SNAPSHOT

The international bank branch operating model

A balancing act that needs a platform for success

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Why is the international bank branch operating model 'a balancing act'?

International bank branches are exposed to a contentious set of demands from a variety of internal and external stakeholders. Regulatory reviews originating from multiple regimes, requests from the parent organisation (i.e. group or head office) and an ever-evolving market environment, all require the branch to perform a complex balancing act.

To deliver these often-conflicting requirements, the branch needs a strong platform for success. Having an established, robust operating model that clearly documents how the branch's people, processes and technology come together to deliver against a strategy is therefore more relevant and important than ever.

Whilst these challenges apply to financial services institutions of all shapes and sizes, the impact is more acute on smaller international bank branches due to their relative size, the complexities that arise from their relationship with their parent and an increasing focus from the regulators.

Clear definition and design of the branch operating model provides the right platform by laying out the organisational blueprint which unites the firm to meet the demands and opportunities it faces.

Dealing with a decade of incremental regulatory requirements

The Financial Services industry has been in a period of intense regulatory scrutiny since the global financial crisis of 2007-2008. The volume of change has been unrelenting and the need to employ 'chapter and verse' risk and compliance specialists, as well as the need to invest in change delivery expertise, has been increasing even in relatively small branches.

The Markets in Financial Instruments Directive (MiFID II) is just one example of the type of complex and cross-functional regulatory challenge that branches have faced in recent years. Due to its scope, it has required deep capital markets expertise to implement, it has absorbed a lot of corporate focus and it has often highlighted fundamental questions about how the branch should be organised. These challenges can be further amplified for international branches where the parent often owns key systems and processes (e.g. booking models) which then need to comply with MiFID II, despite operating in a separate regime.

Looking ahead, there are a number of similarly complex and broad-reaching regulatory initiatives that will drive far-reaching change into the organisation. Examples include the Securities Financing Transaction Regulation (SFTR) due to go live in 2020, as well as Operational Resilience, Financial Crime prevention (e.g. 5AMLD) and IBOR replacement regulatory imperatives. Each of these initiatives will challenge the bank to consider how its systems, processes and people need to perform differently in order to meet the new compliance requirements.

The temptation in navigating this regulatory landscape is to develop more frameworks, processes and procedures and introduce new systems each time a new requirement is announced. However, the problem with this approach is that every new layer can bring a flood of conflicting demands, confusion and duplication. What was intended to reduce risk and enhance control can therefore cause the opposite and result in a fragmented branch operating model with increased cost and further complexity.

Taking the time to document a complete branch operating model creates a solid organisational platform onto which incoming regulatory change can land. This moves the branch away from a reactive, siloed and piece-meal approach of delivery, to a more strategic 'design-led' view of managing regulatory change across the organisation.

Head office requests – managing the parent

In practice, branches often are required to follow group strategy with little regard for a UK-based entity. However, the UK's Senior Manager Certification Regime (SMCR) requires the senior managers (SMFs) in the UK branches to be accountable for their areas of business and to demonstrate reasonable steps to discharge this accountability effectively. The regulatory expectation is that this accountability comes with a corresponding decision-making authority which the managers, in practice, may not enjoy. Moreover, head office managers often have little awareness of the conflict and tension experienced by the UK SMFs.

A clear definition of the operating model outlining which services are provided by group versus the branch itself, which global policies need to be followed and which decisions are made where, helps to clearly identify any problematic areas to be resolved.

For instance, a branch may have to implement a global financial crime policy but accountability for financial crime management lies with the UK branch. An operating model would highlight this potential area of tension and enable the effective application of a UK-specific approach, owned by the branch, which translates group policies into locally applicable, fit-for-purpose documents.

Similarly, where the branch relies on group services (e.g. sanctions screening, IT, Information Security), SMCR requires branch managers to show how they can effectively influence the provision of these services to meet branch requirements. This can be achieved through SLAs or well documented delegation of authority.

Dealing with change – an opportunity to enhance and innovate

Whether driven internally or externally, change is now the new normal in financial services. Over time, the cumulative impact and resulting organisational 'change fatigue' can become all-consuming. This is more pronounced in smaller international bank branches, which have less scale to absorb the volume of change, meaning that the same people can be hit with request after request.

But despite the inevitable frustration, there is also opportunity. An organisation's ability to manage complex change effectively can be a crucial competitive advantage. Being able to respond to customer, head office and regulator demands faster and at a lower cost than your competitors, can be advantageous. Conversely, if the branch lacks effective change delivery expertise and control, it is likely that projects will be delivered late or will not deliver the intended benefits.

Whilst many smaller international branches may not have dedicated internal change teams, a clear and complete operating model not only allows change to be impacted and assessed more easily, it can also help to identify areas for improvement: what if the branch could digitise expensive, paper-based processes? Which operations could be consolidated or outsourced? What systems are being used, and are there any superior alternatives available?

The strategic, operational and financial returns on these initiatives are potentially significant. However, much of this upside relies in the branch's confidence to deliver real operational change efficiently and effectively over time, whilst balancing group and regulatory demands. Again, the definition of the branch operating model is the starting point to identify areas that are ripe for innovation and the mechanism into which that change can then be delivered.

How can BCS help?

We believe that a clearly defined branch operating model is essential to the success of an organisation. It is the platform on which operational control and efficiency is established, whilst enabling the demands of regulators and parent organisations to be met. It also offers a compelling and robust solution for managing change and supports exploitation of potential commercial opportunities.

We have an established team of operating model professionals with deep industry expertise, who have delivered our proven and proportionate approaches to a wide range of financial services organisations. Our tools, templates and methodologies have been tried, tested and refined following a decade of experience, enabling us to accelerate delivery on top-down executive reviews, maturity assessments, and complete transformations in international bank branches.

Who should you speak to?

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