

Compliance at a Crossroads: One Step Forward, Two Steps Back?

Accenture's 2016 Compliance Risk Study



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Recent research findings from Accenture indicate that Compliance is at a key inflection point in its development. Having gained a "seat at the table" after the global financial crisis,¹ Compliance organizations had been given a mandate for "disruption" and to deliver on their role as an "ethical monitor" for their institutions.² Today, many Compliance functions are stepping into the role of strategic advisor to the business, but are seemingly constrained by the weight of new regulations and management of day-to-day operations resulting from an ever more complex ecosystem.

Accenture's 2016 Compliance Risk Study—based on a survey of over 150 leading Compliance officers at banking, capital markets and insurance institutions across the Americas, Europe, and Asia-Pacific—shows the Compliance function needing to chart a path towards tangible, sustainable outcomes that will re-affirm its strategic positioning within the organization.



1. Compliance's Seat at the Table: Hard to Earn, Hard to Retain - Accenture 2014 Compliance Risk Study

2. Be the Disruptor, not the Disrupted: Accenture 2015 Compliance Risk Study

Demand on Compliance continues to grow in scale and complexity

The demands on Compliance are not new but the pace of change continues to intensify. Ecosystem disruptors such as fintech (financial technology) and digital business, the continued pace of multi-local regulatory change, the increase in conduct and human risks, and increasing expectations for Compliance to take a more active role in front line processes, are compounding the challenges posed by ever-shifting client behaviors.

The growth in the Compliance function's stature appears to be slowing as it redefines its remit and balances advisory and control responsibilities

The demands on Compliance have potentially resulted in the function struggling to clearly articulate its role within the organization and how it can benefit the Chief Executive Officer (CEO). While a majority of Accenture 2016 Compliance Risk Study respondents retain a direct reporting line to the Board or CEO, this number appears to be falling, which is in stark contrast with the last two years where more and more Compliance officers were winning that seat at the CEO table. To maintain its role as a key strategic advisor to the business, Compliance needs to better understand and communicate its value as a risk management function.

As more Compliance organizations improve their operations using fewer resources, meaningful results should be delivered against more complex stakeholder expectations

The availability of resources dedicated to Compliance is slowing. As Compliance looks to increase effectiveness while keeping a laser focus on resource efficiency, many are turning to digital solutions and adopting industry-leading technology (84%). These should help drive efficiencies and manage emerging risks such as cyber security. Gaining better leverage of other functions, for example data and technology, should also be important for Compliance in its efforts to continue driving informed decision making.

Decisions to be taken, choices to be made

Compliance should be confident in making the difficult choices necessary to continue delivering best in class risk management and to reassert and cement its role in the organization in an era of constrained resources. In line with Accenture's industry experience, we recommend the following principles to navigate these choices:

- Reassert and clarify the role and mandate of Compliance, specifically in relation to the front office
- Improve resource utilization
- Prioritize the development of high quality data and technology architecture
- Value and incentivize development of Compliance talent
- Regularly communicate the results of what can be a multi-year transformation journey

Pivoting to the new

The need to change is evident, but the path forward less so. Even with the growing distraction of more complex daily operations, now is the time for Compliance to lead and create a forward-looking plan that creates the function of the future. The time to mobilize and deliver early results is short.

Demand on Compliance continues to grow in scale and complexity

New digital business models in finance like fintech have intensified competition among financial services institutions to become multi-channel operators and meet ever-shifting client behaviors. Compliance risks related to privacy, cyber risk, and customers have multiplied as services and transactions are increasingly delivered via digital channels.

Availability of more sophisticated technology, including enhanced analytics visualization tools, heighten expectations for Compliance to proactively identify, manage and report these risks. Alongside keeping up with the rate of technology development, Compliance organizations have had to drive design and implementation of "multi-local" regulatory changes. The significant volume of prudential, operational, and technological regulations has destabilized how Compliance is organized, particularly the balance between change management and "business-as-usual" activities.

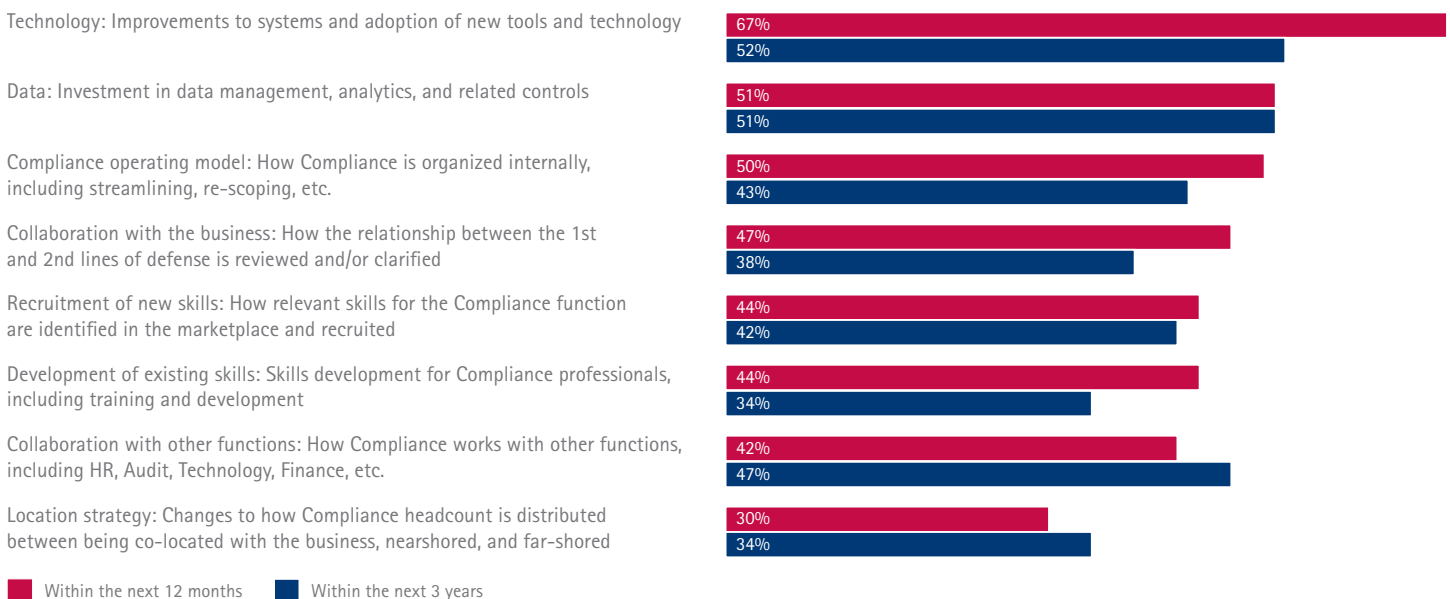
Despite such disruption in the ecosystem, a stark reality is that the Compliance function continues to operate with a data and technology architecture that lags the standards required to manage the emerging risk landscape. Some two-thirds (67%) of Accenture 2016 Compliance Risk Study respondents view improvement to systems and adoption of new tools as a key change required for Compliance within the next 12 months (see Figure 1). Furthermore, availability of the right skills to monitor the changing risk landscape and effectively deploying new tools remain an area of focus.

Almost half (44%) of respondents see skill development as critical in the next 12 months.

The pressure on Compliance officers to consistently deliver high quality outcomes despite these internal capability constraints is intensified by the increasing focus on personal liability for organizational behavior and conduct. As a result, Compliance officers appear to be in an increasingly precarious position where they are expected to balance all of these demands in order to be seen as successful in the emerging financial services industry.

Figure 1. The importance of changes to technology

What types of change do you feel are likely to become the most important in your organization within the next 12 months and within the next 3 years?



Source: Accenture 2016 Compliance Risk Study

The growth in the Compliance function's stature appears to be slowing as it redefines its remit and balances advisory and control responsibilities

Arguably, key priorities for a CEO fall into the areas of revenue generation, cost effectiveness, and reputation. By this standard, Compliance is facing challenges to perform as a strategic partner to the business, as highlighted by the fact that only 31% of Compliance functions represented by our 2016 Compliance Risk Study respondents now report to the CEO, representing a 9% fall over the 2014 level (see Figure 2).

Furthermore, nearly half of the study respondents stated that the number one capability required for Compliance over the next year is a better understanding of how customer expectations are changing. Gaining this insight can help Compliance take a stronger role in front office processes such as product design, sales and distribution, or for example advise the front office on the risks of originating new business with politically exposed persons. Being more proactive with these types of contributions should allow Compliance to better illustrate to a CEO the value it can add to the business.

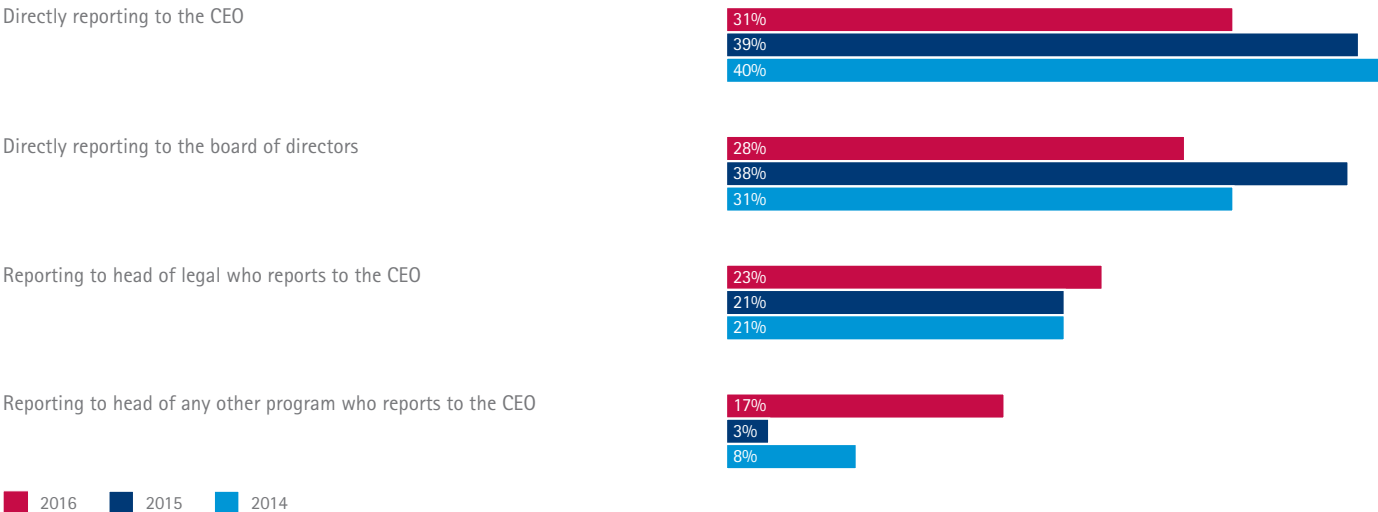
The barriers to Compliance acting as a true strategic partner to the business are increasing. This in our view is due to the fine balance necessary for acting as an advisor while remaining an objective control function. Indeed, 63% of 2016 Compliance Risk Study respondents think that a stronger Compliance role in front line processes will create a risk for the function's independence. Managing this possible blurring of the line between the function's dual advisory-and-control roles in order to help establish a clear Compliance remit across the 1st and 2nd lines of defense and with other 2nd line functions is further proof of the distinctive

value Compliance officers add to the front office vis-a-vis other control functions.

A key strategic priority for Compliance will therefore be to sharpen the remit of its activity, and its relationships with other first- and second-line functions, for example Operational Risk, Human Resources, and Technology. Better understanding and improved communication of its value as a risk management function and its role within the broader enterprise-wide risk management framework can in our view be critical to Compliance continuing to develop its stature within the financial institution.

Figure 2. Shifts in Compliance reporting lines

Which of the following best describes the Compliance program's reporting lines?



Source: Accenture 2016 Compliance Risk Study

As more Compliance organizations improve their operations using fewer resources, meaningful results should be delivered against more complex stakeholder expectations

While challenges become more acute and complex, Compliance officers surveyed during the 2016 Compliance Risk Study remain positive in their ability to deliver on other priorities, particularly regulatory reporting (84%), management reporting (87%), adoption of strategic data platforms (85%), and data governance (83%). This confidence comes despite investment in Compliance appearing to slow.

A large number (81%) of study respondents agree that Compliance will need to optimize operations in order to manage a more complex set of risks under tighter resourcing conditions. An example of an improvement is in leveraging the power of technology instead of ramping up human capital to manage risk, which has the double dividend of reducing cost and enhancing the consistency of controls.

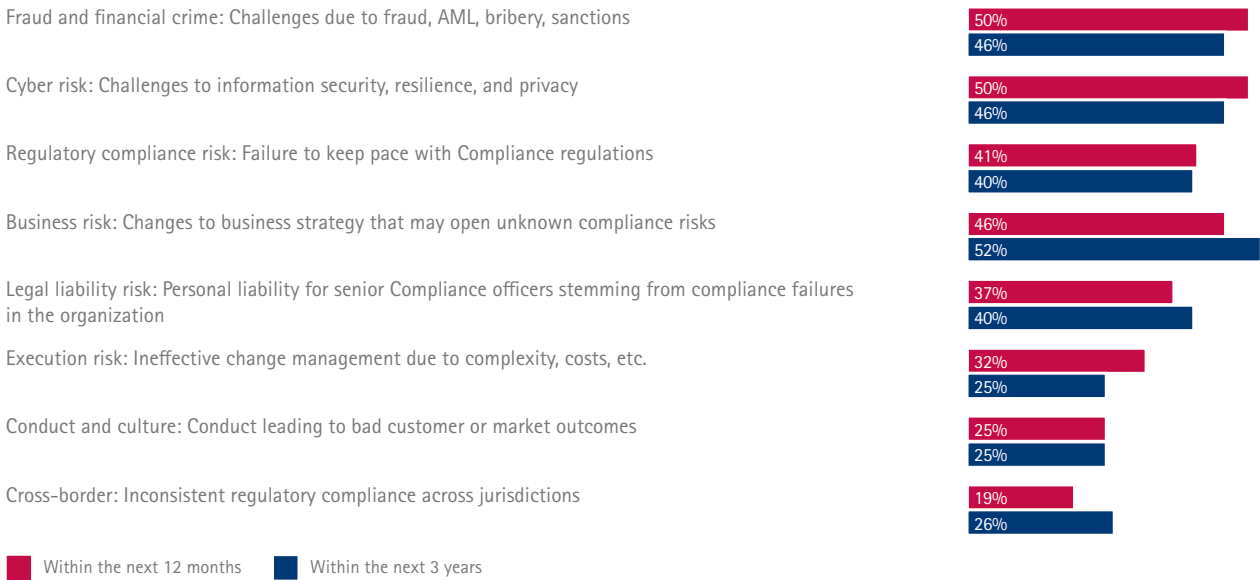
In our experience, financial institutions currently fall into three groups as they enhance their control environment. The first group is generally in a remediation mode, stabilizing data architecture and governance of controls. The next group continues to seek greater opportunities for automation and integration, for example better connectivity between trade surveillance and control room alert information. Finally, leading players are embedding predictive analytics or capturing early benefits from emerging disciplines such as robotic process automation to support investigations in areas such as gifts and entertainment misconduct or investing in business process outsourcing or industry utilities to reduce costs and increase efficiency.

This greater sophistication is providing financial institutions with the bandwidth to manage newer threats from areas such as cyber risk, cited by half of the 2016 Compliance Risk Study respondents as being among the top three challenges for Compliance over the next 12 months (see Figure 3).

In line with our experience, the 2016 study results support the notion that the path to greater resource utilization necessitates effective collaboration between Compliance and peer control functions to provide connectivity to the front office. For example, 87% of study respondents agree that senior data officers will emerge as a critical organizational link for the function (see Figure 4). For Compliance, dedicated governance can be a key foundational step for establishing mutual expectations under these newer ways of working.

Figure 3. Top risk challenges

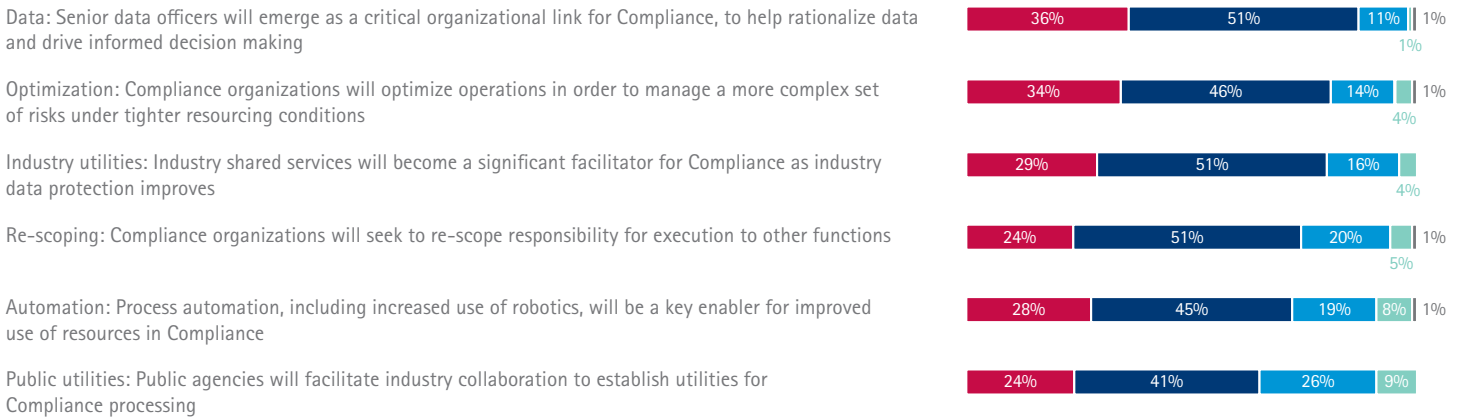
Please rank the top three risk types you believe will be the most challenging for the Compliance function, within the next 12 months and within the next three years.



Source: Accenture 2016 Compliance Risk Study

Figure 4. Growing importance of senior data officers

Please indicate to what extent you agree or disagree with the below statements regarding the role of the Compliance function in your organization within the next three years?



Note: Due to rounding, total may not equal 100 percent

Legend: Strongly agree (Red), Agree (Dark Blue), Neither agree nor disagree (Light Blue), Disagree (Teal), Strongly disagree (Grey)

Source: Accenture 2016 Compliance Risk Study

Decisions to be taken, choices to be made

The challenge of delivering best in class Compliance risk management in an era of constrained resources is not insurmountable. But it requires making important choices as to where limited investments should be placed to improve risk-based returns. Ongoing change in the ecosystem is only adding additional layers of complexity to these decisions and intensifying the clamour for decisive action. Accenture's industry experience indicates the following principles as key to navigating these choices:

Reassert and clarify the role and mandate of Compliance

Compliance should balance its role as a strategic advisor articulating risk in a way the front office can act upon without compromising its ability as an objective control function. About 80% or more of the 2016 Compliance Study respondents feel that Compliance will need to take a more active role in front-line business activities such as monitoring and product advisory. Nearly one in three study respondents (28%) have low or very low confidence in their ability to maintain clear governance between 1st and 2nd lines of defense.

Improve resource utilization

Compliance should continue to innovate through technology as well as its operating model to improve productivity. Areas of consideration include: leveraging centers of excellence; emerging industry utilities; or business process outsourcing that can drive greater standardization. Applying these innovations to functions such as client onboarding or employee Compliance is key to delivering a sustainable investment path.

Prioritize the development of high quality data and technology architecture

The investigative skills of Compliance officers should be supported by the right tools that can help link information and present a complete view of Compliance's health. Data and technology are cornerstones of an effective Compliance risk management framework. Compromise in these areas is not an option.

Value and incentivize development of Compliance talent

Compliance should establish compelling career propositions through rotation programs, mobility and enhanced learning programs. Investing in existing staff provides a platform for building the function of the future.

Regularly communicate the results of what can be a multi-year transformation journey

Compliance stakeholders are often more diverse than ever before, spanning senior management, media, shareholders, and regulators. Defining a plan that delivers regular outcomes tailored to each group and that can be confidently communicated is key for maintaining strategic alignment of investments and measuring progress along the journey.

Pivoting to the new

Our study and our industry experience indicate Compliance is at a crossroads. After gaining a seat at the table and a mandate to lead rather than follow in the wake of ongoing industry disruption, results for the CEO are yet to fully materialize.

With demands on Compliance continuing to expand and the availability of resources starting to slow, the challenge to delivering results is only getting steeper.

According to the Accenture 2016 Compliance Risk Study results, Compliance is confident about its ability to deliver in this changing environment. The time

has come to translate this confidence into a clear roadmap for the future that evidences to senior management that existing constraints can be managed and capabilities transformed to the levels necessary for Compliance to be both an effective risk manager and strategic advisor to the business.





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