A MODERN GOVERNANCE FRAMEWORK FOR REGULATORY PROJECTS IN FINANCIAL SERVICES



In the context of regulatory projects within financial institutions, we present a governance framework for regulatory projects. This model is specifically designed to address the unique challenges posed by regulatory changes and the evolution of systems.

By providing a simple structure and mechanisms, our framework ensures effective project management, timely execution, and successful outcomes.

In the fast-evolving financial services sector, where efficiency, risk, quality, and security are key business pillars, regulatory demands from governing bodies have become increasingly complex and demanding.

The dynamic nature of financial markets, coupled with the rapid pace of technological innovation and the growing risk of operations worldwide – financial crimes, cybersecurity threats, economic volatility, and the operational challenges, among others – transforms regulatory projects into multifaceted and high-stakes endeavors that require precise and adaptive management strategies, minimizing risks and guaranteeing compliance for institutions.

What are Regulatory Projects?

Regulatory projects are mandatory initiatives undertaken by financial institutions to comply with laws, regulations, and guidelines set by various regulatory bodies – such as Central Banks, Securities Commissions, Regulatory Authorities, or Reserve Banks, among others – to ensure risks arising from threats identified by those regulators are mitigated.

The scope of regulatory projects can vary significantly, encompassing everything from implementing new compliance procedures to overhauling existing systems to meet updated regulatory requirements. Due to their critical nature, these projects often involve extensive planning, short implementation timeframes, significant resource allocation, and collaboration across various departments within an organization.

While regulatory projects can affect multiple sectors, financial entities are among the most heavily impacted. This is due to the highly regulated nature of the financial industry, where maintaining compliance is crucial for operational stability and trust. Financial institutions must constantly adapt to evolving regulations to prevent risks such as financial misconduct, operational failures, and reputational damage.

Consequently, regulatory projects in the financial sector frequently result in a comprehensive adjustments to internal processes, systems, and controls, making them particularly resourceintensive and complex. The criticality of these projects underscores the need for meticulous execution and efficient governance model to ensure successful compliance. Within the financial services sector, regulatory projects typically fall into three primary categories:

Prudential Regulation. Prudential regulations are crafted to uphold the financial stability and resilience of institutions. They mandate that financial entities maintain adequate capitalization, manage risks proficiently, and adhere to robust governance standards. Examples encompass capital adequacy requirements, liquidity standards, and stringent risk management protocols.

Conduct Regulation. Conduct regulations aim to safeguard the interests of consumers by ensuring equitable and transparent treatment from financial institutions. They mandate adherence to fair practices, honest dealings, and comprehensive disclosure of products and services. Examples include stringent anti-money laundering (AML) measures, Know Your Customer (KYC) protocols, and comprehensive consumer protection statutes.

Market Integrity Regulation. Market integrity regulations are designed to foster fair, efficient, and transparent financial markets. These regulations aim to prevent market abuse, insider trading, and other manipulative practices that undermine market integrity. Examples comprise prohibitions against insider trading, stringent measures against market manipulation, and the deterrence of unfair trading practices.

The role of regulatory projects is thus to maintain the stability, fairness, and transparency of the financial ecosystem, ensuring robust oversight and compliance across the industry. The introduction of new initiatives within the sector invariably leads to the emergence of new regulations, often spanning across multiple regulatory categories outlined above. For instance, initiatives such as Open Banking or Open Insurance require the establishment of comprehensive regulatory frameworks to ensure their effective and secure operation.

Regulatory bodies meticulously define a series of rules and guidelines to govern these initiatives,

addressing concerns related to prudential standards, conduct protocols, and market integrity. These regulations are tailored to promote financial stability, protect consumer interests, and uphold the integrity of the financial markets.

As such, the evolution of the sector through innovative initiatives underscores the ongoing need for adaptive and robust regulatory frameworks, fostering trust, transparency, and resilience within the financial ecosystem.

Main Challenges for Regulatory Projects

Regulatory projects are often hard to implement due to their specific characteristics.

Critical Deadlines and Inflexible Timelines

Regulatory projects often demand complex transformations in business and existing systems, clashing with rigid schedules and tight deadlines imposed by regulatory bodies. Failure to meet these deadlines may result in severe consequences, including substantial financial penalties, revenue erosion, reputational damage, loss of stakeholder trust, and, in extreme cases, revocation of operational licenses in specific jurisdictions. This scenario significantly amplifies the pressure on the teams involved.

Compressed timelines not only impact the development and implementation phases, but also drastically reduce the period dedicated to strategic planning and architectural design, often resulting in the need for adjustments postimplementation, compromising the integrity of the solution. Additionally, this time pressure frequently obliterates opportunities for systemic redesign and modernization that could bring long-term benefits to the organization.

Although deadline extensions are occasionally granted, most of the time they don't match the intrinsic complexity of these multifaceted projects.

Scope Volatility and Changing Requirements

Regulatory projects are characterized by their dynamic nature, with frequent scope changes during the whole project. These changes can be precipitated by various factors, including dialogues between regulatory entities and regulated sectors, issuance of clarifying guidelines by competent bodies, or differing interpretations of regulatory texts. In some cases, regulations do not have all the details defined at the start of the project, causing problems as organizations are forced to adapt to evolving guidelines.

Such scope fluctuations always impact established plans, making it challenging to estimate the necessary effort and the size of the impact required to deliver the project on time.

Integration Challenges with Legacy Systems

Some regulatory projects impact mainframe systems and other legacy systems, adding complexity to the initiative. Teams often encounter challenges such as insufficient system documentation, unmapped systemic dependencies and data quality issues. These factors exacerbate the complexity of implementing many regulatory projects, requiring the allocation of highly senior specialists and the establishment of rigorous project governance.

Organizations must meticulously balance the demands of regulatory compliance with maintaining operational stability and system performance, often resulting in technically suboptimal but necessary compromise decisions within the regulatory context.

Multiple Areas and Stakeholders Involved

In most cases, regulatory projects involve numerous areas and stakeholders, significantly complicating alignment efforts. These initiatives require the involvement of various internal and external stakeholders, each with different levels of understanding and priorities.

Managing expectations of several stakeholders simultaneously, resolving conflicts, and maintaining effective communication within this complex network requires robust project management, including solid governance structures and frequent alignment meetings. Establishing a communication and decisionmaking framework that considers the needs and perspectives of all stakeholders is crucial for the success of regulatory implementation.

A Modern Governance Framework

A lean governance model is an essential strategy to ensure the success of complex projects, especially regulatory demands, allowing financial institutions to navigate the complexities of regulatory compliance with confidence.

These projects demand meticulous management and coordination of multiple teams and disciplines. A well-defined governance model defines clear roles and responsibilities, optimizes communication, and control risks, dependencies, and technical debt.

Governance of Regulatory Projects

Based on our experience, we propose an effective governance model for regulatory projects structured into three main levels: Executive, Control, and Delivery. Each level will have roles and responsibilities of each entity clearly defined, as illustrated in Figure 1 below.

Executive level – This includes the executive level of the organization related to the demand and the PMO team that will oversee the project's strategic alignment, resource allocation, and high-level decision-making. The executives will be periodically updated on the project status and will be part of strategic decisions.

Control Level – This intermediary level bridges the Executive and Operational levels, ensuring critical aspects of the project are effectively managed and aligned with objectives and requirements at the Operational level. It also identifies and escalates relevant issues to the Executive level for decision-making.

Comprising multidisciplinary expert groups, this level establishes cross-functional roles, known as authorities, to serve as central points of reference in key disciplines. Typical roles include Requirements Authority, Design Authority, Data Authority, Delivery Authority, and Quality Authority, focusing on the most impactful areas for project success.

Operational Level – This level is composed of technical teams organized according to the organizational structure, focusing on the agile execution of tasks in alignment with the guidelines from the Control Level and the project's strategic objectives. These teams are responsible for the technical execution of the project, including planning, development, testing, and implementation.



Figure 1: Governance Framework

Stage Gate Reviews

A critical component of this governance model is the implementation of Stage Gate Reviews, which serve as key decision points in the software lifecycle. At each gate, a list of pre-defined artifacts and actions are evaluated whether to proceed, proceed with needed revision, or do not proceed.

These decision points are not rigid and can vary depending on several factors, including client needs, project complexity, and risk assessments. This flexibility ensures that the governance model can adapt to diverse project scenarios while maintaining alignment with objectives.

An example of the most used gates in these types of projects is presented in Figure 2 below.

Definition of Backlog (DOB) – Specifies the documentation and requirements necessary to initiate a task or project milestone.

Definition of Ready (DOR) – Confirms that all prerequisites are fulfilled before starting development. **Definition of Done (DOD)** – Ensures that all acceptance criteria are met before a task or milestone is considered complete.

Definition of Production (DOP) – Verifies that the production environment is ready for release.

These precise definitions should be established and formalized during project initiation, with the flexibility to adapt criteria and checklists based on the unique needs of the project. Each authority plays a critical role in defining and validating the requirements for their respective gates, ensuring that the process supports informed decisionmaking at every stage.

The gates ensure that each task or project milestone is well defined, prioritized, validated, executed and implemented, minimizing risks especially during the transfer of an activity from one team to another. They also promote clear communication among teams, preventing delays, scope creep, and inconsistent interpretations of requirements. They provide an organized structure where each development stage is carefully monitored, allowing timely interventions and ensuring that delivered products align with quality and functionality expectations.



Figure 2: Stage Gates for software development

Authorities

As indicated before, the control group is formed by multidisciplinary teams known as 'Authorities'. Each group focuses on different critical aspects of the development and delivery of solutions, ensuring alignment with strategic objectives and regulatory standards.

The authorities act as intermediaries between the executive group and the delivery layer, ensuring project success and communication alignment. Below, we provide a detailed example of the most common authorities, highlighting their roles and significance within the governance model.

Requirements Authority - Manages and analyze business and technical requirements with a strong focus on requirement engineering disciplines. They identify gaps, inconsistencies, ambiguities, and evaluate the feasibility of requirements, ensuring clarity in non-functional aspects such as security, performance, and availability. This group evaluates the impact of new or changing requirements and continuously evaluate the backlog to ensure regulatory compliance and develop assumptions for scopes not yet defined by regulators.

Design Authority – This group ensures optimal technical infrastructure, manage technical risks, and resolve dependencies and technical debts rigorously. They apply best architecture and design principles, create and share architectural designs with technical squads, and ensure timely communication of architectural decisions and risk resolution.

Data Authority – Ensures appropriate access to data sources, compliance with data governance regulations, and proper data handling in the processing pipeline.

Delivery Authority – The Delivery Authority group consists of Delivery Managers and Release Managers. They ensure visibility of the program's delivery state, maintain high performance in service-related processes, and implement continuous improvement activities. They manage delivery risks and dependencies and ensure resource availability.

Quality Authority – The Quality Authority group is composed of QAs and Specialists who ensure product and process quality. They define acceptance criteria, record and treat defects, and optimize the test plan for comprehensive coverage. They oversee the testing plans through all teams at the Operational Level. They monitor and adjust quality activities, recommend improvements, and verify implementation. They use appropriate testing tools, apply best practices, produce quality test reports, prioritize tests, and ensure the suitability of the test environment and data.

Conclusion

Implementing regulatory projects within financial institutions presents numerous challenges. As we've described, a structured governance framework with three levels – Executive, Control and Operational – can effectively manage and mitigate most of the challenges.

Regulatory projects will always have to deal with tight deadlines and often insufficient budgets to adjust their systems. Therefore, focus on establishing efficient communication between the executive, control, and delivery levels, allowing for rapid decision-making.

Another crucial aspect is the clear definition of Stage Gates (or points of control) at the Operational Level within the software lifecycle, which helps avoid rework, and having an empowered group of Authorities to properly plan and guide the project. Learning from the project's progress is also essential. Regular reviews and adjustments ensure that the project stays on track and adapts to any emerging challenges. The governance framework's structure allows for continuous improvement and optimization.

It is important to note that each institution is different, as each project is different. Therefore, the governance model should not be fixed but adaptable, depending on the company and the project.

By addressing these challenges through a structured and adaptable governance framework, financial institutions can navigate the complexities of regulatory compliance IT projects more effectively, ensuring successful project outcomes and sustained operational integrity.

Authors

Alexandre Bueno, Principal Consultant, <u>alexandre.bueno@capco.com</u> Camille Ocampo, Executive Director, <u>camille.ocampo@capco.com</u>

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