

# Enhancing performance through controls optimization

According to a recent PwC survey on internal control optimization<sup>1</sup>:

**72% don't know the cost of operating their controls**  
**65% believe the number of key controls is excessive**  
**55% use spreadsheets excessively**

## To put it simply, the current approach to controls is not sustainable

The expectations of key stakeholders have increased. Boards of directors, audit committees and regulators expect that banking institutions achieve best practices on governance and controls. They want banks to reduce volatility, predict issues and communicate these issues to them proactively. All while reducing costs.

The need to remain competitive through periods of increased regulation, significant structural change, and global economic contraction has placed additional stress on current governance and controls environments.

There is significant complexity in today's operating environment. Overlapping systems and processes and hence, overlapping controls leads to redundancy, inefficiencies and confusion. Multiple locations, changing regulatory requirements and the ever increasing complexity of products and markets do not make this any easier. *Banks are seeking to reduce this complexity by optimizing their controls structure.*

## Banks have identified numerous challenges

No one is alone in dealing with these challenges. The following outlines what we've heard from the banking community:

- With an increased focus on risk management and compliance, front-line staff are spending an increasing amount of time in non-customer facing activities.
- A "one size fits all" approach to controls used across the organization may result in a misalignment between the cost of risk mitigation and the targeted risk profile.
- The broad array of control activities and processes adds to the complexity of implementing required risk mitigation activities. Sometimes more is not better.
- Misalignment of incentives and performance management with risk appetite among the senior leaders of an organization leads to confusion by those required to action risk management principles.
- Both the employee and the customer experience are affected by the increased demands and requirements of risk management.

## Case Study One

### Large Canadian commercial lender

A large Canadian bank was re-engineering its commercial credit processes to dramatically increase sales volumes by changing the role of the customer facing staff so that they could spend more time on sales and customer relationship management.

#### Key steps:

- Define risk tolerance
- Effective process design, with differentiated designs by segments and risk levels, both in clients and products; upfront data entry controls
- Clear, consistent authorities and lending limits by role
- Automated scoring and adjudication recommendations (within predefined limits and credit ratings)

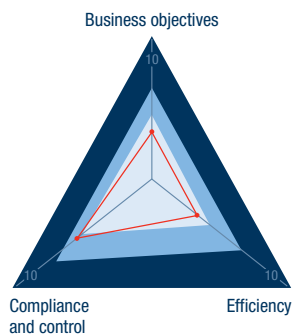
**Outcome:** As a result of the clear definition of risks and the design of simple efficient processes to capture the data, productivity improved, sales increased, and the credit cycle time decreased. Customer facing staff increased their time to work with clients by 25%. An unanticipated benefit was the improvement in employee morale, who now felt more empowered and in control of a straightforward process. They weren't battling "the system" anymore.

**Message:** Achieved business objectives of growing sales; improved efficiency and improved controls.

<sup>1</sup> PricewaterhouseCoopers 2009 survey *Internal Controls Optimization Global Benchmark Analysis*

## Approach to controls optimization

Financial institutions should look to establish the right balance between compliance, efficiency and business objectives:



There is no silver bullet. Every organization has its own unique business strategy and objectives, its own risk appetite, as well as different processes and technology.

An optimized internal control framework should reflect a company's objectives and risk appetite and establish effective and efficient internal controls at the right cost for the organization. This balance will be different for each organization, and while aligned, should vary even within an organization – a different balance for different lines of business.

Our approach to controls optimization is PwC's response to the needs of businesses to have the right controls at the right cost. The right controls are those that mitigate risk to the business in an efficient and cost effective way. In addition, the controls needs to

be supported by a consistent and embedded culture of controls awareness and sustainable monitoring.

Optimized controls can support better operational and back office functions, help to manage complexity and achieve more effective governance, regulation and compliance. Controls optimization is a process of continuous improvement. It is built around a proven risk-based approach to internal control.

### Our experience shows that significant business benefits can be achieved by optimizing the system of controls – reducing costs intelligently, while improving controls

- **Reduce costs** by eliminating duplicate and ineffective controls. A large Canadian bank saved over \$2 million annually in printing and distribution costs of branch reports through a combination of elimination, automation, redesign and consolidation.
- **Free up front-line staff** by rationalizing and re-aligning control activities between front-line and back office support groups.
- **Reduce exposure** by clarifying and improving risk and controls awareness, communications processes, and roles and responsibilities.
- **Continuously improve** the effectiveness and reduce the costs of controls through on-going monitoring and process "health checks".
- **Leverage** technology enhancements to embed preventative controls and integrate reporting requirements.

## Case Study Two

### Finance back office

At another Canadian bank, specifically in the finance function, both finance and the business were interested in changing the role of the Finance department to be a true strategic advisor.

#### Key steps:

- New reporting and analysis tools to streamline analytics
- Standardized automated exception reporting to improve data quality
- Common financial language and single definition of common metrics
- Evaluating skills and redeploying resources

**Outcome:** By reducing the low value-add activities of downloading data to Microsoft Excel, reformatting to meet the business need, reconciling to the GL and the official book of record, the finance function was able to reduce effort and resources, while speeding up the time it took to generate accurate financial reports. This created an environment where Finance had the time to truly analyze the results to focus on business issues, and to play a major role in the strategic planning process. In short, they became a trusted business advisor.

**Message:** Define the analytical requirements, engineer effective control points and invest in getting them right, then let the new process generate benefits.

### Case Study Three

#### New controls framework

At a global insurance client, PwC was asked to provide a new integrated controls framework.

The client had three objectives:

- Be leading edge – to be the first large insurer with an integrated controls framework
- Develop a truly sustainable solution – to embed the supporting processes into “business as usual” – not the one-time documentation of a process
- Implement a scalable solution – one that could be easily tailored to their large and small operations globally

#### Challenge:

- As a large, successful global organization, there were many control and regulatory frameworks, each with many successful features, used around the world.

**Outcome:** Greater confidence in the business information provided around the world – easier to understand, reliable and consistent.

**Message:** A fully integrated governance and control framework can truly save money and time. Designing a new controls framework enables optimization and tradeoff analysis along each of the dimensions.

- **Reduce errors** that increase risk and negatively impact the customer experience through improved reporting and an automated control framework that provides management with the information required to identify potential risk areas, addresses risk behaviours and prevents errors from reoccurring.
- **Simplify** compliance by leveraging common policies, information, tools and processes to address multiple requirements.

#### First Step – The Diagnostic Workshop

PwC has used the Internal Control Diagnostic Workshop globally with 43 companies over the last two years. The workshop is ideally a discussion between PwC and representatives from the organization’s business, finance, risk and IT areas. It focuses on completing a self assessment and benchmarking survey with the following outputs:

- A **comparison** of the organization’s control attributes to leading practice, as defined by our global experience in internal controls and the organization’s priority to improve.
- A **heat map gap analysis** between the “as-is” and “desired-state” for the organization’s various controls attributes.
- The ability to **benchmark** the organization’s results at a later date with other anonymous responses from peers, both locally and globally.

Stakeholders have high expectations of financial institutions’ controls. As a result, the governance and controls infrastructure has become increasingly complex. Controls optimization provides a framework for how to find the right balance.

#### To discuss how a workshop could work for you, please contact:

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