

# News Release

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## **FINANCIAL FIRMS FACE HIGH REPUTATIONAL COSTS FROM POOR COMPLIANCE RISK MANAGEMENT**

Financial firms are failing to grapple with the evolving role of the compliance function at a time when customers and stakeholders expect greater integrity and accountability from its financial services providers, according to the latest PricewaterhouseCoopers international study conducted using senior compliance executives. While eight out of ten organisations believe that the compliance function adds value to their business, many are finding it difficult to pinpoint exactly the value and benefits of compliance. Organisations are not rising to the challenges posed by the shift from rules-based to principles-based regulation or supervision by taking a more holistic approach that moves beyond statutory expectations to strategic and tactical decision-making.

Managing corporate reputational and brand risk has jumped to the top of the agenda of board directors following recent high profile cases, pushing the compliance function well into the spotlight. The study found that many board directors do not yet fully appreciate the tangible benefits of instilling compliant behaviour into the DNA of their organisations. However, with little progress in developing standards for measuring the value of compliance or in thoroughly assessing compliance risks, some respondents are concerned that the compliance function could quickly be relegated from the corporate priority list if regulatory pressure were to be relaxed in the future.

The study, which carried out in-depth face-to-face interviews with senior compliance and risk executives of 73 major national and international financial institutions, also shows the frustrations of many respondents with the challenges of aligning the scope of the compliance function with corporate values and the lack of an appropriate technology infrastructure, which is hindering their ability to generate relevant management information.

Charles Ilako, *Global Financial Services Regulatory Partner*, PricewaterhouseCoopers, commented:

“As the sector is grappling with the biggest shake-up in regulation for a generation, compliance teams have an increasingly important role to play in protecting and enhancing corporate value and reputation in the face of stakeholder demands for greater integrity, accountability and financial stability. Organisations are missing a trick if they do not see the longer-term commercial benefit of instilling a compliance culture into the business. However, they also need to quantify the value of the compliance function: this will reduce regulatory pressures and also safeguard value in the business for the future.”

Given the constantly changing regulatory environment, the role of the compliance function is being re-shaped. Two complementary roles are emerging: the ‘police officer’ responsible for compliance oversight and the ‘counsellor’, a trusted adviser to the business. In the UK, Canada, US and Australia, there is a distinct shift from the traditional role of ‘police officer’ to ‘counsellor’. Elsewhere, more emphasis is placed currently on the ‘counsellor’ role.

Interestingly, a growing number of compliance executives would like to see compliance going beyond laws and regulation, and encompassing ethical and social values expected by shareholders, clients and the community.

Josy Steenwinckel, *Partner Financial Services Assurance*, PricewaterhouseCoopers, added:

“The right balance needs to be struck between the ‘police officer’ and ‘counsellor’ roles against the backdrop of the relative, and hopefully growing, strength of the compliance culture within the organisation. Management needs to configure its compliance framework carefully, looking closely at the interaction between the compliance function and other risk and controls functions, in the context of its businesses overall. No one model will fit all, and all models will need to evolve.”

The survey finds that management remains frustrated by the continuing rise in the cost of compliance. However, whilst recognising that compliance, like performance, is fundamental to doing and staying in business, there is a requirement for more innovation in the approach to achieving compliance in a cost effective manner.

Denis Caprasse, *Director Financial Services Compliance*, PricewaterhouseCoopers, concluded:

“Boards and senior management should focus more on measuring the real cost of compliance, including non-compliance costs such as sanctions taken by the supervisory authorities, suspension of business and impact on cost of capital, in order to identify scope for cost efficiencies, as well as to elucidate better the true value of compliance. Higher priority should also be placed on the appropriate use of technology to improve operational compliance and information sharing within the compliance function, as this both improves effectiveness and reduces costs.”

**ENDS**

## Notes to Editor

1. The PricewaterhouseCoopers Compliance Study, 'Protecting the brand' is an in-depth international qualitative study into compliance functions in the financial sector. The results are based on participation from over 73 internationally active and major domestic financial services institutions in 17 countries worldwide. Study participants represented all sectors of the financial services industry: 63% banking, 19% investment services and 18% insurance (although many of the international participants are active in all three sectors). Interviewees included group risk compliance officers, heads of risk management, members of senior management with overall compliance responsibilities (including CEOs), regional compliance heads, and heads of business line compliance.

PricewaterhouseCoopers regulatory and compliance specialists conducted face-to-face interviews with selected participants in the latter half of 2004. The study was further enhanced through interviews with some key industry associations and regulators. The results from these interviews were then supplemented by significant desk research and input from the PricewaterhouseCoopers global network of regulatory and compliance specialists.

The study examines the definition of compliance risk, the challenges to achieving compliance, the configuration of the compliance function, how compliance contributes value to business performance, the national requirements for compliance functions and current regulatory challenges.

2. Copies of the Global Compliance Study 2005 are available from [www.pwc.com/financialservices](http://www.pwc.com/financialservices)

3. PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

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