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Value chain mapping for risk transformation in Australia's new regulatory environment

Australia's financial services industry continues to face evolving community expectations, regulatory change and scrutiny. A trio of new regulations has created a need to demonstrate better governance, clearer senior executive accountability across end-to-end processes and risks, and operational resilience:

- The Australian Securities & Investment Commission (ASIC)'s Design and Distribution Obligations from October 2021;
- The Financial Accountability Regime from ASIC and the Australian Prudential Regulation Authority (APRA), which strengthens responsibility and accountability for authorised deposit-taking institutions from March 2024 and insurance and superannuation trustees from March 2025; and
- APRA's new prudential standard on operational risk CPS 230, which starts 1 July 2025.

Considered together, the new rules create a sense of urgency for businesses to transform in multiple ways. Understandably, most of Australia's financial industry is taking on the new requirements through a piecemeal approach, implementing individual rules and regulations as the compliance dates approach. To adapt to evolving market and regulatory needs, financial services firms should capitalise on transforming their businesses and risk management practices by leveraging findings from value chain analyses, evaluating benefits realisation and implementing methods for continuous improvement to ensure longer-term sustainability.

This paper is the first of a two-part series on achieving business and risk transformation.

Getting started: How to engage in business transformation

One strategy for adopting a more holistic approach to business transformation is to map out end-to-end value chain processes to have clarity around business processes and identify areas for improvement. Value chains can be drawn up from varying perspectives, including from an enterprise, business, function or product viewpoint. Improvement areas could centre around process optimisation, revised operating model, technology and enterprise architectural enhancements, uplifted governance, culture and conduct frameworks, as well as revised change management practices, to name a few.

Figure 1 below illustrates a high-level generic product value chain of a bank deposit product. It was adapted from Dr. Eric Lamarque's study, "Key Activities in the Banking Industry; Analysis by the Value Chain," with the various business processes added for illustrative purposes. Our experts have incorporated processes that are more commonly seen in the Australian banking industry, noting that some of these processes may not be completely linear as they may continue throughout the value chain.

Illustrative Generic Consumer Bank Product Value Chain[1]

Bank Infrastructure and Technological Development								
Human Resources								
Customer Support & Service								
Risk, Compliance Management, Monitoring								
Product Design & Development			**Marketing & Sales**			**Operations**		**Ongoing Product Maintenance**
Market Research & Analysis	**Product Design & Development**	**Risk Assessment & Compliance**	**Distribution Channels**	**Sales & Customer Acquisition**	**Marketing & Promotion**	**Customer Onboarding**	**Transaction Processing & Operations**	**Product Management**
Identify target customer segments	Define product objectives and goals	Identify and assess potential risks associated with the product	Establish and maintain branches and ATMs in strategic locations, if applicable	Identify target customers and prospects	Develop a marketing plan and budget	Collect required customer information and documentation	Implement secure and efficient transaction processing systems	Strategic product review and health checks, product monitoring
Analyse market trends and competitive landscape	Determine product features, benefits and pricing	Develop risk mitigation strategies and contingency plans	Develop and maintain online and mobile banking platforms	Train sales teams and customer service representatives	Create product marketing and legal materials (e.g., brochures, advertisements, terms and conditions)	Verify customer identity and financial information (i.e., credit assessment)	Handle deposits, withdrawals, loan applications and other financial transactions	Product variations
Conduct surveys, focus groups, or interviews with potential customers	Develop detailed product specifications	Ensure compliance with local, national, and international regulations	Set up call centers for customer support	Develop sales scripts and training materials	Launch advertising campaigns through various media channels	Set up customer accounts and provide access credentials	Maintain accurate account records	Assess, plan and implement product closure or decommissioning, where applicable
Gather and analyse market data, including economic indicators and demographic information	Create prototypes or mock-ups for review	Obtain necessary regulatory approvals	Implement and manage partnerships or agreements with internal or external third-party distributors, where necessary	Conduct sales presentations and demonstrations	Monitor and evaluate the effectiveness of marketing efforts	Explain terms and conditions, fees and policies to customers	Monitor fraud prevention measures	Communications and change management
				Facilitate the application and account setup process				Customer offboarding or migration

[4] Bordeaux Montesquieu State University, "Key Activities in the Banking Industry, Analysis by the Value Chain", March 2000.

Each product could be mapped out in the end-to-end product value chain and within a hierarchical structure based on standards supplied by the American Productivity & Quality Centre (APQC) Process Classification Framework (PCF), and notations format based on Business Process Model & Notation (BPMN). Each level below dives into a more granular detail of the process, with Level 5 being the most granular.

Practical tips

We acknowledge that due to time or resource constraints, organisations may not be able to map out all the processes to the granularity of a Level 5. Instead, drawing up a Level 1 and 2 value chain map that covers critical operations and processes is a viable option to start. The purpose is to ensure there is sufficient visibility of important parts of the business that would have material impacts to the organisation if not operating as intended.

Areas where processes can be streamlined or simplified can be documented, with anticipated benefits quantified, e.g. amount of time saved to complete a process, number of processes automated, number of customer complaints reduced.

Ideally, these processes would be worked out with process owners and key stakeholders to capture all the relevant subprocesses at an agreed level of granularity. Further attributes such as material service providers, data/systems, risks, and obligations can also be mapped to processes, particularly if this is part of APRA's CPS 230 Operational Risk Management requirements.

Through design thinking workshops and further assessment, areas can be identified for adaptation within the core and/or supporting processes. Observations and change areas can be grouped into clusters or themes, and underlying recommendations can be mapped into a priority matrix and implementation roadmap.

Benefits realisation: After transformation, what happens next?

Business transformations are significant undertakings, and reaping the rewards requires a plan that extends beyond project completion.

We explore the concept of benefits realisation, a crucial aspect of ensuring a transformation's long-term success. Process optimisation is just one example of how organisations develop a more holistic approach to business transformation. We see undergoing business transformation as also having the ability to enhance organisational resilience, improve decision-making, reduce costs, boost stakeholder confidence, improve employee satisfaction, provide a competitive edge, and support longer-term sustainability. These advantages extend beyond regulatory compliance and are relevant for any organisation seeking to thrive in today's dynamic business environment.

Case study

Protiviti supported a members-based organisation design a critical business operations process modelling approach and ensure future-proofing against CPS 230 requirements. 10+ critical business operations and 55+ subprocesses were part of the scope. As part of the pilot phase, we held a structured training program for nominated representatives in the organisation and process-modelled a smaller subset of critical business operations with a focus on critical products. We also mapped attributes including risks, controls, systems and material service providers against applicable subprocesses. Risks were mapped back to existing risk taxonomies and controls back to the controls library. Outputs were then used to feed into the Financial Accountability Regime program that was happening simultaneously to have better visibility of end-to-end accountability by process and risk. The approach is currently being rolled out for all the remaining business operations and later onto essential business operations and products.

At the conclusion of the pilot phase, through extensive workshopping and analysis, there were nine business process optimisation opportunities identified across facets such as technology, automation, people, risk and controls. Multiple risk gaps, 10+ control gaps and eight control uplift opportunities were also identified as part of the pilot. In addition, we took the opportunity to review the adequacy of the existing risk taxonomy and controls library and presented recommendations to the organisation. We are now working with the organisation to implement and embed transformation changes, whilst continuing to support the execution phase of the project.

Sustainable benefits through accountability and monitoring

A key aspect of benefits realisation is establishing an organisation-wide system for accountability and monitoring. While some benefits such as regulatory compliance may be immediate, others, such as improved customer satisfaction and reduced risk exposure, may take time to materialise. Tracking progress and holding stakeholders accountable are essential to ensure these long-term benefits are achieved.

The importance of continuous tracking and evaluation

Tracking both the financial and non-financial return on investment (ROI) after conclusion of the project provides valuable insights that can be applied to future initiatives. Regular reviews and evaluations help validate the effectiveness of the transformation and ensure it remains aligned with the business's evolving needs.

Conclusion

In today's dynamic business landscape, transformation is no longer a one-time event to be taken piecemeal, but rather is an ongoing journey that pulls in all parts of the organisation. It is, however, vital to find the right pace for transformation initiatives, as implementing large-scale changes too frequently can be disruptive to the business and staff well-being.

While achieving long-term benefits from business transformation requires a focus on realisation, managing risk is equally crucial for success. In part two of this series, we'll delve deeper into the concept of risk transformation and the intersection with business transformation, exploring strategies to turn challenges into opportunities and build a more resilient organisation.

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Contacts

Mark Burgess
Managing Director, Risk and Compliance
Protiviti
mark.burgess@protiviti.com.au

Ruby Chen
Director, Risk and Compliance
Protiviti
ruby.chen@protiviti.com.au

Anthony Le
Manager, Risk and Compliance
Protiviti
anthony.le@protiviti.com.au