COMPLIANCE: LOOKING OVER THE HORIZON

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On 28th January 2019, RequirementONE hosted a thought leadership event which was attended by industry experts and leaders to discuss the future of compliance and how to efficiently deal with the changing regulatory requirements.

As the discussions unfolded, it was clear that there was a something bigger at stake. Building a compliance as a built-in culture is of utmost importance. Today, a global bank on an average deals with 125 regulatory changes daily and a financial institution spends about 5-15% of total revenue on compliance to regulatory changes. Organisations are pushed to cut the cost of compliance and yet deliver more with less. Given, the amount of regulatory debt and patch jobs being done, is it time to re-evaluate what regulations are really relevant and needed in the industry today? Should regulators explore modernising the old regulations to today's needs? How can regulators collaborate better with other regulators, working groups and policy makers?

Therefore, RequirementONE proposes to organise a collaborative working group that will meet on a quarterly basis to advance the compliance profession, with the Future Charter For Regulation and Compliance. This charter which benefit individuals and their companies, setting a framework that continues to evolve. RequirementONE will provide the details of the next event to be scheduled for April 2019.

SYNOPSIS

The charter will follow 3 key themes:

❯ Regulations and Collaboration with Regulators (Process)
❯ Building a Compliance Culture (People)
❯ Investing in Infrastructure (Technology)

Regulations and Collaboration with Regulators

One of the challenges with regulations is the inconsistency within legislation, regulation and the confusion that causes within organisations. Even within local jurisdictions, within divisions in the same organisation - interpretations of a regulation differ at best and conflict at worst.

Nothing exposed this more than GDPR and the conflicts between open banking and GDPR or GDPR and MifiD II.

Some of the profound thoughts revolved around:
- *How do we avoid conflicting regulations?*
- *How can regulators collaborate better with other regulators?*
- *Should regulators impact assess upcoming regulations before they publish new ones? How can this be enforced?*
- *Should regulators be very prescriptive?*
- *Is there a regulatory master plan? Can there be one? Can it be done at a global scale?*

Building a Compliance Culture

The industry continues to debate SMCR. While SMCR is designed to build a culture of integrity and duty of care in financial services, the fact that such regulation was needed shows that inherent distrust and lack of accountability in financial institutions. SMCR has done a lot to increase accountability at the top, but without the right tools to understand what is happening at the ground level, many execs are left with a vague understanding of how to deal with the regulations that are coming their way.

There were 2 times more data breaches in 2018 than in 2017.

The other big change is that culture is a key factor for risk management. Defining a core of culture for the organisation should start with a responsible and ethical core. For many organisations, compliance has become a check-box exercise, one that is also reactive in nature.

We need to build processes and culture across the business functions. And coming back to the framework: Process, People And Technology - People are important to drive a change in culture.

Some thought provoking points:

- *How do you drive change across the organisations?*
- *How do you build a self-motivated duty of care and professional integrity?*
- *Should financial organisations change their top-line/ revenue based incentive model to customer satisfaction based incentive model? Would this lead to cultural change?*
- *Should organisations explore risk-identification or speak-up incentives to bring in a change in culture?*

- Can culture become more pervasive through digital tools like gamification, surveys, internal breach registers, risk-identifications etc.?

Investing in Infrastructure

With 1) heightened complexity in risk and compliance functions and 2) the need for accountability - the status quo is no longer an option.

A natural response to the increase in complexity would be to deploy sophisticated tech to handle it. But there are barriers for organisation of all sizes. The larger ones are weighed down by legacy issues and can only overcome the problem after a sustained period of investment. Small organisations have the ability to be nimble, but struggle to scale, and at many times do not have the resources.

One of the ways that these myriad of of issues can be tackled by deploying a plug-and-play tech platform. This means that the organisations with legacy issues can choose which problem areas to tackle, and run a multi-year programme to get onto a new platform. Smaller organisations can choose as many modules as their resources will allow, and can ramp up or down depending on their scale.
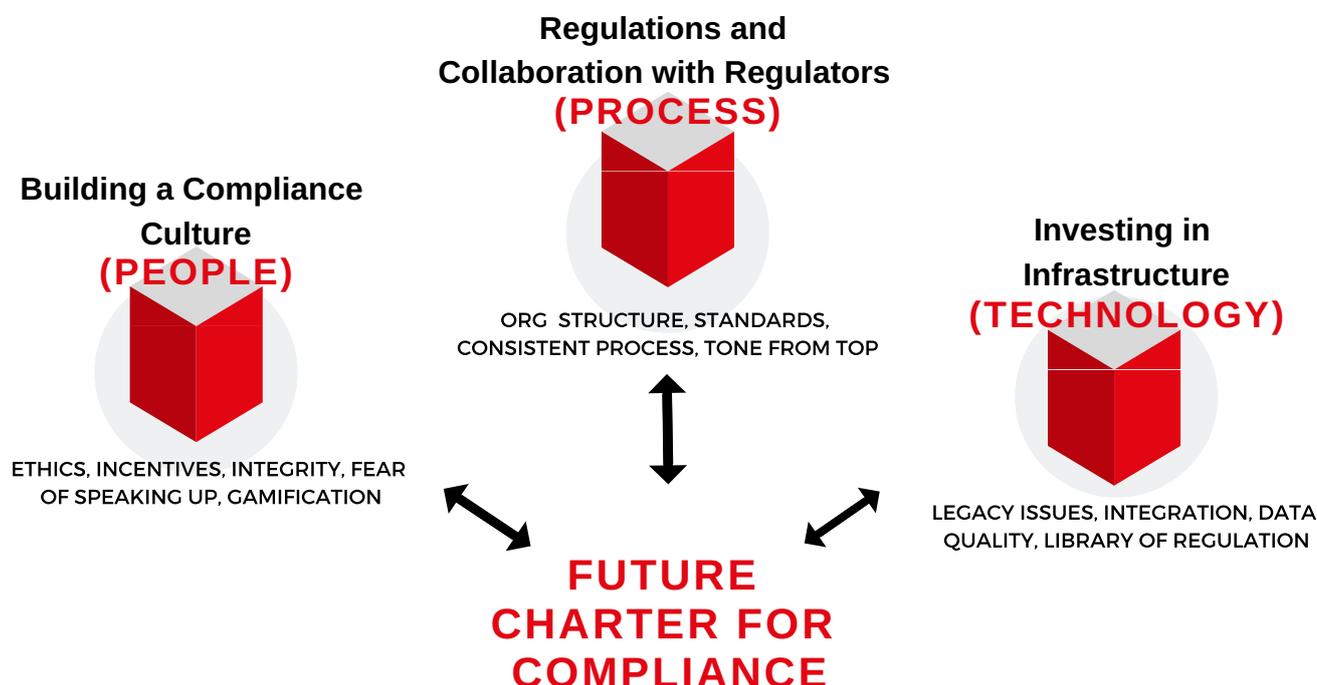
Most vendors are satisfied with solving point solutions, ignoring the rest of the lifecycle. And in an increasingly complex world, that makes the life of a compliance team harder as lack of interconnectivity to handle the work becomes complex. Some important questions to ask here:

- Should organisations look at compliance as a silo or more as integrated risk and compliance?
- Would plug-and-play platforms make compliance role easier?
- Would technologies like AI, ML,RPA, NLP, Automation empower compliance teams to take informed decisions?
- Would a digital library of regulations, policies and controls enable users to focus on residual risks more?
- Would automation in integrated risk and compliance management enabled organisations to reduce penalties, fines and compliance issues?

Technology has a crucial role to play as a facilitator, but without the people behaviour , standardisation of processes and data there is a danger of falling short of a good solution.

The Future Charter For Compliance will set the framework for how organisations can build a compliance-first culture, build trust with regulators and partner with governments to drive change.

THE FRAMEWORK

Regulations and Collaboration with Regulators (PROCESS)

ORG STRUCTURE, STANDARDS, CONSISTENT PROCESS, TONE FROM TOP

Building a Compliance Culture (PEOPLE)

ETHICS, INCENTIVES, INTEGRITY, FEAR OF SPEAKING UP, GAMIFICATION

Investing in Infrastructure (TECHNOLOGY)

LEGACY ISSUES, INTEGRATION, DATA QUALITY, LIBRARY OF REGULATION

FUTURE CHARTER FOR COMPLIANCE

KEY STATS

125

Number of regulatory changes that affect financial services organisations - daily. This equates to approximately a change every 12 minutes.

$7.2B

Expected spend in regtech by 2023, growing at a CAGR of 25.4% from 2018. Technology will play the role of faciliatator.

2X

Increase in the number of data breaches in 2018 as compared to 2017.

54%

of a recent conducct risk survey respondents believed that culture, ethics, integrity was their #1 component. Tone from the top was second at 44%.

IF YOU HAVE ANY QUESTIONS ON THE MATERIAL IN THIS REPORT OR WOULD LIKE TO DISCUSS FURTHER, PLEASE REACH OUT TO NEETA MUNDRA (NMUNDRA@REQUIREMENTONE.COM)