

JUST A FALLEN BUGBEAR?

Will re-branding compliance as regulatory risk help it to be accepted as part of 'business as usual'?

By Simon Slocombe

THERE are many clichés in technology sales. It used to be said, in the old days of massive mainframe computers, that 'no-one ever got fired for buying IBM'. And there was another IT manager's mantra: 'Never buy Version 1 software.' Compliance seemed to gift IT with the ultimate attention grabber: 'Executives pay attention when they might go to jail.'

Just like all clichés, there was just enough truth to ensure that it was repeated enough and no one questioned it. With seeming guilt-edged anecdotes and examples, and a zeitgeist of executive accountability spawned by the Enron scandal, compliance found its way into every nook of data management software.

Customer data integration applications could help map Sarbanes-Oxley requirements, and business intelligence applications were gifted with the complex exposure calculations required for the Basel banking accords.

As an IT professional, I should be rubbing my hands at the thought of more central edicts forcing companies

to change, but I am not. Compliance was never the compelling reason to change that it was painted, despite the (vendor-fuelled) hype. At best, compliance activities formalise good practices already in place. At worst, the rush to 'comply' creates ad hoc and tactical solutions.

At least now there is a growing attempt amongst compliance professionals to seat their activities within a wider context of risk. This views compliance as regulatory risk, that is, the extra controls that a regulatory framework will impose on operational processes. Perhaps this also acknowledges that non-compliance is a balance sheet risk just like any other.

How will this reformulation of compliance help IT plan its response? For a start, it sets the expectation that regulations change over time. This is crucial to planning systematic solutions to a particular regime so that likely evolutions of regulatory policy can be examined and planned for. It also implies that all parties, regulators activities and

companies alike, start to see compliance as part of its business as usual, rather than as simply a jail-inducing device for accountable executives. .

No area of compliance has dominated IT consciousness as much as Basel II. It forced early adopters to pull together credit risk information across the enterprise on a scale not often attempted prior to the accord. The lessons learned from the first wave of banks in the UK allowed the regulators to be more precise on the nature of information it required. Banks this year faced stronger questions on the provenance of the data they were making credit judgements on.

With Basel, once the lessons were learned from the first companies achieving compliance, these lessons were then incorporated, and later companies found themselves faced with extra questions, relating more to the processes that provide key information, rather than the information itself. This is driving an increased focus on data governance, which places emphasis on data provenance and ownership. **CCRW**

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SIGNS OF REAL GROWTH AND LESS RISK

WE are seeing a limited recovery potential and continued risks in many countries and industries around the world. Indeed, even in the best-case scenario, a favourable triggering of the factors for recovery will not prevent, after an upturn, an extended period of convalescence, at least in the developed countries, especially in terms of demand.

This latter should, first of all, be held back by the deterioration in employment markets, where job losses, already massive – especially in the US, Spain and Ireland – are likely to continue into 2010, notably in Europe. This could bring a total, in our view, of more than 20 million additional unemployed since the end of 2007 in the OECD overall. This will impact on wage gains and, in the end, on purchasing power, the latter

already slowed by the end of disinflation in commodity-importing countries.

Besides this, demand continues to be constrained by the need to bring down excessive past debt levels, after a decade of spectacularly soaring credit: this applies to households as well as businesses, in the US, in Europe and in Japan. It will also be the case soon, in practice, for public demand, with the colossal swelling in public deficits arising from the crisis and from the measures to stem it, threatening also to spur precautionary savings to increase prematurely or beyond expectations.

Finally, demand risks remaining constrained by durably tightened and selective lending conditions, with the easing of financial tensions on interbank markets having brought only stabilisation

in a banking system that has not finished reabsorbing the crisis. All of this means that the monetary, budgetary, and sectoral support strategies for ending the crisis – those taking shape over the second half of 2009 and for 2010 – will be rich grounds for debate.

And we repeat the point made earlier: the world economy is not yet immune to another fall, even ignoring any one the many existing dangers – for example, growing disorder in the FOREX markets, a rise in protectionism, or an H1N1 swine flu pandemic in autumn 2009 – just one of which could trigger a worse outcome.

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