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The next big leap: Forging a more effective and influential compliance function

Banking Compliance Survey

*Include introduzione
al contesto italiano*



*Dalla view italiana al contesto
regolamentare europeo*

Compliance Officer: un ruolo in continua evoluzione nell'organizzazione delle Banche

Nell'ambito della progettazione organizzativa, il contributo di un manager in azienda è normalmente definito da tre elementi cardine: posizione, mansione e ruolo. Se la posizione e la mansione sono normalmente inquadrati negli organigrammi e funzionigrammi aziendali, più difficile è delineare il ruolo, che normalmente attiene a elementi più intangibili quali la **percezione che gli altri stakeholder hanno del contributo atteso dal manager**.

In quest'ottica può essere letto il contesto nel quale operano i Compliance Officer nelle realtà finanziarie italiane: gestiscono una funzione che, nella maggior parte dei casi, vede la sua **origine in ambito legale**, che nell'ultima decade si è progressivamente evoluta verso **ruoli di controllo** e alla quale è ora richiesto, anche a seguito della crisi finanziaria e delle risposte regolamentari locali e globali, un **ruolo sempre più manageriale** di advisor delle funzioni di business e degli Organi aziendali.

The next big leap: Forging a more effective and influential compliance function

L'evoluzione del ruolo del Compliance Officer e della funzione di compliance rappresenta il tema chiave che emerge dalla **Banking Compliance Survey 2016**, basata su interviste ai Compliance Officer dei principali Gruppi Bancari della Eurozona, che hanno toccato molteplici aspetti del funzionamento della funzione di compliance.

Il **“prossimo grande salto”** è rappresentato dalla necessità di **re-immaginare la funzione di compliance**, evolvendo verso un ruolo sempre più sostanziale, di impatto e influenza nelle scelte manageriali delle Banche.

Per le realtà italiane questo percorso si esplicita nei principali temi evolutivi nell'agenda dei Compliance Officer: in primis le logiche di estensione del **perimetro di intervento** introdotte nelle disposizioni regolamentari nazionali (tax, compliance, ICT Compliance, ...) con la necessità di **ripensare il funzionamento di I e II linea di difesa**. In secondo luogo la necessità di allineamento dei modelli di conformità alle view introdotte dalla **supervisione europea (SSM)**. In generale, l'efficacia sostanziale del **reporting al corpo manageriale**.

Un ruolo sostanziale sempre su più materie

In Italia il XV aggiornamento della Circolare 263 della Banca d'Italia (poi confluita nella circ. 285/2013), con l'estensione del perimetro di Compliance a "tutta l'attività aziendale", ha consolidato a livello locale un trend globale di continua espansione del perimetro di conformità incidendo sostanzialmente sul ruolo richiesto ai Compliance Officer.

Evidenze di benchmark

Se a livello di Eurozona oltre l'80% dei partecipanti ha evidenziato un incremento delle responsabilità della funzione di compliance, tale percentuale salirebbe al 100% osservando il perimetro domestico.

Le maggiori complessità per i Compliance Officer italiani non attengono solo all'incremento quantitativo degli ambiti normativi da presidiare, quanto all'innalzamento del livello ed eterogeneità delle competenze specialistiche necessarie ad assolvere il ruolo della funzione.

Tra i nuovi ambiti maggiormente pervasivi in ambito domestico si evidenziano la Tax Compliance, l'ICT Compliance e la Regolamentazione Prudenziale: in tali contesti alle funzioni di Compliance italiane è richiesto un ruolo sostanziale in aree che, a livello Eurozona, vedono ad oggi un coinvolgimento più limitato della funzione.

Spunti per i Compliance Officer italiani

Per rispondere efficacemente all'incremento del perimetro, assumono rilievo le competenze manageriali del Compliance Officer, che diventa il riferimento per il corpo manageriale nell'impostare e far applicare il modello di Compliance in maniera permeante all'interno di tutta l'organizzazione della banca. Più nello specifico i modelli di best practice, in un contesto come quello italiano, richiedono ai Compliance Officer di:

1. identificare modelli di gestione dei presidi specialistici che, pur valorizzandone competenze e skill, prevedano un ruolo incisivo della funzione di compliance come II linea di difesa anche su tali ambiti;
2. definire in maniera chiara e riconosciuta in azienda i compiti del I e II livello in tutte le fasi di gestione del rischio di non conformità (dall'identificazione alla misurazione, dai controlli al reporting);
2. perseguire un presidio sostanziale dei rischi analizzando l'intera filiera di controllo al I e II livello.

La View dei Compliance officer europei

> 80%
ha osservato un incremento di responsabilità negli ultimi anni.



“

The central challenge isn't just how to build in more checks and controls, but how to embed a culture of compliance and accountability within frontline teams

Il ruolo del Compliance Officer secondo l'SSM

Nell'ambito della Thematic Review on Risk Governance & Appetite ("RIGA") il Single Supervisory Mechanism (SSM) a fine 2015 ha avviato i primi approfondimenti sul funzionamento della funzione di compliance nell'ambito dei meccanismi di Governo e Controllo dei gruppi bancari. Dall'avvio del SSM ad oggi sono emersi in maniera evidente alcuni **elementi di novità** per il contesto italiano nella **view del Supervisore** circa il **ruolo della funzione di compliance**.

Evoluzioni nella view SSM

Uno dei principali elementi caratterizzanti la view del SSM è l'integrazione del **rischio di non conformità** nell'ambito del **Risk Appetite Framework (RAF)**, con l'identificazione e monitoraggio di limiti anche tramite **metriche quantitative**.

Tale aspetto si riflette anche in un'ulteriore **evoluzione delle competenze** da prevedere nella progettazione organizzativa della funzione.

Un focus per il 2016 sarà poi il tema della **risk culture & conduct**, il cui livello deve essere oggetto di costante verifica e monitoraggio, anche tramite appositi indicatori previsti da best practice.

Spunti dai Compliance Officer

Tra le best practice identificate dai Compliance Officer italiani in ottica di allineamento al contesto di supervisione europea, si evidenziano:

- l'evoluzione dei framework di conformità introducendo **metriche quantitative** (anche a livello di **conduct risk**), da **includere nel RAF** in collaborazione con il Chief Risk Officer;
- l'avvio di logiche di **rotazione delle risorse** tra funzioni di controllo e da/verso il I livello in ottica di valorizzazione delle skill;
- la conduzione di **assessment interni** su temi di **risk culture**, anche con view anticipatoria rispetto a possibili approfondimenti di Vigilanza.

“

La promozione della cultura di compliance dovrebbe, a livello ottimale, assorbire oltre il 50% del tempo dei Compliance Officer

Fonte: Banking Compliance Survey 2016

La View dei Compliance officer europei

> 80%

Prevede un incremento nell'interazione con i regulator nei prossimi 2 anni



I fattori abilitanti: reporting, processi decisionali e risorse

“

The compliance function's role in strategic decision is increasing.

GCO's wouldn't just vet strategic plans once they've been formulated, they would be actively involved in strategic decisions in areas such as M&A and new product launches from the outset.

Fonte: Banking Compliance Survey 2016

“

Dashboard would be developed to create a more informed discussion within the Compliance committee and allow a more dynamic deep dive into *issues*

Il ruolo di advisor richiede evoluzione delle logiche di reporting e dialogo con il corpo manageriale

Assume sempre maggior rilievo la capacità di identificare e riportare al management **viste sintetiche ed esaustive dei rischi rilevati**, con chiara evidenza delle **principali criticità** ed inclusive anche dei nuovi **ambiti normativi specialistici** (es.: Tax Compliance), al fine di supportare lo svolgimento delle funzioni previste in capo agli organi aziendali in tema di sistema dei controlli interni.



dei Compliance Officer sono **coinvolti** in scelte di **M&A**

Si incrementa il focus sulle attività ex ante con priorità strategica

La valutazione dei nuovi prodotti che vede coinvolti oltre il 90% dei Compliance Officer richiede una view sempre più orientata al business e con un coinvolgimento che inizia sin dalla fasi iniziali di concept.

Nei casi di best practice è previsto un sempre maggior coinvolgimento della funzione di compliance anche su ulteriori temi strategici quali le scelte in merito alle **operazioni straordinarie**.



dei Compliance Officer giudica il dimensionamento della funzione **non sufficiente** a fronte dei compiti assegnati

Il ruolo chiave delle risorse umane e tecnologiche

Compliance Officer intervistati evidenziano, oltre alla necessità di adeguare lo staff della funzione di compliance in relazione agli accresciuti compiti e responsabilità:

- >60%: necessità di incrementare le competenze in ambito **regulatory** e **technology**;
- >60%: necessità di sviluppi su **soluzioni IT** a supporto dei compiti della funzione.

Contatti

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About this survey

This report is based on in-depth interviews with GCOs from a cross-section of leading European-based banks. We would like to thank all the GCOs for kindly sharing their time and insights.

We hope that your bank will be able to use the survey findings as a benchmark against which to judge the effectiveness and potential of your compliance team. We also hope that the report will provide useful insights into how to optimise the potential of your compliance teams and what investments and changes in structure and organisation would support this.





Introduction:

Optimising compliance

Regulatory demands within the banking industry continue to escalate. Our latest Global CEO survey shows that bank CEOs continue to see over-regulation as the by far biggest threat to growth they face¹.

Banks have had to expand their compliance teams to meet new regulatory demands and rebuild confidence in their businesses following the financial crisis. But as compliance considerations come to have an ever greater bearing on key strategic decisions, Group Compliance Officers (GCOs) and their teams are becoming increasingly important advisers to boards and business units. Addressing compliance needs within the context of the broader business strategy can help put organisations in a better position to drive growth, while proactively navigating risk and regulatory complexity.

Our 2015 cross-industry State of Compliance report highlighted the emergence of a new breed of compliance business partner, who are helping to guide corporate strategy, prevent compliance issues from derailing strategic execution and enhance the reputation of the organisation. But this more strategic role also represents a big leap into uncharted territory for many GCOs and their teams, requiring them to create a new vision of their function, engage with the business in different ways and rethink their approach to performance management, recruitment and career development.

“

The regulatory landscape is currently undergoing a fundamental change, and there is a strong focus on improving transparency in markets and products.

Consequently, the role of the compliance function has been necessarily strengthened in recent years. An effective compliance function is the key to identifying and mitigating risk and to protecting the business from regulatory censure and protecting brand and reputation.

Survey participant

¹ Creating a platform for competitive regeneration: Key findings in the banking and capital markets sector from the 19th Annual Global CEO Survey (<http://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2016/banking-and-capital-markets.html>)

What's on GCO's minds?

As GCOs within the banking industry work out how to make the transition from control team to business partner, we felt this was a good juncture to ask them where they see the future of compliance and what challenges they face in realising their objectives.

The survey reveals different approaches and varying readiness for change. Many participants also recognise that they need new and increased capabilities to deal with the mounting demands they face. The front runners are not only looking at how to sharpen efficiency and responsiveness to change, but also how to instil an active compliance-aware culture within all areas of the organisation. We believe that these institutions are stronger as a result.

In this report, we explore what our survey says about the current state and future potential of compliance in 2016. We also look at what marks out the front-runners as we map out a blueprint for a more strategically-focused era of compliance.



Blueprint for the new era of compliance



Compliance is a business priority

The compliance function is a business partner, advising first line teams, designing controls and testing their effectiveness, while still maintaining its independence

Compliance is key in promoting compliance culture



GCO reports directly to the CEO, seats in the executive committee and is able to influence board decisions

A dedicated compliance committee oversees compliance

Front office takes ownership for compliance controls and are a strong first line of defence

Compliance is an independent function with strong oversight over the design and effectiveness of compliance controls



Key metrics include customer satisfaction, level of complaints and compliance culture

Compliance metrics have direct impact on incentive schemes throughout the organisation (front & back)

Gauging attitudes and behaviour can provide a good indicator of organisational culture and help to identify undetected problems



A more business focused and strategically influential compliance role would help to attract a broader range of talent

Rotation of compliance teams into the business and vice versa would help to develop mutual understanding and relationships

Roles and responsibilities

Organisation, engagement and reporting lines

Performance, reporting and KPIs

Talent and career development



“

We have seen cases of manipulation of market benchmarks, mis-selling of financial products to consumers, circumvention of anti-money laundering and counter terrorist financing regulation, and support to tax evasion on an unprecedented scale. The first and most relevant adverse effect has been on the reputation of the banks involved and of the banking sector as a whole. The confidence of consumers and users of banking services in the integrity of bank behaviour has been seriously compromised.

Andrea Enria
Chair of the European Banking Authority
Speech to III Financial Meeting organised by CECA
and the Spanish Banking Association in Madrid on 14 January 2015

The state of compliance

As the bar for compliance rises, the role of the compliance function continues to evolve. The catalysts for change have been a wave of ever increasing penalties and the heightened focus on market integrity and conduct emanating from the financial crisis.

Why compliance is at the top of the boardroom agenda

Mis conduct/Fines

Financial crisis

Public sentiment

**Increased
regulatory
scrutiny**

The top 20 European banks have paid out about \$125 billion in fines and lawsuits since the onset of the financial crisis², as well as incurring significant reputational damage. Therefore compliance lapses can no longer be treated as a routine cost of business. The costs are hampering banks' ability to

strengthen capital and increase dividends. They're also eroding trust and making it harder for banks to re-engage with customers, governments and wider society – 66% of the banking industry leaders taking part in PwC's latest global CEO survey see lack of trust as a threat to growth.

² Financial Times, 23 August 2015

Expanding remit

Compliance teams continue to expand as regulatory demands mount up. The GCOs taking part in our survey report an average increase in staff numbers of 12% over the past two years and expect a further 15% average rise over the next two years. As per Eurozone banks survey participants, the drivers for expansion include the creation of a single supervisory mechanism

(SSM), led by the European Central Bank (ECB). SSM supervision is still developing and the full impact on compliance team workloads won't become clear for some time.

More than 80% of GCOs believe that their interactions with regulators will increase over the next two years, with one describing the scrutiny as

“intensive” and another going so far as to describe it as “intrusive”. Nearly 60% highlight the importance of proactive interaction with regulators, which can help them to develop a better understanding of what regulators want and the practicalities of how to meet these demands.

“

Communication with the regulator is increasingly important and we presume that this interaction will become stronger in the coming two years. Closer relationships with the supervisors will allow the business to reach a shared understanding of what is required to meet the higher standards introduced by the upcoming regulations.

Survey participant

Figure 1 reveals what GCOs see as the most critical current and emerging risks they face. The main risk is still know your customer (KYC), but consumer protection is on the rise. This begs the question of whether KYC and customer protection should be compliance teams matters or should the business take sufficient lead responsibility in these areas?

Figure 1: Main compliance risks now and in the future

| | Current main compliance risks |
|---|-------------------------------|
| KYC | 70% |
| Consumer protection | 60% |
| AML & CFT | 60% |
| Future changes in regulation | 40% |
| Inconsistent implementation of regulation across business lines and geographies | 20% |
| Conflicts of interest | 20% |
| Customer litigation | 10% |
| Banking secrecy & data privacy | 10% |
| Internal organizational issues | 10% |
| | Compliance risks in 2 years |
| Consumer protection | 80% |
| KYC | 60% |
| AML & CFT | 60% |
| Banking secrecy & data privacy | 30% |
| Customer litigation | 20% |
| Conflicts of interest | 20% |
| Future changes in regulation | 10% |
| Inconsistent implementation of regulation across business lines and geographies | 10% |
| Internal organizational issues | 0% |

Source: Banking Compliance Survey 2016

Are compliance teams overstretched? Are business teams doing enough to meet their first line compliance responsibilities? Figure 2 outlines the areas survey participants are involved in and those they advise on. Even

where compliance teams aren't 'owners', they can find themselves spending too much time making up for faults and weaknesses in the first line of defence.

Figure 2

| | Significantly involved | Advisory role and others |
|--|-------------------------------|---------------------------------|
| AML and CFT | 93% | 7% |
| Market integrity rules (Market abuse, best execution, ...) | 93% | 7% |
| Conduct of business rules | 86% | 14% |
| Embargo | 86% | 14% |
| Customer protection (transparency pricing, ...) | 79% | 21% |
| Anti-bribery | 71% | 29% |
| Data protection | 36% | 50% |
| Tax Compliance (FATCA, CRS, Bank's own taxation, withholding tax, ...) | 29% | 57% |
| Internal Control | 29% | 64% |
| Anti-fraud measures | 21% | 29% |
| Complaints handling | 21% | 71% |
| Prudential supervision regulation | 14% | 57% |
| IT security | 14% | 50% |
| Legal (regulatory watch, ...) | 14% | 86% |
| Business security | 7% | 50% |
| Operational risk (other than legal, fraud and IT risk) | 7% | 57% |
| Outsourcing | 7% | 79% |

Remark : Some respondents has indicated that they are not involved neither advisory
Source: Banking Compliance Survey 2016

Under the emerging approach to compliance, frontline teams would take full responsibility for managing compliance within their own operations – as arguably they should have done all along.

The compliance function's main role would shift from directly managing compliance to being a business partner, who would design compliance

frameworks for frontline teams to use, monitor their effectiveness and, where necessary, challenge the business. A key part of the GCO's role would be communicating the value of compliance in sustaining the reputation and hence profitability of the organisation. The GCO would also define priorities in areas where there are potential conflicts – between sales targets and customer suitability, for example.

As the business takes greater responsibility for compliance, the central challenge isn't just how to build in more checks and controls, but how to embed a culture of compliance and accountability within frontline teams. This wouldn't just focus on regulatory compliance, but also how to enact the values within the business and deliver the outcomes customers expect.

54% of GCOs believe they should be focusing more on the **development of a compliance culture** in the business

The ECB has culture in its sights, seeing it as being “at the heart of banks’ decisions”³. A 2015 report by the Group of 30 goes further by arguing that “robust cultural underpinnings” are critical in ensuring effective compliance⁴. GCOs and their teams would play a key role in promoting this

culture of compliance by helping to define expected behaviour and advising frontline teams on what these mean for their day-to-day activities – e.g. full transparency in trading activities or ability to challenge decisions that don’t meet standards of integrity and conduct.

“

Building a strong bank culture can be thought of as a form of risk reduction. With a weak culture comes high governance risk, but with a strong culture comes lower governance risk.

Banking conduct and culture: A call for sustained and comprehensive reform, Group of 30, 2015

Questions for your organisation ?

Where should you draw the line between compliance and business responsibilities?

How best to organize and maximize the interaction between compliance and the frontline business teams?

What does a good compliance culture look like and how can it be instilled within your organisation?

³ Speech by Danièle Nouy, Chair of the Supervisory Board of the Single Supervisory Mechanism, at European Supervisor Education Initiative) Conference 2015, Prague, 1 October 2015

⁴ *Banking conduct and culture: A call for sustained and comprehensive reform*, Group of 30, 2015

Lines of oversight

When compliance was primarily a legal matter, most compliance teams reported to the general counsel. Now, however, applying the letter of the law is no longer enough. In the face of what is in effect a basis of guilty until proven otherwise, banks need to demonstrate proper understanding of compliance demands, robust controls and clear

lines of accountability. An example of how executives now need to actively and personally engage in compliance management rather than just respond to challenges is a proposed new directive in the US, which would require senior executives to certify the effectiveness of their anti-money laundering (AML) systems⁵.

50% of GCOs now report directly to the CEO

In line with this shift, half of the GCOs in our survey now report directly to the CEO, and only around a third to the general counsel. Over three-quarters of participants say that compliance is now a standalone function and none plan to merge it with other functions if it is currently separate. In cases where compliance is embedded, this is mainly with operational risk team.

While most compliance teams report to both the local CEO and head of compliance, the emerging trend is towards a more business-integrated vertical model. As more GCOs come to report directly to the CEO, their

involvement in executive committees is increasing. More than 60% of GCOs say that their board is highly receptive to compliance matters, though most believe that the depth of understanding of compliance matters within the business as a whole is greater than among the executive team. More than 80% of GCOs also meet regularly with individual board, risk or audit committee members, where they are able to discuss compliance matters in more detail. By contrast, examination of compliance issues by the board as a whole often follows a check list approach. While there is discussion on how to deal with red light issues, there

is little scrutiny on amber areas and how to prevent them becoming red. There is also a limited focus on how the good practice in green light areas can be identified and shared.

As Figure 3 highlights, in a vertical organisation, compliance tends to be closely involved in compensation matters. In a decentralized organisation, compliance involvement in compensation is generally limited. Compliance function input into bank employee compensation is an important way to embed compliance responsibilities into the frontline of the business.

Figure 3: Compliance organisation model

| | | Descentralized | Matrix | Vertical |
|---|---------------------|-----------------------|---------------|-----------------|
| Compliance involvement in compensation, performance measurement and objectives of Compliance Staff | Highly | 0% | 50% | 100% |
| | Moderate | 25% | 25% | 0% |
| | Low | 50% | 12,5% | 0% |
| | Not involved | 25% | 12,5% | 0% |
| Compliance involvement in compensation of Bank employees | Highly | 0% | 12,5% | 100% |
| | Moderate | 75% | 75% | 0% |
| | Low | 25% | 12,5% | 0% |
| | Not involved | 0% | 0% | 0% |

Source: Banking Compliance Survey 2016

⁵ New York Department of Financial Services media release, 1 December 2015

Given the importance of compliance, setting up a dedicated executive committee along the lines of the risk or audit committee would help to develop a more informed and proactive level of board-level examination and direction. The aim would be to proactively address emerging concerns, and

identify and promote best practice around the organisation. Dashboards would be developed to create a more informed discussion within the compliance committee and allow a more dynamic deep dive into issues in need of addressing.

Given the importance of compliance, setting up a dedicated executive committee along the lines of the risk or audit committee would help to develop a more informed and proactive level of board-level examination and direction.



Questions for your organisation ?

Does your Compliance team provide your Board with the right information at the right time?

Does your Board have sufficient time, understanding of the matters and appropriate attention to deal proactively with compliance issues?

Beyond the information and any reactive action, how can your compliance team work with the board to develop more engaged, proactive and holistic compliance strategy and oversight?

Business partner

Given the level of compliance risks banks now face and the danger that compliance lapses could derail business plans and damage the reputation of the business, the compliance function's role in strategic decision making is increasing. As part of the emerging

developments in best practice, GCOs wouldn't just vet strategic plans once they've been formulated, they would be actively involved in decisions in areas such as M&A and new product launches from the outset.

Why compliance is a strategic issue

Understand compliance impact on key decisions issue

Build compliance-awareness into culture

Enhance customer-centricity and differentiate reputation

Confidence to take risks and drive growth

“

The compliance department is increasingly involved in providing ex ante advice on different topics.

Survey participant

This more strategic role demands greater understanding of frontline business priorities and the nature of the markets in which the various divisions of the bank operate. It also requires more active engagement with the business. Looking at both banks and other industries, the GCOs that have

been most effective in developing their business partner role are on the front foot, effectively articulating the strategic value that compliance can deliver and taking every opportunity to participate in strategic decisions. They regularly review strategic plans and develop ideas for handling new or

unusual compliance risks or leveraging them to gain competitive advantage. They're also forging close relationships with key business leaders across the organisation and offer insights to help the business identify and mitigate compliance risks.

*More than **90%** of GCOs actively participate in **product development** and more than **80%** are involved in **acquisition decisions**.*

From a talent perspective, we're likely to see more rotation of compliance teams into the business and vice versa to help develop mutual understanding and relationships. A more strategically

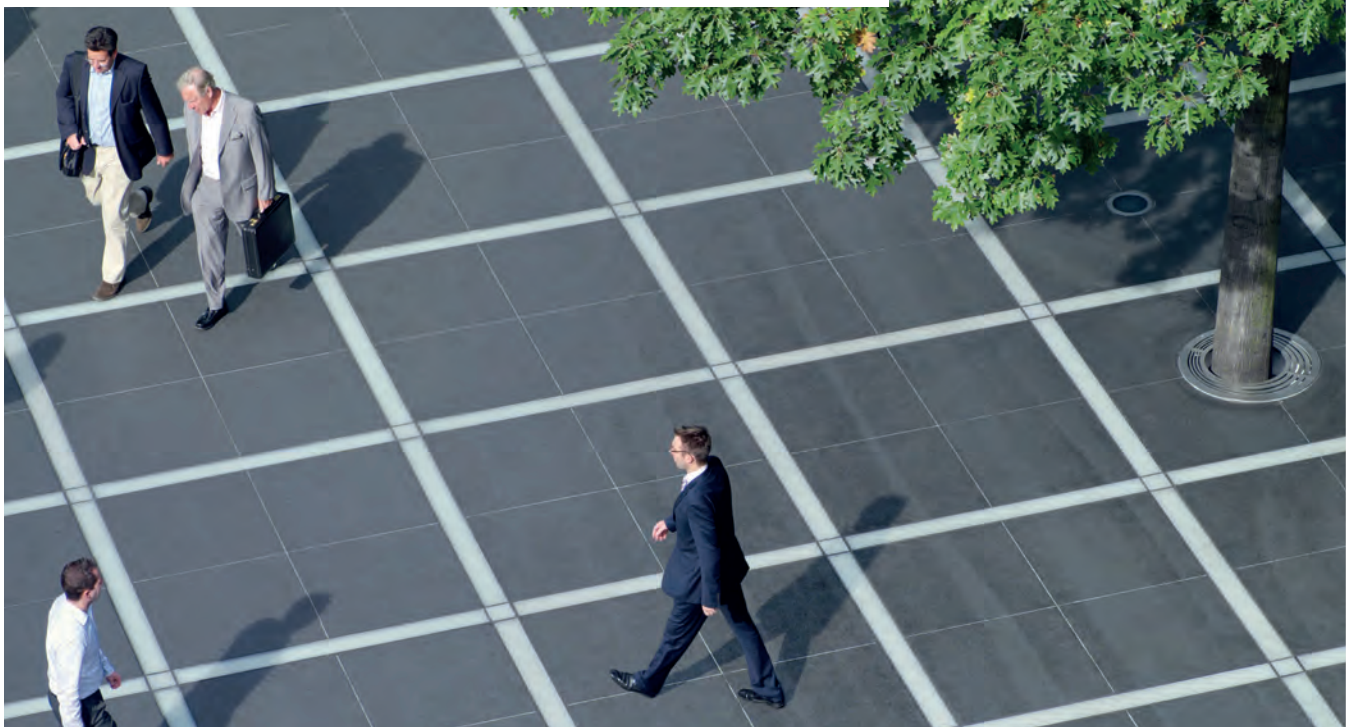
focused compliance role would further strengthen the appeal of working in compliance and broaden the talent pool within the function.

Questions for your organisation ?

How can your compliance team develop the necessary business insight and engagement to move to a more strategic role?

Is there an opportunity to seize the current regulatory changes to structurally change the positioning of the compliance team within your organisation?

What changes in recruitment, training and reward will be needed to help develop the new breed of compliance officers that can act as business partners?



While compliance teams are expanding, they still make up less than 1% of overall bank headcount on average. Half of GCOs believe that their teams are too small to carry out their responsibilities effectively; and the pressure on resources can only mount as the demands outlined in this report increase. Around two-thirds of GCOs rate their capabilities as moderately adequate and less than 30% as highly adequate.

50% of GCOs believe their teams are too small to carry out their responsibilities effectively

Will GCOs get the numbers they want? It's unlikely. A better question would be how to use the people they have more efficiently – more for less. Technology is number one on the list of areas in need of improvement (more than 60% of GCOs citing this). The main use of

technology is reporting. The use of technology to strengthen monitoring, develop more effective early warning systems and improve overall operational efficiency could be developed much further.

Offshoring and hubbing of routine activities such as KYC (on low risks) would allow compliance teams to concentrate on new and more complex risks. However, only around a third of participants offshore some of their compliance activities.

Questions for your organisation ?

How could you further improve the efficiency of your Compliance set ups?

What are the options for further automation and are there possibilities for offshoring?

Could Compliance technology play a role in its seek for efficiency ?

In developing compliance technology and data mining, could synergies be extracted between improving the efficiency of the compliance function and the performance of the business operations?

How do you know you're doing a good job?

Figure 4 outlines the varying ways GCOs assess the effectiveness of the compliance programme. If the compliance function took on a more strategically-focused role, what would be the most relevant key performance indicators (KPIs)? One possible metric would be a reduction in fines. It's also possible to measure/track the wider reputational benefits of compliance through such measures as net promoter

scores. But such measures can be reactive and won't identify undetected problems. It's also difficult to measure culture, though it is possible to gauge attitudes, behaviour and their consequences. It's therefore important to rate employee engagement, as this can provide a good indication of whether staff buy-into and enact organisational values and expectations.

Figure 4: Measuring performance

| <i>Indicator</i> | <i>Occurrences</i> |
|---|--------------------|
| Internal audit results over Compliance program | 93% |
| Regulator on-site inspection | 93% |
| Risk assessment results | 79% |
| Customer & other third party claims | 71% |
| Cost of non-compliance (penalties, litigation and other consequences of non-compliance incidents) | 71% |
| Training completion rates | 64% |
| Monitoring of press and public statements | 43% |
| Employee disclosures or surveys (e.g. conflicts of interest, gift reporting, whistleblowing, ...) | 36% |
| Cost of compliance program activities | 36% |
| Operational risk management results (e.g. scenario analysis, loss data collection, ...) | 36% |
| Other key KPI | 36% |

Source: Banking Compliance Survey 2016

Questions for your organisation ?

How can you best engage with business teams to find out what they think about your contribution and how it could be improved?





Conclusion:

Re-imagining compliance

GCOs and their teams are entering a new era. As our survey highlights, they face the challenge of re-evaluating and re-imagining their roles in order to help steer their banks through an increasingly complex and fast-shifting regulatory landscape.

There is no one-size-fits-all solution. Compliance models need to reflect the relative size and complexity of the organisation and the nature of the compliance demands within their operating territories. But whatever the nature of the business, compliance can't just be left to the compliance function to manage on its own. Compliance functions are overstretched. And as the business takes the compliance risks, it is best placed to monitor and manage them. Compliance function expertise would be far better deployed in providing advice, design and review as part of a clearly delineated and robustly governed three lines of defence model. The importance of a shift from direct compliance management to business partnering is heightened by the huge and growing impact of compliance on strategic management.

What emerges from the survey is the importance of being able to make a clear business case for why compliance should step up the value chain and developing the measures to demonstrate the benefits of this shift. Technology is not only critical in improving the speed, scope and accuracy of compliance monitoring, but also freeing up compliance professionals to take on a more strategic role. And like all transformations, people within the compliance team need to understand the benefits and how they can make this shift in their role and operations work, which requires a clear vision and decisive leadership from the GCO.

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