Compliance as a differentiator

Financial institutions move forward with the past, heavily influencing today's business strategies

Today's financial services sector continues to adapt to the ever-changing economic environment and regulatory landscape. Organizations have regained confidence since the economic downturn and have begun to find innovative ways to grow their business. However, the scars left behind from the financial crisis have placed a whole new outlook on how to grow the business. Organizations no longer simply can loosen the reigns and take uncalculated risks; they must have the proper knowledge in place. Government agencies now are placing significant scrutiny on every business transaction to protect consumers and the institution, requiring lenders to place extra due diligence in all areas of operation, from new customer acquisition to account and portfolio management.

The number of regulations imposed on financial institutions has grown significantly over the past five years, now far exceeding any amount in the history of lending. Adding to the sheer volume, the level of complexity behind each regulation is higher, requiring in-depth knowledge to implement and comply. Lenders have to understand the full complexity of both national and international regulations, such as the longstanding international Basel regulations, which have evolved over the past 25 years, and the more recent Dodd–Frank Act, with specific national requirements. Unlike before the financial crisis, these new regulations now are impacting financial institutions of all sizes and are far more invasive, requiring significantly more resources to manage the regulations. This, in turn, is increasing costs and putting a strain on business operations.

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These regulations not only impact the way organizations handle their day-to-day business, but also considerably impact the consumer. In the mortgage space in particular, the days where first-time homeowners could take out both a first and a second mortgage to cover the entirety of their loan with no money down are long gone. Financial institutions are no longer in a position to take on this kind of risk. The opportunities to establish credit are more challenging for consumers given the limits placed on new products being offered as regulations impose the need to create more protected and "safe" product offerings.

In addition, consumers are more skeptical of the financial obligations they undertake in fear of overextending themselves. Consumers no longer assume that a financial institution will have their best interest in mind by offering a product they can afford. Instead, consumers are more informed than ever on the impact a lending decision will have on their credit file and overall personal finances. As a result, more due diligence is required by lenders to put the right offer into the right person's hands at the right time. With the ease of information access, consumers are more empowered to shop around if a lender does not offer a competitive product or if the turnaround time for credit review is too slow or cumbersome.