



Ask any bank today what its priorities are and it will place regulatory compliance near the top of the list. The issue has always been important to the industry, but now it has added significance as the industry is undergoing an intense period of regulatory change, the like of which it has not seen before.

In recent years there have been numerous acts and directives that have redefined the industry. Sarbanes-Oxley, International Accounting Standards, Europe's Markets in Financial Instruments Directive (MiFID), the Capital Requirements Directive and Basel II are among them, and there will no doubt be a host of further changes affecting the world's key financial markets.

'There has been an overflow of regulations,' says Christian Goeckenjan, VP at SAP. 'In Europe, the market is about to be hit by the Single Euro Payments Area – SEPA – which requires a whole new dimension in regulation. Banks are left confused and concerned about the cost of implementing new legislation.'

SAP is a key technology supplier to the banking sector and maintains close relationships with global players, which is the basis for its strong track record in abstracting customers' pain points, defining general principles and developing appropriate software solutions.

The modular SAP for Banking solution portfolio, for instance, is powered by the SAP NetWeaver platform, which brings together technology components that reduce IT complexity and integrate disparate systems, whether or not they are running SAP software.

Developed from an in-depth understanding of the industry's needs, the



# OPPORTUNITY FROM COST

ALREADY FACING INTENSE COMPETITIVE PRESSURE, BANKS ARE ALSO SHOULDERING THE BURDEN OF REGULATORY CHANGE, WITH ITS ASSOCIATED UPHEAVAL AND COST. SYSTEMS INVESTMENT IS ESSENTIAL, BUT IDENTIFYING WHERE TO SPEND FOR MAXIMUM BENEFIT MAY REQUIRE A FUNDAMENTAL CHANGE IN THINKING, NOTES **CHRISTIAN GOECKENJAN**, VICE-PRESIDENT ISM FINANCIAL SERVICES, HEAD OF GLOBAL FIELD SERVICES AT SAP.



solution has significant market penetration, and puts SAP at the heart of the industry. For this reason, the company has been keenly aware of the challenge the banking sector faces in adjusting to remain compliant as regulations change.

### Time and money

Goeckenjan feels the combination of numerous regulatory changes in quick succession has been unpopular in the industry, and he notes that some banks have spent more time lobbying against the new regulations than they have preparing to implement the changes they necessitate. Fighting the regulation rather than embracing it, he believes, leads to an uncoordinated approach to systems and processes.

'So far, banks have coped in a sequential way, handling one regulation at a time,' he says. 'There is a new task force and new systems each time and there is a problem with synchronisation. They are always starting from scratch.'

Furthermore, Goeckenjan believes a piecemeal approach – the technology equivalent of patching a gaping wound with a band-aid – focuses only on short-term solutions, which ultimately prolong the pain of transition to a new regulatory environment.

Some banks have delayed preparations for fear of the cost of transition, with some new regulations demanding significant investment in systems development. Many analysts and vendors have talked up the cost of transition to the new regulatory environment, particularly in regard to directives such as MiFID, leaving some banks seeking ways in which to minimise changes to their IT infrastructure in order to reduce the short-term cost.

### Short-term approaches

One approach that SAP has observed among banks is the relatively simple addition of new data fields, which they hope will be sufficient to get through the first regulatory audit. While this may produce adequate processes in the short term, Goeckenjan fears that in the long term it will have negative consequences. Over time, the approach is likely to reduce the opportunities that a bank can exploit to carve out competitive advantage. 'Banks should not be targeting adequate processes,' he says. 'They should be aiming to create sophisticated processes, built on a consistent IT architecture, that will position them for the future under an evolving regulatory regime.'

Goeckenjan feels that a willingness to spend, accompanied by the appropriate internal audit of systems and processes that targets spending accurately within the organisation, will open the door to significant opportunities as new regulations are implemented.

To back up his view, he points to previous changes

to regulations governing the banking industry that have led to significant opportunities in the post-implementation phase. Basel II, for example, was seen as a major upheaval for the banking industry, with some questioning the advantages of the change and bemoaning the time and effort required to become compliant. However, the benefits soon accrued for those banks that were smart in spotting the advantages of pricing on the basis of risk. Under Basel II requirements, banks can now price more appropriately for specific counterparties, so their pricing structures and loan approval processes have become more sophisticated.

Focusing on the post-implementation phase and the core message of new regulations, rather than resisting them for fear of the pain of transition, is the strategy SAP recommends if banks are to profit from legislative changes and create differentiation opportunities.

### Positive transition

The goal for banks, believes Goeckenjan, is not only to accept that fundamental change to systems and business structures may be inevitable, but also to see this as an opportunity to find more efficiencies within an organisation to offset costs and prepare for the future.

'Everyone is hit by these changes, so if a bank is smart and acts quickly, it can set itself apart from its competitors,' he notes. 'Banks should look for advantages, benefits and savings elsewhere by reviewing their systems. Often the money lies in reducing the manual components in processing and reconciliation.'

'Banks have only just started to appoint people to take a holistic look at systems architecture,' he continues. 'The fundamentals of the architecture underlie all regulator requirements. Banks need a consistent, uniform database and feeds for all financial instruments, which can then be fed into analytics.'

### Preparing for future change

The right business process platform to deal with the core elements of the regulation allows subsequent legislation to be handled as a layer on top, not a further fundamental upheaval. An integrated core will have a ripple effect of flexibility and efficiency from back office to branch network.

'The problem is that every process uses different data sources, so a lot of integration is required,' says Goeckenjan. 'There is no single, uniform data that can seed every process. On the calculation level, where everyone is trying to work out net present value, the different data sources lead to different values each time. People need to reconcile their data.' He points out that the general ledger is often used for many different reports, though it is not the right source to use. 'The general ledger is often bastardised for a purpose for which it was never intended,' he says. 'Organisations need a consistent layer of calculations to support different applications. This layer can then be added to for future calculations, so it doesn't have to be built from scratch each time.'

However, there is one key issue that needs to be addressed before banks can start to take a more holistic view of data integration, IT implementation and the long-term benefits of a unified data repository.

'The organisation in banks needs to change,' believes Goeckenjan. 'Many of the decisions on the structure of the business are political, and banks have a long way to go in order to solve them. When they have made those decisions we can help them look at making changes at a fundamental level, not just at the surface.'

Those banks that make these hard choices early will have a headstart on their competitors in preparing their technology infrastructure for the competitive and regulatory landscape of the future FBA

SAP is keenly aware of the challenges the banking sector faces.