respond swiftly and effectively to ad hoc occurrences. In this new data-driven reality, the IT department plays a critical role in complying with the new regulations. Financial institutions need to develop an information policy that defines essential information concepts in understandable business terms so that the non-IT functions can take ownership and act as an adequate challenger to the IT department.

Q IN WHAT WAYS ARE DATA PROTECTION AND PRIVACY LAWS IMPACTING THE OPERATIONS OF FINANCIAL INSTITUTIONS? DOES MORE NEED TO BE DONE TO ADDRESS CYBER RISK AND RELATED LIABILITIES?

ROTHWELL / WAARDENBURG: Leveraging the large investments needed to comply with the new regulations, financial institutions are investigating ways to commercially use the large amount of data that is available. There are many uses of advanced analytics that can even lead to new business models. In fact, one major bank in the Netherlands openly pitched this idea, which led to a storm of criticism from both the local privacy regulator as well as the general public. We expect to hear more of these initiatives as financial institutions learn more about the boundaries of commercially using customer data while avoiding such uproar. Moving forward, not only will there be implications from the Network and Information Security (NIS) Directive, but the Dutch regulator is also preparing disclosure requirements of security and privacy related incidents to a central authority. For banks, as part of the Single Supervisory Mechanism, the ECB has identified cyber crime risk as a strategic issue, and is actively measuring the industry's ability to identify, protect, detect, respond and recover from cyber crime.

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Q COULD YOU PROVIDE AN INSIGHT INTO SOME OF THE CHALLENGES ASSOCIATED WITH ENSURING THAT COMPLIANCE POLICIES AND PROCEDURES ARE ADHERED TO ACROSS MULTIPLE JURISDICTIONS?

ROTHWELL / WAARDENBURG: Banks that look beyond the compliance aspect of these regulations, and focus on the strategic impact, will have a greater chance of successfully achieving compliance as well as other benefits. Measures in this regard include, for example, taking a holistic view of policies, processes, risks, data and systems, and adopting an integrated approach across all relevant functions within financial institutions, when changing the information environment. Another measure is the creation on a non-technical information policy. Other measures, include the establishment of a chief data officer function, a data quality monitoring team and implementation of an organisation-wide data governance framework. The more integrated the approach, the greater the commitment of business units and local entities to support the measures. And for both financial institutions that are struggling to keep their heads afloat, as well as those that are seeking to leap ahead of the pack, that should be worth doing.

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