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The PMO – The Key to Surviving Financial Services Re-Regulation

Executive Overview

This paper explores the challenges that financial services leaders are facing in a heightened regulatory environment in 2013, as well as the project management office's critical role in maintaining agility and strategic project planning.

Financial services companies can remain agile in these times if they have a PMO that can fix disconnections between all entities in a project, create a full portfolio view of all projects, develop what-if scenarios that can be quickly acted upon when needed, and communicate with all stakeholders.

Introduction

The financial services industry is in the midst of unprecedented change. The global financial system came to a crashing halt in September of 2008 when the first major financial institution collapsed. The crisis prompted a fundamental re-thinking of the rules and regulations that govern the financial services industry, with mechanisms such as currency markets suddenly stalling, and major banks and insurance companies failing or needing a bail out.

In response to these changes, dozens of regulatory interventions have been devised, proposed, debated and approved. Following the G-20 meeting in Pittsburgh in 2009, the United States passed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, arguably the most comprehensive overhaul of the US financial services industry since the 1930s.

In Europe, the European Union began working on a wide set of new regulations, including reworking the Markets in Financial Instruments Directive (MiFID), introducing the European Market Infrastructure Regulation, Solvency II, among others. Globally, Basel III has been approved and is being implemented starting in 2013.

As a result, virtually every segment of the financial services industry is facing a new, more comprehensive and strict set of regulations aiming to govern how the industry operates and the role it plays in the economy. In 2013 those regulations start to become implemented.

The landscape will continue to change in the coming decade as waves of global and regional regulations reshape the marketplace. Financial institutions will have to adapt existing business models and develop new approaches that focus on efficiency, control and flexibility.

When asked about the top initiatives on the minds of management, 19 percent of financial institution executives surveyed by KPMG LLP cited the need to significantly improve operational processes and related technology.[2]

This will require a centralized effort for selecting, prioritizing and executing projects, maintaining agility, optimizing employee performance and managing risk -- a challenge best met in the project management office (PMO).

Respond to Regulation and Prepare for Growth

To succeed in the re-regulated world, financial services firms must find new and innovative ways to grow in the next decade while ensuring appropriate controls.

Regulators are demanding greater transparency; customers are seeking a more relevant and targeted experience, and bank management is looking for growth opportunities.

According to global financial services consulting firm Investance, senior management must have a comprehensive, forward-looking agenda encompassing not only product and service innovation, but one that also considers the following key ways to respond and prepare for growth. All of these objects can be achieved within a coherent project management office.

- Achieve compliance at the right cost: Internal compliance departments will remain at the forefront of interpreting regulations to ensure that every corner of the organization is appropriately equipped to meet the new requirements. However, compliance comes at a cost and organizations must look for ways to become more efficient in their approach to meeting regulatory mandates.

- Optimize the business portfolio: Many financial services firms will continue to review their diverse operations with the goal of identifying core assets, clients and businesses. Substantial progress has been made in disposing of assets and activities deemed non-core to free up or preserve capital. However, untangling many years of rapid growth through mergers and acquisitions will prove challenging and will require significant investment of resources to accomplish.

- Right size the front office: In light of the regulatory and business changes, many financial services firms, particularly investment banks, are saddled with oversized front office organizations. All organizations must be flexible in their approach to staffing and have strategies in place to align the cost of the front office with their level of business activities.

- Focus on risk management: Real-time risk management will be at the top of every CEO’s agenda. CEOs and CROs should promote the culture of “risk awareness” throughout their organizations to ensure that everyone takes responsibility for identifying and mitigating risks.

- Leverage data: Technical innovation gives the industry an ability to collect, process and use massive amounts of data that exists in multiple databases and data sources. What's more, the ability to integrate the data across all silos of the firm will give senior management an unprecedented view of performance and risks.

- Achieve operational efficiency**:** Global and local COOs must focus on achieving operational efficiencies through better operational controls and automation. Better integration, breaking down silos, leveraging shared services and industry utilities are opportunities to deliver efficiencies.

At the hub of all of these efforts should reside a single organization whose sole purpose is to leverage, coordinate, optimize and mitigate risks of all projects within the financial institution -- a Project Management Office.

According to research from the Economist Intelligence Unit, organizations that adhere to strong project management methods are consistently more successful than those that do not. About 90 percent of companies consider project management competencies crucial to their success, yet many still struggle to consistently manage projects effectively, improve processes, and meet strategic business objectives.[4]

The Benefits of a PMO in Financial Services Firms

A coherent project management office is one where its functions, purpose and role are aligned with the larger purpose and objectives of the organization. It enhances project functioning and delivers value to all of its stakeholders. It provides a focal point for consistent delivery of projects while allowing for the flexibility required to address individual project challenges.

A centralized PMO model is evolving to seek out the benefits of consolidated project execution. The Enterprise Project Management Office or EPMO provides the ability to manage all initiatives and processes from a single control point. It is a business function and not a technology function, and as such will be staffed with a growing number of business resources.

Consolidating the PMO into a single corporate function will naturally also lead to a centralized pool of project managers – specialists in project management discipline rather than in the functional areas that they manage projects for. This delivers flexibility to the PMO, allowing project managers to move in between initiatives for different departments and functions as their workload demand.

In the uncertain regulatory environment of the last few years, the imperative of finding efficiencies has been paramount. This has influenced the projects that financial institutions take on, as well as the expectations of how these projects are delivered. These are challenges that can be better understood, supported and managed by the PMO.

Centralization

When managed properly, centralization can be the source of considerable efficiency gains. The challenge is developing a strategy that meets the broader goals of the organization while still providing sufficient support for the needs of individual organizational units. The promise of the Enterprise PMO is providing a truly coherent focus for all projects in the organization – while still embracing the uniqueness of the different projects the organization undertakes.

Shared services

Hand in hand with the move to centralization has been the exploration of shared services strategies. The functional areas being considered for the introduction of a shared services model are growing considerably. Especially in large multi-nationals and the private sector, a broad array of functions from strategic planning to information technology to project management are being considered for shared services deployment.

Cost

Reduction of costs is an ongoing source of pressure and area of focus. There is a continued drive to manage and minimize costs that is having a significant influence on how organizations manage and deliver their projects. Operational managers need to manage budget reductions while maintaining or even enhancing service levels, while project managers must face the demand to deliver more complex projects with fewer dollars and resources.

Increasing need for collaboration and effective resource management

The coherent PMO faces both the opportunity and the challenge of supporting collaboration. It is ideally suited to be a clearinghouse of information and a connector of resources. Through greater awareness of organizational strategy, increased visibility of individual projects and progress, and the ability to coordinate interdependencies between projects, the PMO is positioned to be a critical lynchpin in supporting improved collaboration.

At the same time, centralized structures can be perceived as a bottleneck as much as they can be an enabler. To be successful, the PMO must be a value-added contributor to the success of projects and organization. They must see themselves – and be seen as – a facilitator of a greater dialogue between stakeholders and project participants. Organizations are looking for support and assistance in facilitating greater levels of collaboration, just as individuals are seeking more ways to contribute. The PMO is being increasingly seen as a resource to support these efforts.

Conclusion

Project portfolio management is an essential skill and capability for financial services firms as the industry grapples with re-regulation and a resurgence of competition. Those organizations that are realizing the greatest value in managing their projects are those who have consistent, supported and relevant project management practices centralized in the project management office. They continually evolve and invest in these practices, and they use best practices to ensure successes.

Above all, the coherent PMO provides value, supports continued evolution and is open to questioning current practices. As stated earlier, the trend toward centralized project management will continue to grow within the industry, and for many financial institutions, their very survival may depend on it.

1. "The Year Ahead 2013" Special Report, Investance, January 2013. http://www.investance.com/sites/default/files/Investance_Year_Ahead_2013_Final_v5.pdf

2. "2012 Banking Industry Outlook Survey," KPMG LLC http://www.kpmgmandamonthly.com/monthly/articles/2012_Banking_Industry_Outlook_Survey.pdf

3. "2013 Banking Industry Outlook: Moving forward in the age of re-regulation," Deloitte LLP Center for Financial Services http://deloitte.wsj.com/cfo/files/2013/01/US_FSI_2013BankingIndustryOutlook_pdf_111212.pdf

4. "Closing the Gap: The link between project management excellence and long-term success," The Economist Intelligence Unit, October 2009. http://www.oracle.com/us/dm/h2fy11/oracle-project-man-web-337374.pdf

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