

Operational Risk & Regulation 10

2011 consultancy rankings

Amid the wave of new regulation, consultants are being seen less as compliance support and more as partners in developing business strategy. **Alexander Campbell** talks to the winners of this year's survey about how they are helping banks to cope with the changes

Strategic partners

THE OR&R 10

2011	2010		%
1	1	Ernst & Young	16
2	4	Deloitte	14.3
3	2	KPMG	13.4
4	3	PricewaterhouseCoopers	10.8
5	5	Accenture	6.4
6	6	SAS	5.8
7	7	SunGard	4.4
8	8	Oracle Consulting	3.9
9	9	Protiviti	3.7
10	-	Infosys	3.1

Regulatory pressure mounted further over the course of 2011 – bad news for financial services firms, but good news for the consultancies to which they turned for help. Ernst & Young topped the *Operational Risk & Regulation* consultancy rankings again in 2011, and the New York-based head of its global financial services risk management practice, Hank Prybylski, says it's been a busy year.

“Clearly, there's high demand from our clients – we are as busy as we have ever been,” he says. “Regulation and risk management are such a high-profile issue now.”

For Prybylski – and his clients – everything now revolves around regulation, he says: “Even at board level, they are putting regulatory risk as a primary risk concern – the effects of regulatory change on the business model, and the downside if they are not able to comply.” This represents a real shift. An overall regulatory reform blueprint was laid down by the G-20 group of advanced economies in 2009, and is now being put into effect through national legislation such as the US Dodd-Frank Act and international bodies such as the Basel Committee on Banking Supervision. It emphasised macro issues such as systemic stability – as a consequence, regulatory issues cover far more ground than a few years ago, Prybylski says.

“Over the past two years, we've seen a change from a focus on regulatory compliance – how do firms implement discrete regulatory standards such as anti-money laundering (AML) or Basel II – to supporting the business strategy. A lot of work is at a much higher level now.” It's no longer the case that banks can simply work out how to meet the compliance requirements

of each business – now, regulatory compliance might determine which businesses they can afford to be in at all, and which will be abandoned.

The continuing boom in demand for risk consultancies has attracted new entrants to the market. In March 2011, SunGard launched a regulatory and risk management consulting practice within its wealth management services division, arguing that “risk and regulatory compliance can affect nearly every operational process and technology platform in banks, brokerage and trust firms”. Overall, the company came seventh in the rankings this year.

Within regulation, there are a few areas where attention is particularly intense: one is banks' regulatory know-your-customer (KYC) obligation.

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Hank Prybylski, Ernst & Young

“There is a lot of focus on the client onboarding process,” Prybylski says. “This has been spurred by the US Foreign Account Tax Compliance Act (Fatca) – but really AML, Fatca and KYC requirements all point you to these processes.”

The outbreak of unrest in the Middle East earlier in 2011 brought new attention to the area of KYC (www.risk.net/2029416). Asset freezes and sanctions were imposed on a number of individuals and organisations linked to repressive actions in

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Syria, Iran, Libya and elsewhere. Suddenly, KYC compliance became a far bigger problem, and the potential reputational damage associated with a KYC failure became greater. The heightened focus on KYC and AML issues, especially in the Middle East and North Africa, lasted the rest of the year (www.risk.net/2099487).

Fatca will mean more focus on customer onboarding too. The law, due to come into force in January 2013, is extremely ambitious, using the threat of a 30% withholding penalty (from January 2014) to compel compliance by financial institutions worldwide. Compliance will be neither easy nor cheap – up to 40% of the total operational change budget this year will need to be spent on Fatca compliance, banks estimate (www.risk.net/2104925), in order to meet the law's requirement to report details of accounts held by US citizens or companies anywhere in the world. Others estimate compliance costs of £150 million per institution. And compliance could be legally tricky as well, with European banks in particular concerned that Fatca might push them into conflict with EU data protection and privacy laws (www.risk.net/2130807).

Increased reporting requirements go well beyond Fatca, though – trade reporting, regular updates on counterparty exposures and more are all being suggested. “There’s a lot of regulatory focus on data – compliance means big improvements for banks. There will be a lot more *ad hoc* reports, which will need to be timely, and there will be requirements for similar reports from multiple jurisdictions, each of which will want the report in a slightly different format,” Prybylski warns. The risk here is that banks will deal with the rising demand for reports by layering one application after another on top of the underlying database – making changes to that database far more difficult.

Regulators are also pushing to overhaul capital adequacy rules. The Basel II capital rules, in place across Europe and elsewhere before the crisis, are to be updated or replaced by the planned Basel III rules – in theory, incorporating lessons learned from the events of 2008–2009. “That’s a clear area of concern – there is a lot of attention on regulatory capital optimisation, and the planning and implementation of Basel 2.5 and Basel III rules on capital,” Prybylski comments. In the insurance sector, the corresponding Solvency II rules are also promising to cost insurers heavily – the estimated

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ANTI-MONEY LAUNDERING

2011	2010		%
1	2	Ernst & Young	18.1
2	1	KPMG	13.9
3	3	Deloitte	13.5
4	4	PricewaterhouseCoopers	11.7
5	–	SunGard	6.3

CORPORATE GOVERNANCE

2011	2010		%
1	1	Ernst & Young	20.8
2	3	Deloitte	20
3	2	KPMG	17.3
4	4	PricewaterhouseCoopers	13.1
5	5	Accenture	6.1

OPERATIONAL RISK

2011	2010		%
1	2	KPMG	15.1
2	1	Ernst & Young	14.9
3	4	Deloitte	12.3
4	3	PricewaterhouseCoopers	11.6
5	5	SAS	8.4

BASEL II/III

2011	2010		%
1	1	Ernst & Young	18.4
2	4	Deloitte	17.1
3=	3	PricewaterhouseCoopers	14.8
3=	2	KPMG	14.8
5	5	SAS	5.9

cost of compliance to the UK industry alone has now risen to £1.9 billion over the 2008–2013 period, from a previous forecast of £1.7 billion. Compliance costs won't just affect individual companies – implementing the new rules will mean more work for regulators too, and some might have to fund this by raising fees for the industries they supervise – or by cutting back elsewhere.

Regulators such as the UK Financial Services

REGULATION STRATEGY

2011	2010		%
1	2	Ernst & Young	20.3
2	4	Deloitte	16.8
3	1	KPMG	13.3
4	3	PricewaterhouseCoopers	12.3
5	5	Accenture	4.4

CUSTOMER DATA SECURITY

2011	2010		%
1	1	Oracle Consulting	11.8
2	–	Accenture	9.5
3	4	Ernst & Young	8.6
4	5	Deloitte	8.4
5	2	SAS	7.8

TREATING CUSTOMERS FAIRLY

2011	2010		%
1	1	Ernst & Young	17.5
2	3	Deloitte	14.3
3	2	KPMG	12.5
4	4	PricewaterhouseCoopers	11.5
5	5	Accenture	6.8

COMPLIANCE SOFTWARE

2010	2009		%
1	4	Deloitte	13.8
2	2	Ernst & Young	11.6
3	3	KPMG	10.5
4	1	PricewaterhouseCoopers	7.7
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Authority are also urging systemically important financial institutions to prepare recovery and resolution plans – ‘living wills’ – to make the task of dealing with a troubled or failed bank easier and quicker for the regulator. Here, again, banks are turning to consultants for help in meeting what remains an uncertain and evolving regulatory requirement, Prybylski says.

The over-the-counter (OTC) derivatives market is also set for a regulatory overhaul, with pressure growing to move as many OTC transactions onto regulated markets, and to record transaction data in trade data repositories – though uncertainty still surrounds the details of this, including the vital question of which derivatives products will be covered by the new regulations. “There’s a lot of focus on OTC derivatives reform – there are big fundamental implications as we go into 2012 and some of the rule-making is clarified,” Prybylski comments.

It’s this current lack of clarity that is causing the most headaches across the industry and bringing financial institutions to seek help ever more frequently from consultancies, Prybylski says.

“The pace of regulation is unknown, and very volatile – it slows down and speeds up in terms of expectations. The intensity is high and the level of detail in the data required is high. Also surprising –



Hank Prybylski, Ernst & Young

and frustrating – is that the clarity of the requirements is not yet what is needed for us to address the technical requirements of compliance.”

But not every aspect of the consultancy business is focusing on keeping banks afloat in the rising tide of financial regulation in the US and Europe. The effects of the financial crisis, after all, have not been as severe everywhere – and banks are also seeking help expanding into developing economies, Prybylski says.

“Many of our clients are coming to us because they are moving into new markets – either they are expanding into faster-growing developing markets, or they are moving into new customer segments – and they want to know what regulatory expectations are there. It’s a different perspective from what you could call the defensive compliance side. The crisis played out differently across the world, and the regulatory response has been different too.” ■

The *Operational Risk & Regulation* consultancy rankings are based on a poll of OR&R readers conducted in December 2011.

FRAUD/FINANCIAL CRIME PREVENTION

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1	1	Ernst & Young	18.4
2	3	Deloitte	17.1
3=	4	PricewaterhouseCoopers	14.8
3=	2	KPMG	14.8
5	5	SAS	5.9

BUSINESS PROCESS IMPROVEMENT

2011	2010		%
1	5	Deloitte	14.8
2	2	Ernst & Young	14.3
3	3	KPMG	10.5
4	1	Accenture	10
5	4	PricewaterhouseCoopers	9.1

ENTERPRISE-WIDE COMPLIANCE & RISK MANAGEMENT STRATEGY

2011	2010		%
1	2	Ernst & Young	17.3
2	5	Deloitte	15.1
3	3	PricewaterhouseCoopers	13.2
4	1	KPMG	12.8
5	–	SunGard	6.5

OP RISK SOFTWARE SELECTION AND IMPLEMENTATION

2011	2010		%
1	–	SAS	12
2	1	Ernst & Young	11.8
3	2	KPMG	11.3
4	4	Deloitte	9.3
5	5	Accenture	8.2