BeyondFS

Fine Prevention

Why financial crime and regulatory programmes fail and how to fix them

Contents

Foreword

Have you ever wondered why, every year, big financial institutions incur eye-watering fines from regulators for failing to prevent financial crime or money laundering, despite their enormous resources and, presumably, best intentions to do the right thing?

This question has regularly exercised our collective minds and professional capabilities over many years as we have helped banking clients and others deliver remediation and regulatory programmes when things have gone awry in their businesses.

Our conclusion is that, firstly, delivering a complex change programme under the regulator's eye is amongst the hardest challenges a senior leader will face.

Secondly, too often the resources and capabilities available within banks and other financial institutions are simply not fit for purpose when it comes to delivering these programmes, with the result that they are set up to fail from day one.

In this paper we explore why these programmes are prone to failure, and what can be done to improve the chances of success, based on our years of learning how to deliver them to achieve the stated programme objectives and build frameworks for ongoing compliance.

We aim to help senior leaders in financial institutions with responsibility or oversight for complex financial crime or regulatory change programmes to make positive and necessary changes within their organisation, offering practical insights that will help them bring programmes to a successful and timely conclusion.

Regulator-driven remediation programmes are the most extreme type of regulatory change programme, and while we focus on these below, much of the method and approach we set out and many of the key lessons are equally applicable to less extreme types of regulatory change programmes.

We hope that you find these insights useful.

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BeyondFS

The evolving challenge

For financial institutions, the challenge posed by criminal activity such as money laundering, and the regulatory response to it, is constantly evolving. As a result, institutions frequently find themselves having to establish resource-intensive financial crime and regulatory change programmes, including large remediation projects.

Such programmes are usually set up at pace because the institution is under pressure to react, sometimes as a result of poor internal practices or weak operational controls having been exploited by criminals, or highlighted by internal teams or the regulator. The catalyst may have been a poor regulatory review, concerns identified in an audit, a whistle-blower raising the alarm, or a damaging leak of information to the press. Where criminal activity is suspected, it is essential to move quickly.

Once organisations become aware of weaknesses which could be exploited by criminals, they usually try hard to address them and can often spend large sums in the process. But even well-resourced regulatory remediation programmes do not always achieve their objectives.

Regulatory censure for firms that fail to deal effectively with these issues, particularly those related to anti-money laundering (AML), has become increasingly common. According to a report by Comply Advantage, in 2022 global fines for failing to prevent money laundering and other financial crime rose by more than 50 percent, including over $8 billion for AML-related breaches. The gross amount of AML fines since the global financial crisis (2007-2008) is estimated at $56.1 billion.

The heaviest penalties tend to be for repeated violations. Fines are imposed not only for rule breaches that have been identified, but because institutions fail to fix the underlying problems even when they have given regulators firm assurances that these will be dealt with.

The frequency of fines is such that some institutions may be experiencing 'enforcement fatigue', meaning that they see fines as an inevitable cost of doing business. However, it is important to consider the long-term reputational effects of such a strategy, especially as many fines are widely publicised, as well as the ultimate financial cost, as regulators increasingly lean towards rapid escalation of fines for repeated infractions.

The high cost of failure

The following recent cases illustrate what can happen when banks receive warnings from regulators about weaknesses in their AML procedures, but then fail to address these sufficiently quickly or effectively, despite running large internal projects designed to do so.

In 2022 **Danske Bank** received a $2 billion fine from the U.S. Department of Justice. As detailed in Riskscreen's 2021 analysis 'Danske Bank. What went wrong?', this arose as a result of Danske's acquisition of Finland-based Sampo Bank, which included a large operation in Estonia which had on its books at the time a number of clients that were essentially shell companies set up to launder illicit funds. Despite multiple warnings from the Estonian and Danish regulatory bodies, internal auditors, correspondent banks and whistleblowers, Danske was felt to have responded too slowly and failed to address multiple gaps in its risk management, client onboarding and transaction monitoring systems. The money laundering scheme was discovered in 2013, but the bank missed opportunities to address these problems and indeed did not publicly disclose the full extent of the wrongdoing until 2018.

Deutsche Bank also paid heavily for slow compliance fixes. In July 2023 the bank was fined $186 million by the Federal Reserve for 'unsafe and unsound' practices that failed to control money laundering. Deutsche Bank was deemed to have made 'insufficient remedial progress' on consent orders, and the Federal Reserve criticised persistent weaknesses in its controls on sanctions compliance, transaction monitoring and its systems to check money laundering.

In December 2022, **Santander UK** was fined £108 million by the UK Financial Conduct Authority after more than £298 million had passed through business accounts on which the bank had received 'red flags' over suspicious activity but had failed to take any follow-up action. The FCA found that between December 2012 and October 2017 Santander had failed to oversee and manage its AML systems properly, impacting the oversight of its more than 560,000 business customers.

The common theme in these cases is a slow response by the banks in addressing compliance issues brought to their attention by regulators. Had more effective and swifter remediation programmes been in place, these banks might have been less harshly penalised and could have avoided much negative publicity.

"Implementing change at large financial institutions rarely happens easily or quickly. Both board and management teams must understand compliance and ensure that meeting compliance obligations in full is enshrined at the heart of the programme from the outset."

Matt Neill, Beyond FS.

Why do financial crime and regulatory change projects go wrong?

Most financial organisations treat regulator-driven change and 'normal' business-driven change in a similar way.

Their business change functions are not primarily geared towards complex remediation programmes with externally mandated, immovable deadlines which must be delivered under intense regulatory scrutiny.

A lack of the specialist capabilities needed for regulatory projects can often lead to programme failure, for one or more of the following reasons:

○ Inadequate scoping, or underestimating the scale of the programme until it's too late;

○ Failure to break the programme down into very clear steps which will ultimately deliver the required objectives;

○ Failure to convince boards to provide the necessary budget and resource;

○ Poor project governance, which can result in losing sight of the key objectives as the project develops;

○ Difficulty in making the necessary process and culture changes, including arrogance or not taking financial crime initiatives seriously enough;

○ Compliance and audit teams disconnected from the operational reality;

○ Failure to appreciate that the intended outcomes from the programme need to be embedded in the business, not just 'delivered';

○ Data and reporting failing to uncover the real problems; and

○ An inadequate closure process that fails to satisfy the regulator's requirements.

In this paper we will explore all of these reasons for failure and provide recommendations as to how they can be addressed.

What sets remediation programmes apart?

The typical characteristics of financial crime and regulatory remediation programmes set them apart from regular strategic change programmes. These differences have a significant impact on how these programmes should be initiated, managed and closed.

They often start reactively – a typical large-scale transformation driven by strategy or new regulations is usually one that a business has had plenty of time to think about, whereas regulatory remediation programmes usually start reactively. Something bad happens and the business needs to respond quickly and show it is tackling the situation.

They are complex. The scope of regulatory remediation programmes is often wide, touching multiple areas across the organisation. The requirements are often unclear, so people try to organise from day one and put in place processes or structures that will help deliver a particular outcome. The danger is that the team's understanding will evolve quickly and the structures formed at the beginning may falter quite early on in the programme. This means that regulatory remediation programmes require a flexible mindset and approach, especially in their early phases.

They are often 'zero fail'. Tolerance of failure in remediation programmes is low compared with a regular change programme. Consider the launch of a new intermediary platform, for example. If this is delivered 3 months late, with less functionality than expected, it may be seen as an acceptable outcome which can be improved over time. By comparison, regulatory remediation programmes need to meet a regulator-driven deadline and carry out clearly defined remedial actions, with little margin of error. In these cases success or failure may be binary – you are either compliant or you're not.

They are mandatory. With a regulatory remediation programme there is no option to stop halfway through and change direction. Some of the deliverables may be adjusted and there may be room for some negotiation, but in general the programme must deliver what has been agreed to, within the regulator's timelines.

They are often multi-year. Because the deadlines are set and the problems to be solved are complex to unravel, teams can be under relentless pressure for a long time.

They often require culture change. Operational and compliance weaknesses are normally embedded into organisational culture, and these will need to be reset, with visible changes in leadership commitment, style and content of internal communication, improved employee engagement and participation, and more effective behavioural reinforcement and rewards.

They are carried out under high pressure. All eyes will be on the programme, including those of the regulator, the board, and potentially even media and public attention. Scrutiny can be intense, especially if an independent expert representing the regulator joins a programme, watching how teams behave and observing corporate culture and the language used. Initiatives and practices to mitigate the effect of stress on the team must be considered and consciously built into the programme from the start.

They have to stand up in front of the regulator. Commitments must be made by the institution, and the regulator will hold them to these throughout delivery. Maintaining and managing communications, commitments and the relationship with the regulator are critical parts of the programme.

The closure process is onerous. Closing a regulatory remediation programme is more complex and time-consuming than closing a regular strategic change programme. The programme must demonstrate, to the satisfaction of the regulator, that all their requirements have been met. This typically involves copious supporting documentation, multiple face to face meetings and the ability to demonstrate the evolving narrative of the programme. In our experience the costs and resource involved in this process are usually underestimated.

A regulatory programme is different from a normal change programme

Remedial regulatory programme	Vs	Normal change programme
Often start reactively		Usually part of a strategic plan
More focus on outcomes		More focus on outputs
Regulator scrutiny which may include an independent assessor		Internal scrutiny only
High reputational risk from failure		Low reputational risk
Mandatory		Optional
Board level scrutiny		Senior management scrutiny
Heavy closure process		Light closure process
Requires culture change		Requires technical change
High levels of scrutiny on documentation and evidencing		Lower levels of scrutiny on documentation and evidencing
Unclear requirements and scope at outset		Clear requirements and scope from outset

How to deliver successful financial crime and regulatory remediation programmes: A playbook for senior leadership

In the following sections we share our principles of good practice which apply to setting up, running and closing regulatory remediation programmes.

Programme Initiation

Getting the basics right

The commencement of a project sets the tone for everyone involved, so it is vital to get the basic control mechanisms in place from day one. Consider putting in place:

○ Sound governance frameworks including project stage gates

○ Clear documentation that records early decisions and plans

○ Automated reporting to help with 'in-flight' management

○ Document repositories

○ Decision logs

Identify the biggest gaps and issues, and ensure they get the appropriate level of attention compared with less critical items. Comprehensive gap analysis will give you clarity on the shortfall between where you are today and your commitment to the regulator or regulatory requirements.

Scoping and the Definition of Done (DoD)

> "The DoD serves as a clear and shared understanding within the team running the programme of what it means for a piece of work to be completed."

When we become involved in large remediation programmes, our first task is to look at the scoping documents, plans and reporting. It is common to encounter milestones that have not been defined, unreliable tracking of activities, and poor quality data being reported to steering committees.

When it is difficult to find key information and get it quickly to senior leaders, it is often because the scope is muddled and unclear. Good programme management discipline means starting with the end in mind, cle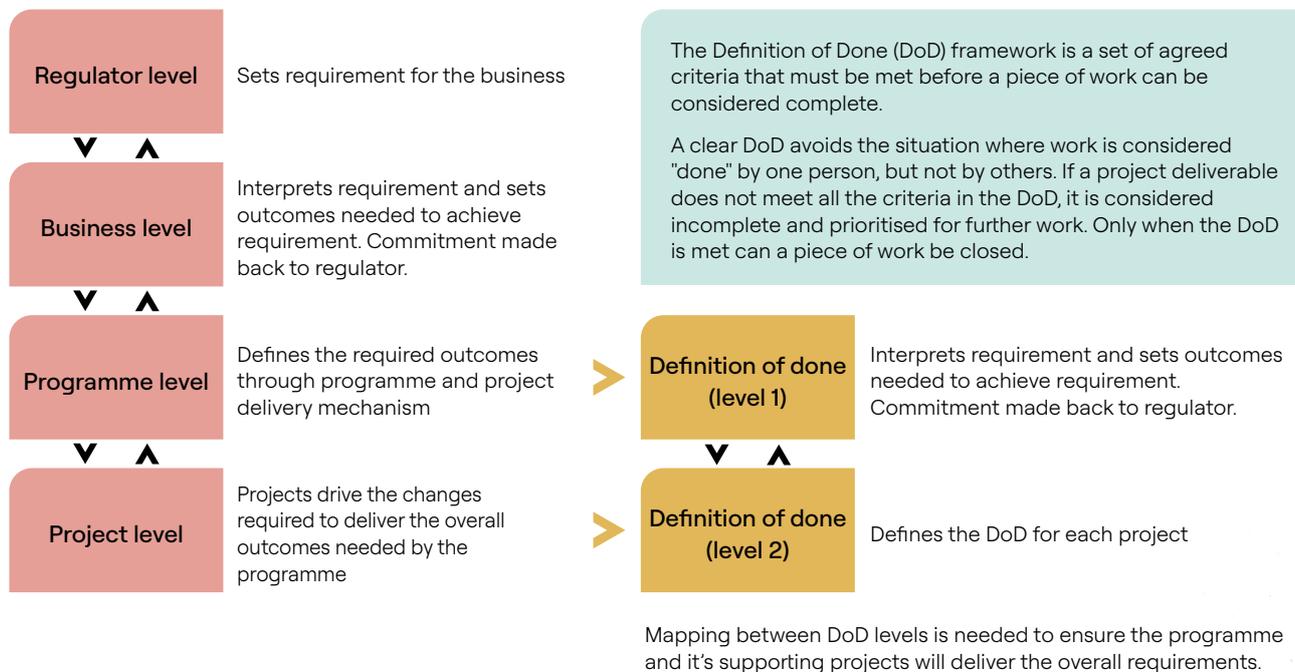arly setting out objectives and the Definition of Done (DoD). The DoD serves as a clear and shared understanding within the team running the programme of what it means for a piece of work to be completed. It helps prevent misunderstandings, promotes quality and ensures that work is ready for delivery.

Preparing the DoD involves careful analysis of what the regulator has asked for and a clear demonstration of the linkage between the regulatory requirements, what has been promised, and how the programme is going to contribute to those requirements. It translates the regulator's requirements into a well-structured programme of work. DoDs are a very useful tool and can be refined and updated to reflect evolving programme needs and standards.

The Definition of Done (DoD) framework

Regulator level — Sets requirement for the business

Business level — Interprets requirement and sets outcomes needed to achieve requirement. Commitment made back to regulator.

Programme level — Defines the required outcomes through programme and project delivery mechanism

Project level — Projects drive the changes required to deliver the overall outcomes needed by the programme

The Definition of Done (DoD) framework is a set of agreed criteria that must be met before a piece of work can be considered complete.

A clear DoD avoids the situation where work is considered "done" by one person, but not by others. If a project deliverable does not meet all the criteria in the DoD, it is considered incomplete and prioritised for further work. Only when the DoD is met can a piece of work be closed.

Definition of done (level 1) — Interprets requirement and sets outcomes needed to achieve requirement. Commitment made back to regulator.

Definition of done (level 2) — Defines the DoD for each project

Mapping between DoD levels is needed to ensure the programme and it's supporting projects will deliver the overall requirements.

Design Authority: Design with the end in mind

An essential step at the start of a large programme is the establishment of a Design Authority (DA). This is a cross functional committee of experts representing the main functions impacted by the programme, for example, the Business Owner, Programme Manager, and representatives from Operations, Compliance, Risk, Technology, Legal and Sales. The DA's purpose is to guide the delivery teams. It provides assurance that business and technical decisions are correct and that the solution proposed will be fit for purpose. It can advise on how a solution design should consider aspects such as security, risk management, delivery method, testing approach, implementation strategy, Business as Usual (BAU) operations and ongoing maintenance.

As the programme proceeds, the DA should ensure that it continues to align with the principles set out on day one and, crucially, to the DoD.

Appreciate the scale of what you are about to tackle

Regulatory remediation programmes usually involve substantial, multi-year workstreams. You need to recognise the programme's scale and complexity from the start. This means establishing good practice at the outset and committing sufficient resource. The quality, skills and experience of the people involved will be crucial to the programme's ultimate success.

CASE STUDY SNAPSHOT

Unrealistic assumptions lead to communication headaches

A big US bank asked us to undertake KYC remediation on a segment of their clients, having been told by their regulator 'you must attest that all of your KYC is in place globally.' Senior management thought they knew how many clients had to be remediated, but on closer inspection several lists of clients were found - and they were not the same clients. The bank's estimate was too low by a factor of 3.

Worse, the client relationships were much more complex than originally envisaged, and the bank had seriously underestimated how long the KYC remediation would take for each one.

People make assumptions which quickly become received wisdom. A big challenge in any project is working out quickly what the assumptions are, and determining whether they are correct. When senior leaders believe a project will be easy to complete, you may need to delicately reposition their assumptions to ensure alignment and understanding. This will ultimately accelerate and improve the chances of success.

Set up a Programme Management Office (PMO)

The PMO need not be a big team, but it plays a vital role at the heart of a programme. A well run PMO is not a costly overhead or a low-level administrative function. It's an essential hub managing the programme methodology, governance, controls and accurate reporting for the entire programme, enabling sponsors and leaders to manage and deliver the plan successfully.

Align the people

From the outset it is important that all the people involved in the programme are fully aligned. This means imparting a shared vision and clearly setting out roles and deliverables. While detailed frameworks and processes can be built, there is no substitute for capable and well-organised people, who understand how to contribute their strengths as the team works towards its shared goals.

Be flexible and adaptable

When designing remediation programmes, the objectives, scope and DoD should be defined upfront for clarity and focus. But ongoing planning and delivery need to allow for a certain amount of flexibility as new knowledge and events arise. Altering scope and plans is a skilled balancing act, because the programme must always stay focused on its stated objectives and ruthlessly manage its scope boundaries. If not, it can become bloated and a dumping ground for non-critical change items.

It is important to manage the communication and narrative around scope changes, explaining why they are needed and their associated repercussions. Senior stakeholders need to see that the programme is firmly under control and that changes are not made casually or without due consideration of the alternatives.

Be highly organised

Most organisations use a system such as SharePoint or JIRA to organise projects. When implemented correctly, these platforms act as repositories, and are very helpful with workflow, but they are not in themselves sufficient to keep a programme on track. What makes the difference is organised people with high levels of skill, who have worked on similar projects before. These people will plan intelligently as they go, anticipate problems and are key to delivering successful outcomes.

CASE STUDY SNAPSHOT

Accurate reporting leads to trust in the project

We came across JIRA project reports in a bank that were difficult to interpret, with out-of-date information. The reports weren't trusted by the management team, so they were ignored. Once we discovered this, we got together a small group of internal experts who were close to the data and knew what was important. They reconfigured JIRA and the process around it to improve quality and speed of information, and we added a Tableau dashboard for greater transparency. The new dashboard quickly built internal confidence not only in the reporting, but how the programme was being managed as a whole, providing an accurate snapshot of progress against the bigger picture of the programme objectives.

In-flight management

Programme governance

The governance structure for large regulatory remediation programmes does not differ materially from that used by other change programmes. The usual management, review and control mechanisms are needed: an executive sponsor, steering committees, a programme manager, a compliance team and cross-functional working groups.

What is different is the level of rigour that has to be applied throughout the programme because of the undertaking given to the regulator that the project will achieve certain outcomes which will be completed by a specific date. This reaches an extreme level during programme closure (see Programme Closure below) which means that accurate measurement, detailed record keeping, justification of decisions, meeting minutes, risk assessments, robust testing and so on, need to happen throughout, with a view towards the closure process and the need to attest to completion of the programme to the regulator.

Timely and accurate reporting

One of the biggest challenges in remediation programmes is obtaining, managing and reporting on data. Understanding progress against milestones is crucial. The key is to systematise reporting and make it accessible through dashboards, so people can extract information quickly and easily, and drill down into it when needed.

> Reporting should be automated and updated as close to real time as possible

The design of dashboards isn't a one-off event. Dashboards need to adapt as focus changes during the life of a programme. Whichever format you use, reporting should be automated and updated as close to real time as possible. That means people have to be disciplined about entering information within agreed timelines.

Think in layers

As a remediation programme gets underway it is necessary to 'think in layers' in order to meet the requirements of different stakeholder groups.

People communicate at different levels, for example, the board, senior leadership, programme, project and deliverable. Teams on the ground need to report the facts. Managers above them and senior people who are talking directly with the regulator must be able to take those facts and shape them for different purposes. Sometimes there's a need for detail while at other times discussions are at a high level, but everything must be underpinned by the facts on the ground.

Consistency of language is key. Make sure key terms are defined so they can be clearly understood by all stakeholders, providing a shared understanding of the programme's progress.

Manage dependencies by exception

In large and complex regulatory remediation programmes dependencies should be managed by exception. Only introduce them at a programme level when absolutely necessary, as opposed to including them by default. Using this approach can help keep projects lean and manageable.

Where dependencies do exist, it makes sense for project teams to manage them in their own workstreams, along with other risks and issues, with only the most important dependencies surfacing at the programme level.

Simplify the task

To help teams make plans that deliver tangible results, ask straightforward questions designed to seek unambiguous answers, for example:

○ What exactly do we want to happen?

○ What needs to be true to make this happen?

○ How do we get there in as few steps as possible?

○ Who needs to do it?

○ What support or resources are needed to ensure success?

Success through focus

Assembling a team quickly to manage a new remediation programme often takes place against a backdrop of scarce resources. Identify the skills that you need swiftly. Make sure there are both doers and thinkers who will focus on achieving the objectives.

To maintain situational awareness it's important that at least some people are entirely focused on the management of the programme rather than owning deliverables. These individuals will see the bigger picture and will deal with major blockages as they arise.

When people wear multiple hats and are distracted by their day jobs it can be a challenge, especially when a programme is under pressure. As the delivery deadline looms, keep in mind that the regulator is not going to accept that you haven't completed an action because people were busy on other tasks.

Genuinely empower team members

Empowering teams is essential for fostering collaboration, increasing motivation and achieving successful programme delivery. There are many aspects to this and good programme governance will help considerably.

○ Clearly define roles and responsibilities.

○ Set clear goals and objectives.

○ Trust team members to make decisions within their areas of responsibility.

○ Foster an atmosphere of open communication.

○ Provide the necessary resources and support for people to perform their tasks effectively.

○ Encourage lateral thinking and innovation.

○ Use project management tools that empower team members to work efficiently and (where necessary) independently.

○ Recognise and reward contributions.

○ Delegate decision-making authority when appropriate.

○ Foster a learning culture.

○ Lead by example.

○ Promote collaboration.

○ Provide feedback and coaching.

○ Promote work-life balance.

Break down the silos

Large financial institutions tend to operate in silos, and this can spill over into remediation programmes, which may involve Business Change, 1st line Operations, 2nd line Risk and Compliance, Front Office, Legal and IT. These functions are usually quite good at communicating among themselves, but less so at communicating with each other.

Breaking down silos is critical in regulatory change projects. Programme leadership (including the sponsor) and PMO teams must take the lead and bring teams together.

Every member of the programme should be encouraged to consider how they are sharing progress and decision-making with team members in other functions, and be prepared to escalate up the chain when they are not getting the right level of engagement.

Jaw jaw, not war war

In any project miscommunication can be very destructive, so it's important to create effective ways for people to talk. In a recent banking remediation programme we introduced two simple approaches:

Downscaling – whenever we saw that small groups of people needed to talk with each other about a particular issue, we set up MS Teams chats for them and made sure that any messages about the issue were sent to that group, meaning a single consistent communication was sent to all relevant stakeholders at the same time. Simple but surprisingly effective.

Inter-project subgroups - wherever two projects had a dependency on each other, we set up a subgroup between them. These groups met on a regular basis to work through issues and helped us avoid confrontational 'them and us' situations when under pressure.

Don't exhaust everyone on day one

It helps to think of a large regulatory remediation programme as a marathon, not a sprint. Programmes tend to have peaks and troughs of activity, so it's important for peoples' energies to be channeled in the right way over the long haul. There will be periods when overtime and weekend work may be required. Equally, during quieter phases, there will be opportunities to let people finish early. The key is to manage workloads carefully in order to avoid anyone burning out.

In a high performing team, the natural inclination is to try to tackle every problem as quickly as possible. You will need to explain to team members that this won't work in a regulatory remediation programme. They won't be able to fix everything in five minutes just because they're talented people.

Maintaining motivation: Pain is inevitable, suffering is optional

During some phases of a programme the work may be gruelling, which can reduce motivation. People need to build relationships, understand how others work and connect outside of day-to-day work. For this reason it's important at the outset to plan team-building activities, away-days and social events. Giving out low value but meaningful rewards such as cinema tickets, or occasionally letting people finish at lunchtime on Fridays can be immensely valuable as motivators.

> It doesn't matter how small the celebration is – the important thing is that you're doing it, and doing it regularly

Reward team members frequently and celebrate their successes as the programme moves forward. It's important that they feel they're doing a job that really matters. It doesn't matter how small the celebration is – the important thing is that you're doing it, and doing it regularly. At least once a month, celebrate with the whole programme team. It can be as simple as gathering together, having a coffee and giving people a pep talk, but you will also need to consider how to reward and engage remote and hybrid team members.

Managers should thank individual team members for their work, and circulate emails that celebrate success. This costs nothing but it makes people feel valued, especially when done with sincerity.

Use consultants in the right way

If you bring in consultants as advisers or programme managers, or to augment your resources, don't spend large amounts turning them into experts in your business, only to lose their knowledge when they go.

They are likely to have skills that are not available in your in-house team. Make sure that they are well integrated so that they leave your team better trained and empowered to take on greater responsibilities when the next big project comes around.

Don't let programme scope oscillate wildly

Regulator-driven programmes need strict controls around scope, but project teams and management committees tend to overreact to emergencies. When a big problem blows up, encourage calmness. Have a very small group of people analyse the problem and report back. If a scope change is needed, do it within the standard process. 'Noise management' is important as these situations can deflect people from their core tasks and risk derailing a programme.

Scope will inevitably evolve, but it should be governed by a centrally managed and controlled change request process. Changes, decisions and rationale should be documented to track lineage, provide an audit history and ensure clear communications. Senior stakeholders should sign off each change.

A caveat here is that control processes should not be overly laborious or time consuming. If it is too hard to flag a risk or submit a change request, people will sidestep the process, or worse, avoid raising important problems which will only resurface later.

Document, document, document

A key difference between a regulatory remediation programme and other programmes is the greater need for detailed documentation to provide clarity for internal and external stakeholders about what has been done. Governance and control processes need to include documentation of objectives, scope, breakdown of work, decisions, change requests and risks.

These must provide a clear view of what the programme set out to do, how things changed along the way (and why), what was delivered, and how this resulted in the intended change.

If things are broken, encourage people to say so

When there are problems it's important that these are quickly made known at the right level of management. Senior executives don't want to find themselves in board meetings or in front of a regulator only to be blindsided.

Instilling a culture of honesty and open communication is essential to a successful programme. Often staff feel immense pressure to deliver and don't believe that managers want to hear about problems, or they worry about being seen as obstructive, especially in large meetings. If you want staff to raise issues, don't shoot the messenger.

CASE STUDY SNAPSHOT

Honesty happens in safe spaces

How do you create an environment where people can be honest?

In a recent high-pressure programme in a European bank, we had independent experts in the room for key meetings and knew that attendees were uncomfortable speaking up about what was going wrong. We see this often and the danger is that everything seems fine, until suddenly things blow up and disaster strikes, apparently from nowhere.

In this case we agreed closure meetings would not be recorded via MS Teams. They were minuted so people could talk openly during the meeting. The minutes recorded issues raised in a clear but diplomatic way, focusing on the issue and how it would be addressed, rather than the exact wording used by the messenger. This created transparency, trust and encouraged open debate.

Providing safe spaces for people to talk is crucial. We like to use a 'thought experiment' approach, asking senior people to imagine themselves in front of the regulator. We ask them how they feel and why. Often they will freely admit they are terrified, so we probe further to get everything on the table quickly, and then we can work out what we need to change.

Programme Closure

Rigorous documentation and signoffs are vital

The governance process when closing a regulatory remediation project differs materially from that of a regular change project. The institution's representatives, typically the Chief Compliance Officer or a senior board member, will have to meet with the regulator at the end of the programme and demonstrate, with an appropriate amount of detail, how it has met each of the objectives that were originally agreed.

Considerable rigour is required so that the accountable people confirm their understanding of what has been done, that the programme has achieved all its milestones as workstreams close down and deliver their output, and that the proper sign-offs and documentation are in place. Generally the closure process takes place over several months and involves various closure committees meeting to review programme output and deliverables.

The vast number of items that closure committees need to consider is a hallmark of regulatory projects. These will include regulatory orders, compliance and audit observations, risk assessments, operational incidents, records of the transition to BAU, and residual risks. Assurance activities that confirm or potentially undermine achievement of the DoD also must be included, for example regulatory inspections, compliance reviews, KPIs, control testing, quality assurance data, external reviews, and embeddedness testing.

> Closing out a regulatory remediation programme is a much more complex and time-consuming process than closing out a regular strategic change programme.

As you would expect, this will involve multiple teams, departments and stakeholders, so the cross-team communication must be clear, accurate and comprehensive.

Closure should be black and white. If you are told an action specified in the Definition of Done (DoD) is "closed, but…", then it's not closed. It is possible to complete every milestone and still fail if the DoD can't be satisfied.

Satisfying the regulator

As the programme winds down, the programme sponsor must review key closure documentation, revisit the DoD, check that what has been delivered meets the requirements set out by the regulator, and be clear on any residual risks. The programme must assemble a body of evidence to support this view.

Financial crime programme closure approach

The diagram illustrates the activities between pre-closure and final validation, relating to the closure of milestones, initiatives and workstreams. The purpose is to ensure closure both internally and to the regulator. Each stage must be signed off by the accountable stakeholder or committee. The golden rule is that progress can only flow from left to right – closure cannot go 'backwards'.

Work finished   **Closure phase**   **Closed**   **Validation phase**

Closure Stage	Workstream Owner	PMO Stage Gate	1st Line Closure Council	1st Line Remediation Steerco	1st Line External Challenge Partner	Group Internal Audit	Embeddedness Testing	Other Validation QA
Outcome	Recommend for Closure	Assurance on Closure Process	Validate DoD has been achieved	Verify and approve closure	Provide external review and challenge	Validate regulatory order compliance	Provide assurance on technical items	Provide assurance in BAU setting
Workstream — Close a workstream	✔	✔ (PMO Stage Gate)	✔	✔	✔ (FAQ external validation)	✔ (Where workstream addressing a Regulatory Order)		
Initiative — Close an initiative	✔	✔	✔	✔	✔ (Key initiatives)	✔ (Where initiative addressing a Regulatory Order)	✔ (Technical deliveries only)	✔
Milestone — Close a milestone	✔ (Initiative Owner)	✔						

Key Requirements:
> Completed Closure Template
> Business Documentation approved
> Assessment on linked Audit Observations approved
> Assessments on linked Regulatory Orders performed
> BAU Team Acceptance obtained
> Risk Assessment Performed

	Check and Challenge provided by 1 LOD and 2 LOD Accountables	Closure verified by key Governance forum	External Challenge against a pre-defined set of measures	Key checkpoint with GIA to ensure Regulatory Orders are completed	Additional level of assurance required for technical developments	Standard BAU validation processes

Dialogue with the regulator and reporting on progress will have taken place throughout the programme, but the closure meeting with the regulator is a significant event. It is essentially an oral exam. To prepare well for this meeting, or series of meetings, the CCO needs to be given a comprehensive pack of programme documentation. This should summarise all the work that has been done, supported by an appropriate level of detail in case the regulator wants to drill down into specific areas.

The information needs to be presented so that the CCO finds it easy to get the key points across. The institution has to be able to prove to the satisfaction of the regulator:

○ **That it has done X**

○ **How it did X**

○ **What governance and controls were in place to manage the delivery of X**

○ **How it can evidence it has done X**

Closing out a regulatory remediation programme is, of course, not the end of the journey. But it is an important milestone, marking a transition into BAU and the phase of ongoing monitoring and control.

CASE STUDY SNAPSHOT

Closure is an emotion

Closure is the critical moment in a programme where you have to convince highly qualified and probably sceptical people you're in the place you need to be.

This is both a science and an art. The facts represent the science – for example, 'we have completed all these tasks'. That gives you the framework for closure. But there also has to be a narrative – a story. This is where the art comes in, and we spend a surprising amount of time with clients getting the story right.

Numbers and facts alone won't cut it. Carry your audience through a narrative arc, adding detail to make it compelling, with a strong and satisfying ending, so that they literally 'feel' a sense of closure.

Conclusion: Next steps for senior leaders

We have considered how to plan, manage and deliver a large, critical regulatory programme, and it seems logical to conclude by looking at the bigger picture.

In today's largest financial institutions there is almost always a remediation project going on somewhere at any given time, and as we have seen, these initiatives require a different order of programme management capability and must be treated differently from other project types.

As a board executive or senior leader, what steps should you take to ensure that your organisation has fit-for-purpose capability when it comes to critical regulatory and remediation programmes?

Ideally you should aim to set up a core permanent team who can tackle these programmes, or if that's not possible, ensure that you put a team in place as soon as the need arises.

How do you know whether your organisation has the right capabilities?

To understand whether or not you already have the expertise in-house, ask yourself about your internal teams. Do you have enough people in the organisation who have successfully delivered these kinds of projects before? How confident are you in your senior team's level of expertise and their ability to manage these programmes?

If you need to bring in new capabilities, look for people who have been through these programmes before who understand the process, the pitfalls, and the tools and support needed to complete the job. You can recruit people who have gained this experience in other organisations, and supplement them with external consultants.

The core project team and subject matter experts may need to commit to 2-3 years on the programme. That's a tough sell. You'll need to incentivise them with a long-term contract or bonus structure, and they need to be educated about what the programme will do for them, such as giving them a higher internal profile and new skills that will accelerate their career.

You can't outsource this type of programme - it's too important. But you can benefit hugely from bringing in specialist consultancies or advisors to partner with your internal teams.

Look for a specialist firm that has successfully conducted several regulatory and particularly regulatory remediation projects before, that has worked with regulators, and will understand your operation from day one without the need for a steep learning curve. Exceptional delivery capability is crucial – you're going to need more than sage advice to succeed.

Start with closure in mind

Introduce the necessary processes and controls from the get-go and decide whether you need external support early on. It's doubly hard to unpick things halfway through a programme that is already failing – and bringing in someone new at this stage will cost you more, as their first job will be to clear up the mess, which is both complex and time-consuming.

Be clear about commitments that you make to the regulator. Document your understanding for later reference and don't over-commit, or over-specify detail unless you have no choice.

The programme's rate of progress could influence the share price of the business and the amount of reputational damage suffered, so your board will need 100% confidence that the programme is being managed effectively and be willing to allocate the resource needed to get it over the line.

A final word on budgets and resourcing. Senior management often expect programmes to follow a bell curve shape, with peak resourcing around the middle of the programme, and a steep decline towards the end. This is partly true, but we often see budgets cut prematurely, and too deeply, underestimating the criticality of the final stage of project closure.

We recommend what we call 'spending through the line'. Like an Olympic sprinter, successful regulatory programmes finish strongly, bursting through the finishing tape at full speed, not limping towards it. The time to decelerate is when the programme has been closed down, signed off, approved by the regulator and handed over to BAU teams.

We wish you every success!

Let's talk

At Beyond FS, we have considerable first-hand experience in delivering successful regulatory change in both extreme and less extreme circumstances, across multiple clients and projects, so we are well placed to help organisations which need to improve their AML and regulatory change capabilities. We also specialise in turnaround situations – we are frequently brought in part way through change programmes which are off-track or failing. We have a very strong record of putting these programmes back on track swiftly.

If you would like to talk to our consultants about any current or planned regulatory change programme, please get in touch:

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