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BANK THINK

Oversight Can Be an Engine, Not an Anchor

By Michael Archer and Randi Weinberg

Financial firms have made significant investments to meet today's heightened regulatory demands, focusing heavily on hiring oversight staff. But effective oversight of compliance, operations, credit and other risks requires more than adding bodies. Oversight teams must be empowered, engaged and forward-thinking if they are to proactively address risks and regulatory expectations.

The most enterprising financial institutions are successfully adapting to the new regulatory era by evolving a faster, more dynamic approach to monitoring and correcting issues. To do this, they are focusing on three areas: integrating oversight and business management teams; strategically hiring and empowering risk oversight and compliance talent; and enhancing ongoing approaches to risk and compliance monitoring.

Multiple levels of risk controls, from self-assessment processes to targeted reviews and audit examinations, require significant resources. This poses a challenge for institutions both large and small; the largest financial institutions have added thousands of new positions in compliance in recent years, with thousands more yet to fill. Another challenge is ensuring independence in oversight, which often requires organizational changes and redefinition of roles and responsibilities.

To build a successful oversight team, the institution must have in place a robust governance structure that designates authorities to make specific decisions, outlines the flow of the decision approval process and creates clear procedures for escalating risk and compliance issues. Oversight professionals can be centralized in a group or embedded throughout business lines and operational units.

The size, complexity and business direction of a given financial institution are just some of the considerations



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necessary for designing the organizational model and staffing plan. Critically important for many organizations is the creation of utility teams to leverage organizational knowledge on credit, fraud and operational risk policies, procedures and controls. Additionally, in today's highly active regulatory environment, dedicated resources for processing and communicating regulatory developments is critical to oversight teams and first-line managers alike.

Establishing a strong and tested governance structure, built on a foundation of oversight staff with a keen awareness and knowledge of business operations, sets the stage for oversight teams to enable creative business thinking while providing necessary review, guidance and control.

Hiring and empowering the right oversight personnel is also crucial for financial institutions. The highest performers in this area are vigilant about monitoring business activities while also capable of collaborating with the people engaged in those activities. Overseers tend to have more success engaging with marketing, operations or risk management teams when they understand each division. Therefore,

some financial institutions may want to seek out oversight professionals with expertise in certain business lines or functions. Once on board, financial institutions can employ techniques such as roving review teams to ensure that top oversight talent has direct access and contact with first-line staff. This helps overseers to form two-way relationships that create optimal oversight performance.

Lastly, financial institutions must take innovative approaches to compliance monitoring. New technologies that help banks stay abreast of legislative and regulatory activity, simplify reporting and help to manage projects and records are expanding the reach of oversight teams. All create greater transparency into policy and process risks. Regardless of the methodology employed, it's the underlying proper organizational structure and a forward-thinking mentality that boosts the performance and value of the oversight function.

The final step in creating a proactive oversight mindset comes from repositioning the oversight function as a whole within the organization. Oversight teams must do more than simply monitor risks and compliance. They must help embed risk controls across all activities, from development through execution. They should also increase transparency within the company about existing and emerging risks and remediation

efforts, and provide a range of employees with immediate access to oversight knowledge.

Oversight teams can and should be more than gatekeepers. It's in financial institutions' best interest to leverage their oversight employees to enhance operational and institutional knowledge, facilitate more robust product and service development and fortify the business against future regulatory and systemic issues. Financial institutions that follow these steps will see their perception of oversight shift from that of an anchor holding the business back to an engine that propels the enterprise forward.

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