Transforming risk management in the financial sector through advanced operating models

Risk executives believe there is untapped potential for advanced operating models to address the most important strategic enterprise challenges.
About the research

In 2014, Genpact commissioned a research project conducted by an independent research firm. The goal was to assess the potential for new operating models across a wide spectrum of industry sectors and functions. More than 900 senior-level executives completed the survey. Respondents were screened based on their ability to materially influence functional decisions. This analysis complements other research and insight derived from Genpact’s experience designing, transforming, and operating business processes and operations.

This document presents findings drawn from 135 senior risk executives from across all industries, of whom 115 are from the banking, insurance, and capital markets sector. About 60% all risk executives are based in North America, predominantly with large companies with more than 10,000 employees.
CROs and other senior executives are challenged to adapt to a rapidly changing business environment. Transforming business processes to implement advanced operating models is a big part of the solution, but process maturity levels and preparedness for transformation vary widely across business functions. The three levers of operating model transformation—technology, process reengineering, and advanced organizational structures (shared services, business process outsourcing, and hybrids thereof)—create impact differently. Using commissioned research, Genpact has examined these trends to understand how institutions are driving transformation to achieve business impact.
Risk management and regulatory compliance are the top challenges facing financial sector risk executives

- About two thirds of financial risk executives identified risk management and regulatory compliance as the top challenges facing their company.
- **Banking** executives are more challenged by the need to **increase customer satisfaction**, and **insurance** executives have greater concerns about **growth and stability**.
- Executives in the **capital markets** industry pointed to decreasing **capital and asset intensity** as a top industry challenge more often than other industries (Figure 1).

**Figure 1**

<table>
<thead>
<tr>
<th>Importance of the challenge</th>
<th>% of in specific industries stating that the challenge is among the ‘Top 3’ for their company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage risk</td>
<td>Banking: 60%</td>
</tr>
<tr>
<td>Increase customer satisfaction</td>
<td>Banking: 50%</td>
</tr>
<tr>
<td>Ensure compliance to regulations</td>
<td>Banking: 40%</td>
</tr>
<tr>
<td>Reduce costs</td>
<td>Banking: 30%</td>
</tr>
<tr>
<td>Increase growth and scalability</td>
<td>Banking: 20%</td>
</tr>
<tr>
<td>Enable agility and adaptability</td>
<td>Banking: 10%</td>
</tr>
<tr>
<td>Enable company’s innovation</td>
<td>Banking: 0%</td>
</tr>
<tr>
<td>Reduce capital and asset intensity</td>
<td>Banking: 0%</td>
</tr>
</tbody>
</table>

n=115 executives from the risk function
Executives perceive KYC and AML have the greatest overall impact on enterprise challenges

Stress testing has the greatest impact on risk management, but KYC and AML have significant effects on multiple business challenges

- Financial sector risk executives identified stress testing as having material impact on risk management and Dodd-Frank compliance as the most relevant for regulatory compliance.
- Know your customer (KYC) and anti-money laundering (AML) were found to have major impact on all three industries’ top challenges.
- Impact indexes accounting for the importance of each challenge and the ability of each function to address it indicate that KYC and AML have the greatest impact, with an index of 127, followed by stress testing (115) and loan underwriting and origination (for banking; 108) (Figure 2).

Function impact index* combining stated importance of challenges and stated ability of a function to address them

<table>
<thead>
<tr>
<th>Function</th>
<th>Impact Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>KYC and AML</td>
<td>127</td>
</tr>
<tr>
<td>Stress testing</td>
<td>115</td>
</tr>
<tr>
<td>Loan underwriting and origination</td>
<td>108</td>
</tr>
<tr>
<td>Collections</td>
<td>105</td>
</tr>
<tr>
<td>Loan portfolio monitoring</td>
<td>101</td>
</tr>
<tr>
<td>Basel implementation</td>
<td>94</td>
</tr>
<tr>
<td>Dodd-Frank Compliance</td>
<td>92</td>
</tr>
<tr>
<td>Basel 2</td>
<td>89</td>
</tr>
</tbody>
</table>

* Impact of a function on company’s challenges is defined as $f(x_j) = \sum x_j y_j$, where $x_j$ is the % of respondents who believe that improvement in the function $x_j$ will have a material impact on the challenge $y_j$, and $y_j$ is the % of respondents citing the challenge as among the ‘Top 3’.

n=115 risk executives from capital markets, insurance and banking.
Loan underwriting and origination coupled with loan portfolio monitoring are the most highly prepared banking risk functions.

Loan portfolio monitoring and underwriting along with KYC and AML functions stand out as most prepared to evolve; stress testing and Dodd-Frank compliance are the least prepared.

Banking executives indicated that loan portfolio monitoring and loan underwriting and origination are the most mature functions and among the best prepared to evolve (Figure 3).

Figure 3
Major capital markets risk functions have differing levels of maturity and preparedness to evolve further.

Capital markets executives pointed to KYC and AML and Basel 2 and Basel implementation as the most mature (Figure 4).

![Figure 4](image_url)
KYC and AML top the list of insurance functions for maturity and readiness; stress testing is the least mature.

Insurance executives stated that KYC and AML are first in maturity and preparedness to evolve, and collections is the runner-up (Figure 5). Executives from all three financial industries agreed that stress testing and Dodd-Frank compliance are consistently among the least mature and least-prepared functions.
Advanced organizational structures are more frequently seen as having material impact, but radical improvements in technology can generate greater average financial impact.

Risk executives see advanced organizational structures as broadly applicable, but technology can deliver slightly greater dollar impact:

- Advanced organizational structures (SSC, BPO, or a hybrid) are regarded by a larger proportion of risk executives as having material impact on key business challenges.
- Research has shown that improved use of technology can provide the greatest financial impact where applicable, averaging $225 million annually for the risk function compared with $185 million for advanced organizational structures (Figure 6).

**AVERAGE $ IMPACT**

Column width proportional to % of respondents stating that the initiative will have a material impact.

- **$225m**: TECH - Radically improved use of technology
- **$187m**: BPR - Business Process Reengineering
- **$185m**: SSC/BPO/Hybrid

Annual $ impact is the impact of operating model initiatives in US$ per annum including reduction of cost, capital required, improvement of cash and revenue growth.

n=115 risk executives from capital markets, insurance and banking

**Figure 6**
CROs and other senior risk executives are challenged to adapt to a rapidly changing business environment in an economy that remains unpredictable. The researchers examined how those challenges can be tackled with three levers of operating model transformation: technology, process reengineering, and advanced organizational structures.

The related transformation of operations is an untapped strategic lever for the CRO as well as the CEO. However, it is sometimes seen as a formidable undertaking.

Our experience with advanced operating models, accumulated over 15 years, clearly indicates that there are agile and practical ways to transform. The key is to design, transform, and run the processes that power advanced operating models so that they closely align with measurable business goals, thus avoiding saddling the company with unnecessary and often unmanageable complexity.

This approach focuses more rigorously on the sources of impact and deliberately disregards any practice that does not yield material outcomes. It also takes a more objective and holistic look at technology, analytics, and organizational practices.

Finally, this approach harnesses the process and organizational levers available from established disciplines, such as reengineering, shared services, outsourcing, and global delivery. We think there is a smarter way to transform operating models and address the most complex strategic challenges. This is a way for CROs to make their enterprises more intelligent and generate material impact.

This document presented the highlights of research findings. Discover more in the full report.
Genpact Research Institute

The Genpact Research Institute is a specialized think tank harnessing the collective intelligence of Genpact - as the leading business process service provider worldwide - its ecosystem of clients and partners, and thousands of process operations experts. Its mission is to advance the “art of the possible” in our clients’ journey of business transformation and adoption of advanced operating models.

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About Genpact

Genpact (NYSE: G) stands for “generating business impact.” We design, transform, and run intelligent business operations including those that are complex and specific to a set of chosen industries. The result is advanced operating models that foster growth and manage cost, risk, and compliance across a range of functions such as finance and procurement, financial services account servicing, claims management, regulatory affairs, and industrial asset optimization. Our Smart Enterprise Processes (SEPSM) proprietary framework helps companies reimagine how they operate by integrating effective Systems of Engagement™, core IT, and Data-to-Action Analytics™. Our hundreds of long-term clients include more than one-fourth of the Fortune Global 500. We have grown to over 67,000 people in 25 countries with key management and a corporate office in New York City. Behind our passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 16 years.

For more information, contact, banking.solutions@genpact.com and visit, www.genpact.com/home/industries/banking-financial-services

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