

The Winning Model — Governance, Compliance and Risk Management in Digital Transformation

Abstract

The private banking industry has seen tightening regulatory requirements with a severe impact of non-compliance, which puts the work of the control functions in the spot light. Resulting conservative mindsets are slowing down the digital transformation and the enhancement of the digital capabilities at a point where time-to-market is crucial.

Additionally, enhanced offering with new client touch points makes cyber-attacks more attractive and puts a risk challenge to the planned expansion of digital capabilities and their reach.

Traditional project delivery models are not addressing these new challenges adequately. In this article, we describe a new governance model, partly adopted by the industry leaders, on how to manage compliance and risk aspects on the Digital Transformation journey.

Tightening regulatory requirements with severe impact of non-compliance

In 2016 the MAS shut down BSI and Falcon Bank in Singapore due to failures to comply with local regulations. UBS, DBS, SCB and Coutts were fined single digit millions for breaches in regulatory requirements, putting control functions under scrutiny and resulting in a more restrictive assessment of new initiatives.

Enhanced offering with additional client touch points makes cyber-attacks more attractive

Next to the increasing regulatory pressure, banks are also exposed to a surge of cyber criminality. The new digital capabilities and additional client touchpoints make cyber-attacks more attractive for criminals who are targeting the online capabilities of a financial institution and related companies. As an example, in the last two years, there have been multiple attacks on the SWIFT network, reaching a peak with the \$81 million heist at Bangladesh's central bank in February 2016.

Other online related fraud incidents include the so-called digital “pump-and-dump” schemes which tripled from 2015 to 2016, as well as the worrisome HK\$7 million in unauthorized share trading via online banking at two Hong Kong banks last year. Both have led to stricter authentication requirements by the regulator.

Expanding the reach of digital capabilities requires additional controls

Meanwhile, as described by Synpulse in early 2016¹, multiple banks have now reached the expansion phase of the digital transformation and are offering new online capabilities to offshore clients, requiring them to comply not only with local regulations but also with cross border requirements of other jurisdictions.


Traditional project delivery is not addressing the new challenges adequately

With Singapore and Hong Kong being the innovation hub of the region, it is not surprising to see that for the majority of banks in APAC, digital transformation remains a key priority. Channel enablement and customer experience improvement in the web and mobile offerings are the most common area for technology development and investment.

The resulting initiatives are typically broken down programs which then consist of several projects. Each project is typically run on its own and even if there are certain synergies achieved e.g. by setting up a PMO or a program wide business integration team, the engagement with the control functions are typically initiated by the individual project or project sub-streams.

This traditional setup works as long the number of topics being discussed with the control functions is limited, well prepared and deep expertise exist in both teams – the clarification seeking project team as well as the control functions (the legal, compliance and risk teams).

¹ [Front Digital, Back Manual — the digital banking pitfall?](#)

The traditional engagement model visualised in  1 clearly shows the limits of the engagement. Once the number of topics increases and the subject matter expertise about new technology and new capabilities decreases within the control functions, they become a bottleneck posing a threat to the crucial time-to-market.


As described in the introduction of this article, the increase of topics being syndicated with the control functions is the reality. This is mainly due to the fact that tightening regulatory requirements increase risk adversity toward innovation and the wish to expand the digital capabilities and their reach.

In our engagements across the industry, we notice a common incertitude looming above the project teams about what specifically needs to be clarified, syndicated or approved with the control functions. This is mainly due to a lack of knowledge about regulations within the project teams. But whereas it was initially standard for the project teams to make a judgment call, now the projects prefer to consult the control functions for almost every new or changed capability.

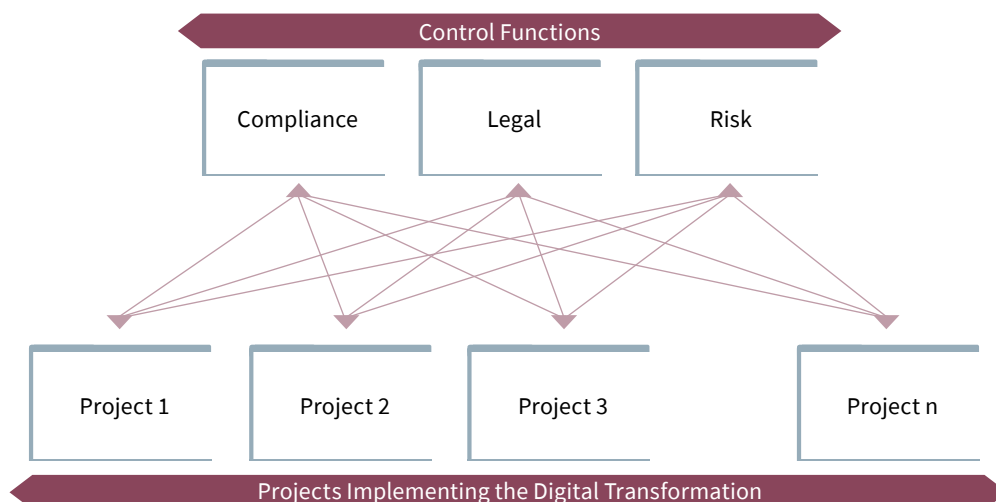
While this change in mindset is, in general, a positive development since it shows that engagement with legal, compliance and risk has finally gotten the importance it deserves, it is not well supported by existing team structures and governances.

The winning model: A dedicated SME team combining legal, regulatory and risk knowledge with digital domain expertise

Agile project execution leading to multiple and shorter deliveries and timelines require fast clarification with legal, compliance and risk. To achieve this, project teams must be well prepared, only presenting relevant aspects with the right level of detail. Subsequently the control functions should quickly understand the capability or issue discussed and map it against the relevant laws, regulations, or internal policies and guidelines in order to give guidance.

Synpulse believes the right engagement model to achieve this consists of a dedicated SME team combining legal, regulatory and risk management knowledge with deep digital transformation domain and project delivery expertise.  2 shows the conceptual setup and information flow for the new model.

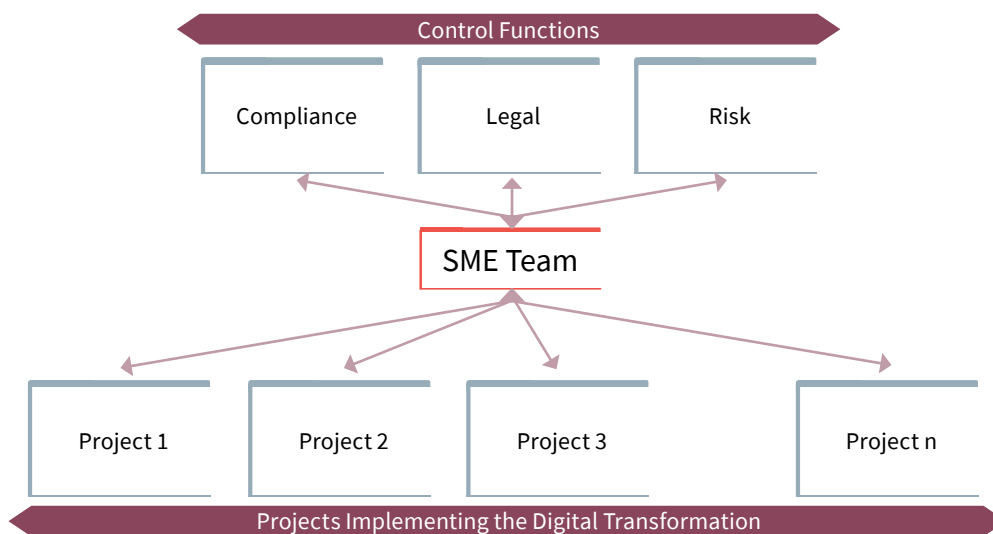
Instead of having the individual projects reaching out the control functions by themselves, this setup would have them go to the SME team which registers their request and can either give an answer directly, e.g. if the topic was already discussed or, if not, bring it to the attention of the control functions. Once the clarification is done, the outcome is passed back to the projects.



 1 Traditional Model

The key responsibilities of such an SME team are:

- **Consolidation and tracking of common topics/issues across projects** — Synpulse noted that for about half of the topics discussed with the control functions, similar questions were raised at different points of the project life cycle e.g. by project leads, business analysts, training teams, etc. These redundancies unnecessarily block valuable time of the control functions. Instead the SME team with the right project management approach and tools can answer to the different stakeholders with a fraction of the time used in the old model.
- **Identification of the right level of detail for the syndication** — Based on our experience we estimate that about 30% of time in clarification sessions can be saved by adjusting the content to the right level of detail and the relevant aspects for the control functions.
- **Pre-filtering / Selection of relevant topics** — With their legal, regulatory and risk management knowledge the SME can do a pre-assessment of the relevance of a given topic. Synpulse estimates about 15% of topics are unnecessarily discussed with the control functions.



Conclusion

At Synpulse we have experienced the significant benefits of such an engagement model in multiple project assignments and we believe there is no alternative when time-to-market is critical. As a by-product to the model, we experienced that the SME team will establish a personal relation with the control function team making the decision-making process more efficient and less frustrating for all parties (👍 2)

We have also experienced the downsides of the traditional model where silos of pure legal or compliance expertise on the one hand and pure digital domain expertise on the other hand make solution finding and decision making a tedious, long-winded process which sometimes has to be undertaken multiple times, given the high talent churn rate in the industry.

Synpulse is accompanying international and local private banks on their digital transformation journey. Speak to us if you like to review your digital transformation governance or need advice on how to bridge the gap between legal, compliance, risk and digital transformation domain.

About the author

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