Risk & Compliance

RTO EMERGES AS A NEW CRUCIAL UNIT TO AVOID FINANCIAL DISRUPTION

Recent The long-lasting financial crisis has generated a range of effects: the increasing competitive pressure, the difficulty to keep stable revenues streams, the lack of a trusted relationship with the consumer and corporate customers. Overall, we can say that today's strong appetite of both global and domestic banks to avoid new "financial disruptions" has caused a deep re-focus of the industry priorities.

Banks have now fully realized they need to redesign and reinforce the whole set of rules and tools devoted to control any form of risks. This is fairly easy to accept in relation to market and credit risks, as their potential impact is well known. But, and this is the real news, the "control framework" now needs to be extended to new risk areas, which had so far been considered as "lower priority": the operational risk management.

What is an RTO?

In this context, banks are enriching their organizational structure with a new unit – the Retained Organization (RTO) – tasked to assure the appropriate level of control on those entities in charge of supporting the business: the outsourcers. The RTO remit is to guarantee that every service provider supporting the business operations, whether it is an external suppliers or an internal shared service center, complies in full to banking authorities requirements.

How to structure an RTO?

Two years ago, Be has been engaged by a leading European bank to manage a complex change program targeted at modeling and implementing the control framework for the main outsourcing providers.

Our proposed approach was to use an "holistic" RTO design and implementation methodology, which includes:

1. analysis of regulation and top management strategies;
2. organizational benchmarking;
3. RTO compliance requirements definition;
4. performance management framework design and implementation;
5. reporting implementation;
6. organizational set-up and sizing.

Based on this methodology, our target was to complete the RTO set-up (with the exclusion of change management and IT implementation activities) within 5 months from start.

Performance Management Model

A key aspect is to define a consistent performance management model, to enable centralized monitoring of the providers' business performance.

We used a 3-step approach:

1. define a performance measuring methodology, with coherent relationship between services (catalogue), costs (financials) and performances (KPI);
2. create a single reporting system, able to satisfy monitoring requirements from all users and allow comparison between internal and market data;
3. create a restricted list of KPIs, with a clear focus on those services who have significant "business relevance".

The level of reliability and consistency of the performance management model has a big impact on the effectiveness of the RTO. In particular, a well-designed model is likely to provide a very significant contribution to the bank's overall business performance in terms of improvement of the customer service quality and identification of potential areas for efficiency gain and cost reduction.