Regulatory management as strategy
March 2024
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.

Many bankers and CEOs of large US and foreign banks operating in the US 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:

### Pillar 1: Regulatory examination management
- Oversees exams and responses
- Maintains a central repository of all regulators and points of contacts
- Documents all regulatory interactions to manage strategic communications
- Proactively monitors and escalates significant issues with a broader, cross-functional impact
- Coordinates open dialogue with regulators, aligned to defined guidelines—and defines standards on exam results/findings tiers
- Oversees the coordination of regulatory examinations, audits, inquiries
- Shares leading practices to manage supervisory priorities

### Pillar 2: Regulatory change management
- Monitors emerging regulatory developments and topics to inform the businesses and functions, often linked to compliance processes
- Implements processes for documenting, tracking, and updating emerging issues and rulemaking
- Designs and monitors key risk indicators (KRIs) across regulatory change processes, including to determine impact of key regulatory changes
- Assesses implications of and communicates regulatory changes and responses, including new laws, regulations, supervisory guidance

### Pillar 3: Regulatory remediation management
- Manages centralized remediation management processes
- Monitors remediation progress against key supervisory priorities
- Aggregates remediation information and reports progress to the board and senior management
- Prioritizes supervisory concerns that identify potential risks affecting the enterprise
- Monitors for timely remediation, completion, and compliance with supervisory concerns
- Timely escalates and reports key themes from regulatory matters, exam results, and remediations across the organization
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  
malani@deloitte.com

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

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

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

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

This article contains general information only and Deloitte is not, by means of this article, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This article is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte shall not be responsible for any loss sustained by any person who relies on this article.

About Deloitte

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2024 Deloitte Development LLC. All rights reserved.