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Regulatory management as strategy

Perspectives on regulatory change management

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Center for
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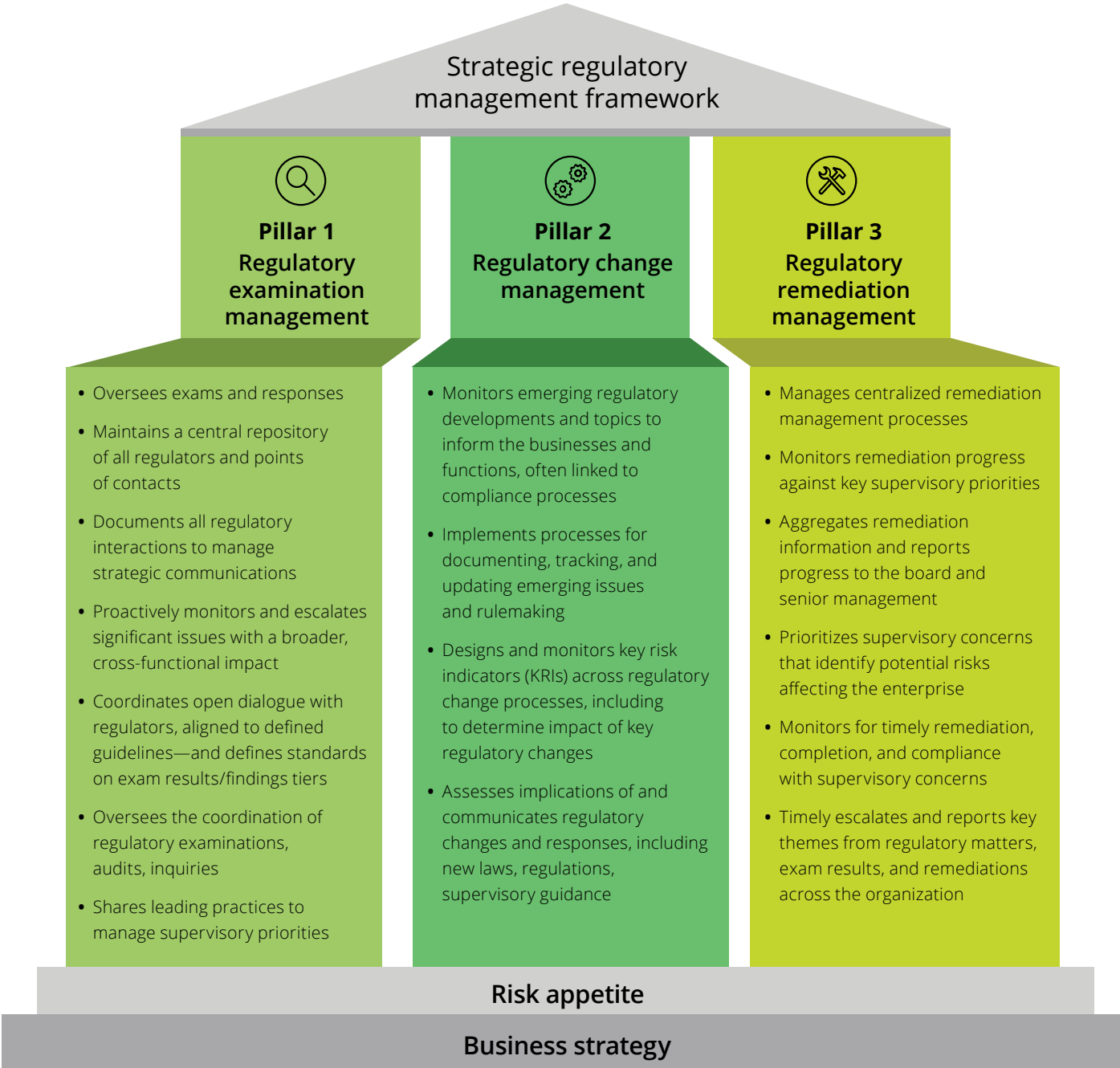
Introduction

This is the last of four perspectives we are issuing in our “Regulatory management as strategy” series. While this series generally is geared toward more complex and large banking organizations (e.g., Categories I–IV¹), we believe that many of these practical insights may help inform regulatory engagement by community and regional banks under \$100 billion in assets as well.

Our [first perspective](#) described our views on an emerging paradigm that calls for a strategic end-to-end regulatory management program across three traditional pillars: regulatory examination management, regulatory change management, and regulatory remediation management (figure 1).² In our [second perspective](#), regulatory examination management was considered a key strategic imperative for embracing a more integrated and coordinated approach owned by the board³ and senior management, led by an empowered senior leader.⁴ Our [third perspective](#) focused on regulatory-driven transformations and strategic regulatory remediation management.⁵

This fourth and final edition focuses on regulatory change management (RCM). In this edition, we will provide insights on typical practices that organizations may implement to monitor the overall regulatory landscape (strategic) and identify and execute against changing regulatory requirements (tactical). These practices can help organizations to better achieve their overall strategic business goals and maintain regulatory compliance.

Figure 1. The three pillars of an integrated and strategic regulatory management framework

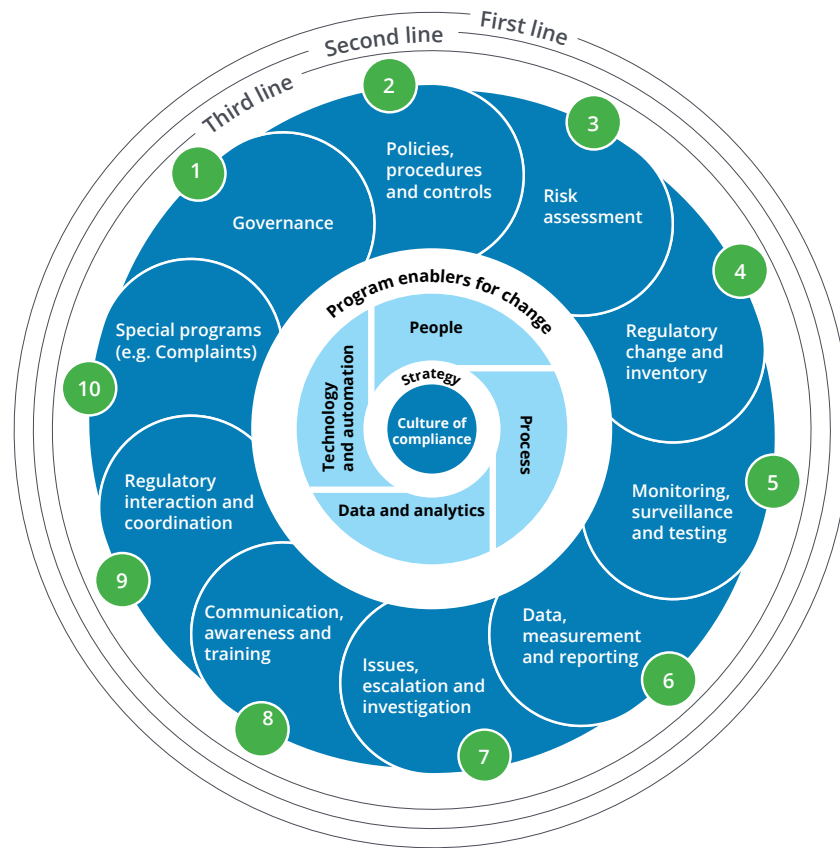


RCM and its key components

RCM refers to a set of capabilities that an enterprise should consider having in order to strategically and tactically adapt to changes in laws, regulations, and regulatory guidance (LRR)* and the overall regulatory environment. Monitoring speeches, enforcement actions, guidance, proposals, and final LRR can provide an initial landscape view across regulators by monitoring the volume and type of issuances by regulatory agencies. Banks should identify changes in LRR and respond accordingly. RCM goes well beyond policies and procedures—having impacts across business processes and controls, technology, and operations, as well as governance, reporting, and activities of a bank’s three lines model. Depending upon the impact to businesses and products, this could affect an organization’s overall risk profile.

Today, RCM should be considered as a core component of a banking organization’s *compliance risk management framework* (figure 2), particularly where compliance processes are tracked with involvement from legal; compliance subject matter experts; the business or corporate function-aligned compliance officers; regulatory relations; and broader functions that engage in regulatory management-related activities. RCM’s key role flows from the fact that identifying and executing against regulatory change is, by definition, the starting point for integrating new regulatory requirements and expectations across business operations. By embracing and implementing a RCM program, organizations can proactively identify, review, understand, and monitor regulatory changes. With that knowledge, organizations may then define tailored responses and leverage technology to embed these changes into their business processes.

Figure 2. Compliance risk management framework



*References to laws, rules and regulations can also include regulatory guidance, including, among others, Federal Reserve Board of Governors (FRB) Supervision and Regulation Letters, Office of the Comptroller of the Currency (OCC) Bulletins, and Federal Deposit Insurance Corporation (FDIC) Financial Institution Letters.

Key drivers for change and related trends

Based on our experience, we see a clear trend among organizations to centralize and modernize their RCM approaches using technology solutions.

Several factors are driving this change. Many organizations report regulatory changes emanating across various agencies leading to complex sets of compliance challenges. The sheer volume of these changes, and their significant impacts, has increased the complexity of RCM programs.

Larger and more complex banking organizations, with broader geographic footprints and numerous legal entities and lines of business, are increasingly demonstrating to their stakeholders (including supervisory agencies) greater integration and coordination across jurisdictions, businesses, and compliance processes. Comprehensive and consolidated supervision may further prompt the need for enterprise-level processes, including for RCM.

The availability of multiple technologies and vendor tools may enable greater automation across compliance processes. As organizations increasingly adopt these innovations, supervisory expectations, grounded in peer reviews, may also rise.

We have also observed additional trends as banks move from the historical (and, for some, still current) RCM state to a future-state RCM framework:

- **Static to dynamic:**

- *Historical RCM framework:* Static inventories of applicable laws, regulations, and guidance that are difficult to update and keep current.
- *Future-state RCM framework:* Dynamic technology-enabled processes that allow regulatory inventories to keep pace with the speed and volume of change.

- **Decentralized to centralized:**

- *Historical RCM framework:* Decentralized, unintegrated, and siloed RCM processes across different jurisdictions, entities, business lines, and functions.
- *Future-state RCM framework:* Centralized and integrated cross-functional processes, allowing for more reliable reporting and an enterprise-wide view across jurisdictions, legal entities, functions, and business lines.

- **Manual to automated:**

- *Historical RCM framework:* Highly manual processes that rely heavily on ad hoc solutions and significant human intervention.
- *Future-state RCM framework:* Leverage smart solutions using automated tools to aggregate and classify critical data elements and drive increased efficiency.

- **Disparate to consistent:**

- *Historical RCM framework:* Disparate, inconsistent, and variable regulatory change processes within organizations.
- *Future-state RCM framework:* Consistent processes, definitions, and workflows.

A strategic approach to RCM

An RCM program should have four foundational elements (see Pillar 2 in figure 1):

- Monitoring emerging regulatory developments to inform business process and compliance functions
- Documenting, tracking, and updating emerging issues and rulemaking
- Implementing key risk indicators (KRIs) across regulatory change processes
- Assessing and communicating impacts of new laws, regulations, and guidance

RCM from a strategic vantage point should start with core corporate cultural values and result in timely, efficient, and sustainable solutions. A strategic approach should recognize that regulatory change and response is an ongoing, initiative-taking process, not simply a tactical one-off reactionary response. A strategic RCM process should embrace the continuous monitoring of the regulatory landscape, including proposed or new legislation, new rulemaking, and new guidance, as well as regulator speeches and shifts in supervisory approaches.

Strategic approaches for RCM should evidence traceability to regulatory changes and demonstrate operational and regulatory risk reduction (both tactical and long term). This is particularly important given that responding to regulatory change generally involves teams across the three lines. A strong RCM framework should be connected to and augmented by regulatory relations, regulatory remediation, legal, and government affairs functions.

Keys to RCM success

Building on these strategic considerations and informed by our experience, we believe that the keys to success for RCM programs include the following:

Tone at the top: RCM program implementation should include a strong “tone at the top” set by the board and senior management to establish the high priority of RCM initiatives and enforce accountability.

Top-down approach: Due to the breadth of issues involved with preparing for regulatory changes, some organizations have been more effective by taking a “top-down” approach to prioritizing impact areas and allocating resources to the most critical needs.

Dedicated resources: Effective management of regulatory changes should leverage dedicated personnel to closely oversee day-to-day activities, resolve issues quickly, and communicate frequently to ensure timelines are met.

Use of technology and vendors: Banks can leverage workflow, archival processes, and inventories that are connected to risk, process, and control taxonomies within an integrated tool to help build a more effective RCM process.

Business impact: Banks should not underestimate the business impacts of regulatory change, as policy changes can cause organizations to rethink how their existing balance sheet is utilized and allocated across competing business lines.

Prioritization: Culturally, organizations transitioning to new regulatory changes and oversight may underestimate the level of change that may be required. Appropriate attention should be paid toward prioritization efforts, which may require long lead times and materially have an impact on “business-as-usual” operating models.

Operating model alignment: For strong linkage with legal entity, business line, and regional models, banks should consider implementing a centralized design authority to model capital, tax, liquidity, and structural considerations.

Regulator engagement: Successful interaction with regulators is aided by proactive, frequent, and effective communications. Therefore, banks should consider how their communications with regulators properly share the bank’s progress addressing new regulatory requirements and remediation progress across the three lines.

Alignment with on-going initiatives: Banks should align and integrate their RCM programs with ongoing transformational programs that may be underway.

Governance, oversight, and ownership

The board and senior management

Our experience shows regulatory expectations have moved toward more centralized governance models for oversight of RCM, which may entail potentially significant costs and complexities. It also reflects the broad scope of work that is often undertaken across the enterprise at the business line, function, entity, and jurisdiction levels.

Significantly, the scale, scope, complexity, and potential impact of RCM work involves significant board and senior management engagement. As regulatory changes can have knock-on effects to a firm's strategy, active engagement has become an essential part of strategic decisions and planning. In a world without endless resources, and where hard choices must be made regarding which business initiatives are pursued, funded, and grown, the importance of board and senior management decision-making is clear.

In terms of execution, senior management may be best positioned to work through and resolve cross-workstream and cross-functional dependencies. This is often one of the most difficult challenges to overcome. Senior management is also best positioned to consider the impact of solution design choices on various business lines.

A strategic approach to RCM should include clearly defined escalation paths to the board, senior officers, and governance forums with clear decision-making authority. This should also include a pathway for clearing siloed solutions and siloed thinking. Effective governance forums are often composed of trusted senior leaders from the organization with deep organizational knowledge and an appreciation for complexities that can create hurdles to achieving success. The approach should emphasize clear ownership, responsibilities, and accountability across the first and second lines.

Reporting by senior management to governance forums is important to achieving effective RCM governance and oversight. In our experience, effective reporting to the C-suite and the board highlights the real issues, content, and context beyond simple color coding (e.g., green, yellow, red). While there is a balance that must be honored between the oversight role of the board and the day-to-day execution mandate of senior management, and a related balancing act between too much and too little information (i.e., when everything is important, nothing is), the board and C-suite should receive sufficient information to be able to effectively challenge material RCM matters—from start to finish.

The RCM central team

In our second and third editions in this series, we noted that many firms have recognized the importance of managing regulatory matters as a strategic priority and have created a *centralized function* (Regulatory Program Office or "RPO") led by a senior executive. In a similar vein, we have observed that successful RCM programs can be facilitated effectively through an appropriate and tailored execution and governance structure, which often involves standing up a dedicated team (which we refer to as the "RCM Central Team"). This is where the strategic and the tactical meet.

An RCM Central Team function and governance should be integrated into the broader and centralized RPO. Typically, these functions report into compliance, providing reporting and escalation on high-impact, timely matters. Some organizations have regulatory-related forums that periodically bring regulatory relations, regulatory remediation, and regulatory change together to share information and drive priorities. Those forums can help provide connectivity and linkage to foster a better understanding of key issues and activities across financial organizations. Topics may include supervisory priorities at a regulatory agency, preparations for a regulatory examination, review of regulatory examination findings and matters for remediation, status of in-flight remediation, or the latest supervisory guidance. Banks should consider constructing an RCM governance and execution structure that allows for reporting and input from advisory groups, the management committee, and board.

Many of the elements in the RCM structure are similar to elements observed in RPO and other banking organization governance structures. Some additional details for consideration include:

The RegTech alert: This refers to an alert system regarding regulatory changes that is provided by a third-party service. Identifying LRR changes is a critical element of an RCM program. Integrating a capable third-party vendor into the RCM process may offer a number of advantages, including reliance on the vendor's LRR inventory, vendor real-time monitoring of regulatory developments, lower costs through the use of vendor tools rather than tools developed in-house, access to better technology adaptations by utilizing the vendor's tools and platforms, and enhancing market reach by leveraging vendors' networks and connections.

AI-enabled analysis and interpretation: To accelerate the regulatory change intake process and help drive greater consistency across areas, some firms are exploring generative artificial intelligence (AI) solutions. Tools are being designed to help analyze regulations, guidance, and other sources, provide a logically structured view into new or updated requirements, and map to existing LRR or capability inventories. Additionally, AI solutions may help offer an analysis of implied expectations associated with existing or new/updated regulatory requirements. This may help firms connect the dots between LRR and other source materials that are informed by industry and supervisory practices.

The RCM Central Team (second line): In our experience, an RCM Central Team is typically responsible for facilitating and overseeing the overall RCM process, within the context of the overarching organizational structure (including, where applicable and as referred to above, the RPO or the enterprise compliance or risk second-line organizations). The RCM Central Team is more often than not led by a senior second-line executive from the organization's compliance or risk function.

Key responsibilities for an RCM Central Team may include the following:

- Monitoring the RegTech tool alert queue and conducting an initial applicability review
- Routing regulatory alerts with an initial applicability determination of "applicable" to relevant stakeholders for performance of an applicability review and impact assessment
- Monitoring execution of action plans, related process changes, and implementations
- Maintaining LRR requirements inventory
- Monitoring adherence to RCM process time frames, escalating key issues, and creating governance reporting
- Providing training to stakeholders on RCM and use of the RegTech tool
- Maintaining the RCM policies, procedures, and supporting documentation

CCO/executive leadership: Executive leadership, including the enterprise's chief compliance officer (CCO), is ultimately accountable for oversight of final applicability reviews and impact assessments.

Compliance management committee: The CCO and executive leadership (and ad hoc representation, as needed) typically comprise this group to provide oversight and review and approve RCM-related matters. This committee provides governance and oversight to departments and functions on RCM matters; serves as an escalation point; facilitates resolution of key RCM risks and issues; and, as necessary, reviews and addresses department and function-specific RCM items.

RCM target operating model (TOM) principles

While we believe that successful RCM programs are informed by common strategic considerations, we recognize that every enterprise is different and that these differences need to be taken into consideration when tailoring an appropriate RCM structure, program, and tactics. There is no “one-size-fits-all” RCM solution.

Given the bespoke tailoring that is appropriate for RCM programs, we will take a step back from the execution-level RCM Central Team model and close with a higher-level overview of key RCM TOM principles. These TOM principles should be contemplated along with the strategic considerations detailed above, and leveraged in guiding the design and implementation of an organization’s specific RCM program.

TOM principles can be divided across two categories: (1) *program coordination* and (2) *business impacts*.

Program coordination TOM principles:

Centralized team oversight: A centralized team should oversee the regulatory change process, perform quality control, provide oversight on the execution of the action plan developed by the business/first line, monitor the implementation of changes, and confirm closure and sustainability after reviewing the sufficiency of the implemented changes.

Coordination between first and second lines: Roles and responsibilities should be mutually agreed upon for each step in the regulatory change workflow and LRR inventory maintenance, including escalation protocols and final decision-making authority.

Alignment of second-line professionals: Supported by the RCM Central Team, second-line professionals should be aligned with business-functional subject matter experts into regulatory topic areas in which an applicability analysis can be appropriately and collectively performed, including determinations regarding individual legal entity requirements and enterprise-wide requirements.

Enterprise-wide management of regulatory change events:

Regulatory change events should be managed with an enterprise-wide lens, rather than along the individual lines of business.

Business impacts TOM principles:

Applicability and impact analysis: Applicability and impact analysis of regulatory alerts and changes should be performed to understand the materiality of changes and areas—including legal entities, businesses, and product and service offerings—that will be affected. This analysis should carry over to the LRR inventory.

Detailed review of requirements: For certain regulatory change events, a detailed review of requirements compared to existing controls and capabilities should be performed. Subsequent to a deep-dive analysis performed by the business/first line and the execution of necessary actions, testing teams should be available to determine the operating effectiveness of the implemented changes.

Defined scale for impact analysis: A defined scale should be used to perform an impact analysis, including factors such as volume, timing, and complexity of changes, and other risks involved. Training should be given to employees performing impact assessments to ensure uniformity across all analyses.

Centralized intake of regulatory alerts: Centralized intake of regulatory alerts and changes supports uniform application of rules and definitions, allows for a broad view of regulatory expectations, and promotes a current LRR inventory.

Call to action

We believe it is important for institutions to make a strategic pivot to bring RCM into business-as-usual planning and ongoing operations. In our experience, banks should be able to demonstrate to regulators and other stakeholders that effective RCM has been embedded successfully and sustainably in the organization's culture and operations.

Going forward, banks can consider the following:

- Evaluate these components holistically using a centralized governance and risk process.
- Monitor the regulatory change environment through use of external information and tracking, as well as understand the impacts of external events like enforcement actions, speeches, proposed and final regulations, and supervisory guidance.
- Evaluate organization impacts for key roles (e.g., CCO, head of regulatory relations, government affairs) and how these roles interact between first and second lines.
- Build connectivity through forums/committees that bring together regulatory-related information, and produce dashboards and reporting at key intervals to the board and during management committee meetings.

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Endnotes

1. See Board of Governors of the Federal Reserve System (FRB), [Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations](#), 84 FR 59032, November 1, 2019.
2. Richard Rosenthal et al., "[Regulatory management as strategy](#)," Deloitte, March 2024.
3. References in this document to the "board" also include relevant board committees with oversight over regulatory remediation matters. For ease of reference, we simply refer to "the board" in this document.
4. Richard Rosenthal et al., "[Regulatory management as strategy: Perspectives on regulatory engagement](#)," Deloitte, June 2024.
5. Richard Rosenthal et al., "[Regulatory management as strategy: Perspectives on regulatory remediation](#)," Deloitte, October 2024

Center for Regulatory Strategy US

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