

# ***Regulatory response***

## Redefining the value of regulation

*The executive summary  
series – paper No.2*

“It’s time to look again at regulation and see it as a benefit and not always a burden. In a challenging business environment, where trust and transparency are highly prized, getting on to the front foot with your regulatory response with a well executed and communicated approach, can bring significant opportunities.”

*Gill Williams, partner*

At its core, regulation has an uncomplicated, even noble, purpose – to protect. Covering three key areas – public safety and welfare, industry and revenue generation – surely everyone would agree protection is a positive motivation.

Your regulatory response reflects the level of control you have in your business. Successful businesses are those where the board has adopted a different mindset to regulation and control and, in doing so, created significant value and opportunity for their organisation.



# What's on your mind?

*Some industries and sectors are highly regulated and some are not, but no one is untouched by the impact of regulation. The key question is – who's in the driving seat? Are you letting regulation happen to you, or are you actively embracing it, influencing and exploiting the opportunities compliance can bring?*

## ***Freedom from scrutiny***

It may seem like a paradox, but if you sort it out and do it well, a good regulatory response buys you a lot of freedom, allowing you to invest in your business with less scrutiny. Being seen as a regulatory high performer is a great way to be viewed by your regulator.

## ***Regulatory engagement***

It's easy for you to feel overwhelmed by the sheer volume and complexity of regulation. This is made worse by an environment that can be multi-regulator and multi-jurisdiction, where non-compliance varies in impact and the regulatory landscape is constantly evolving.

## ***Navigating complexity***

Faced with this tsunami of regulation, how do you stay on top of it? The reality is, many organisations don't. Interpreting

regulation and finding the right balance between responding to it and delivering 'business as usual' can be a struggle.

If you don't get your act together, the impact can be damaging – not just financially, but in terms of stakeholder trust, reputation in the market and regulatory focus. You need to find a way to navigate regulation.

## ***Regulatory good citizenship***

Against this backdrop, leading organisations that are regarded as 'regulatory good citizens' are those that embrace regulation, recognising that it drives resilience, good practice, control, competition, governance and performance.

It's important to ensure that regulatory good citizenship underpins your broader business goals.

*“Being seen as a regulatory high performer is a great way to be viewed by your regulator”*

# Our point of view

## *Prioritise what matters most*

Not all regulation is equal – some carries greater penalties and has greater impact. The distinction is key. Be clear what regulation matters now or in the future, at an enterprise as opposed to a functional level.

### ***Keep an eye on the horizon***

It's understandable that regulatory focus tends to be on the here and now, however, keeping an eye on what lies ahead, deploying an early warning system and engaging with the regulator throughout your compliance journey, not just at the end, is key. This actively supports a better-prepared, and therefore more resilient organisation.

### ***Behaviours need to be part of your DNA***

Too often businesses try to meet regulatory requirements without embracing the people dimension. While this may not create any obvious issues in the short term, everyone has a role to play in controlling the business and you won't be able to sustain compliance if the right behaviours aren't part of your organisation's DNA.

### ***Don't forget the data***

The key to good reporting often lies in the quality of your data. You need to know what data matters and what systems and human intervention and impact data has on its journey to your reports. It's important to shift the emphasis from the report itself as an output, to the process and controls used to generate it.

### ***Stakeholder trust is key***

Greater consumer power has come with the rise of social media, making it harder for organisations to maintain their reputations and customer trust. Those that regulation seeks to protect now have a greater voice for their concerns and this is driving new regulation as a means of providing additional protection. Proactively communicating your regulatory performance – good or bad – to stakeholders can enhance your reputation and build trust.

## What good looks like

### *Take charge of your regulatory destiny by staying focused and in control.*



Strategic engagement with regulatory bodies; board level understanding of the regulatory landscape, horizon and strategic impact.



Regulatory resilience is not viewed as a one-off activity or initiative; it's 'baked in' to business as usual and also when changing the business, for example, through outsourcing, offshoring or partnering.



An outcome-based focus on regulatory compliance, making maximum use of process, controls and enablers; aligned, prioritised response to strategic objectives; frequent, open communication.



Looking beyond your organisation's boundaries to give due consideration to the extended enterprise and the responsibilities of third parties in keeping with your regulatory promises and standards.



On those occasions when you're out of control, you need to be prepared and able to call on a network of people – internal and external – who can help fix things, learn from them and prevent their re-occurrence.

## When to act

*There are logical triggers in your business activities that prompt action. These will almost always be times when you should talk to us. Here are some examples.*

- ✓ Introduction of new regulation.
- ✓ High profile regulatory issues within your sector.
- ✓ Known issues in your own performance linked to regulation.
- ✓ Any major change impacting areas covered by regulation and where you invite the scrutiny of a new set of regulators and stakeholders.

## How we can help

*Point solutions will not deliver what's required to help you get to grips with today's regulatory environment. Through us, you have access to the breadth and depth of our skills, expertise and knowledge and can draw on multiple competencies to develop a value-driven regulatory response.*

We work with the board to help you use regulation to enhance your strategy and achieve your business goals.

We help you build your resilience by proactively embedding regulation into your operating models and change management approach.

We help you go beyond compliance by improving the processes, technology and data essential for successful regulatory compliance.

We help you scan the horizon and seamlessly combine expertise spanning data, cyber, finance, reporting assurance and behaviours, using proprietary tools and enablers to strengthen your regulatory response and support your ongoing regulatory efficiency.

The insights we gain from engaging cross-sector can help you take a broader view, while those we gain from engaging with regulators can help you influence future regulation.

If things go wrong, we provide informed support to put you back on track.

We provide an additional line of defence to help give the board confidence in their regulatory response.

## What you gain

### *Cost efficiency*

Reducing remediation costs and avoiding fines, time and response efficiency and removal of duplication.

### *Reputational protection*

Promoting trust and consumer confidence, engagement and belief.

### *Stakeholder confidence*

Fostering investor, analyst, shareholder, employee and new talent confidence; regulatory engagement and influence.

### *Organisational resilience*

Developing agility and the ability to absorb new regulation quickly; developing speed of response, flexibility and sustainability.

### *Freedom from scrutiny*

A robust regulatory response enabling you to operate with less scrutiny.

### *Enhanced capability*

Equipping you to embrace regulation.







## Delivering value

Following a fine imposed by Ofwat for misreporting, we were asked to review aspects of a national utility's regulatory framework. Over five years, we helped the directors to establish a governance framework for regulatory compliance and provided formal assurance regarding the design and operating effectiveness of key controls over their reporting processes. We shared knowledge of best practice and provided advice on improving their systems, controls and governance for reporting non-financial data to their regulator.

This included developing a risk assessment and assurance map methodology enabling management to focus resources on high-risk areas; performing detailed procedures to evaluate the design of the controls in operation against the identified risks and information processing objectives; performing operating effectiveness testing of key controls and providing a formal opinion on their effectiveness; communicating with management throughout the process on progress, challenges and findings.



We helped a global utilities business to manage its response to regulatory impact across different territories. We did this in two ways:

**Tactical** – by reviewing their regulatory reporting remediation project to give them confidence that the actions they were taking would mitigate the issues that had been found in reporting.

**Strategic** – by helping them to develop an information management framework comprising practical guidance, implementation plans and designs and tools for their compliance function to enable them to measure and monitor improvements in underlying information quality.

We built a coordinated response to both the immediate need for confidence in reporting and the longer term need to embed this in the organisation's culture and ways of working. To do this we brought the best of PwC in terms of regulatory, organisational change and data governance expertise.

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