

# Be the Disruptor, not the Disrupted:

Accenture 2015

Compliance Risk Study

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DISRUPTOR



PREDICTIVE



ECOSYSTEM



# 2015 Compliance Risk Study

New research from Accenture confirms compliance officers will have a central role to play in the future of financial services, but they must develop greater awareness of the changing ecosystem to help ensure they remain relevant and retain their seat at the table.

The Accenture 2015 Compliance Risk Study — based on a survey of leading compliance officers at 150 banking, insurance and capital markets firms across the Americas, Europe, and Asia-Pacific — builds on last year's study of the rising stature of compliance to consider the steps required to help future-proof and cement the elevated role and positive disruptive value of the compliance function within the organization. Our study concludes that:

## Compliance has kept its "seat at the table"

In the past year compliance has retained its position as an important and relevant control function in today's financial services company, receiving continued investment and establishing a direct reporting line to senior management as its capabilities deepen. Compliance's "seat at the table" is yet to be challenged.

## A changing ecosystem demands greater compliance awareness

External shifts, including changing customer behaviors, the evolution of technology, and greater supplier diversity — coupled with an internal imperative to deliver on-demand, multi-channel customer services — are changing the demands put on compliance. This perspective is supported by our study and Accenture's experience. We also believe pursuing existing plans unchecked can lead a compliance function to diverge from the enterprise's future needs.

## Creating and maintaining relevance and value

In a world driven increasingly by business disruption and not regulatory change, compliance, in our view, needs to develop more forward-looking capabilities and culture to create and retain value as a strategic business partner. Those that fail to do so may find their enhanced stature unsustainable. Among areas of focus we see:

- Seeking and mastering opportunities to partner with industry peers and to leverage shared services to hold costs down and gain access to needed expertise
- Understanding, growing and rewarding the skills and behaviors required to maintain the required workforce of the future
- Becoming an ethical monitor and maintaining operational disciplines across the three lines of defense (front office, compliance and internal audit)

## Be the disruptor, not the disrupted

In our view expectations of compliance have never been higher, and the role and value of the compliance officer has never been more central to the ongoing health of the industry.

We believe that maintaining the status quo can be a risky strategy for compliance. Our experience — and the results from the Accenture 2015 Compliance Risk Study — support the notion that bold actions are required to effectively deliver on compliance's mandate as a strategic business partner and its growing role and value to the organization.

# Detailed Findings from the Accenture 2015 Compliance Risk Study

## 1. Compliance has kept its "seat at the table"

### Compliance has kept its "seat at the table"

Study results indicate that, over the past 12 months, compliance has retained its position as a critical control function for financial institutions. The function remains highly visible, with only one in five compliance functions now reporting to other functions, rather than directly to the board or chief executive officer (CEO).

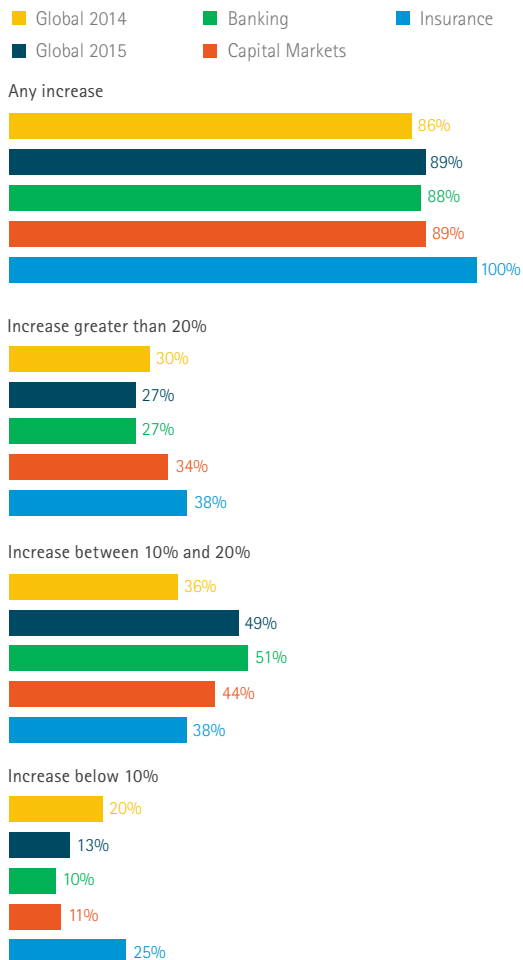
This continued stature and visibility have been accompanied by significant spending plans. Among survey respondents, 76 percent say investment in the function would increase by at least 10 percent over the next two years, versus the 66 percent who made the claim in last year's study. We believe this supports our premise that further investment is needed in compliance, something we are observing across financial services. (See Figure 1.)

Know Your Customer has emerged as a key priority for current change and thus may see increased investment. This is in line with last year's stated priorities, which concentrated upon more data-intensive disciplines and a continued focus on conduct.

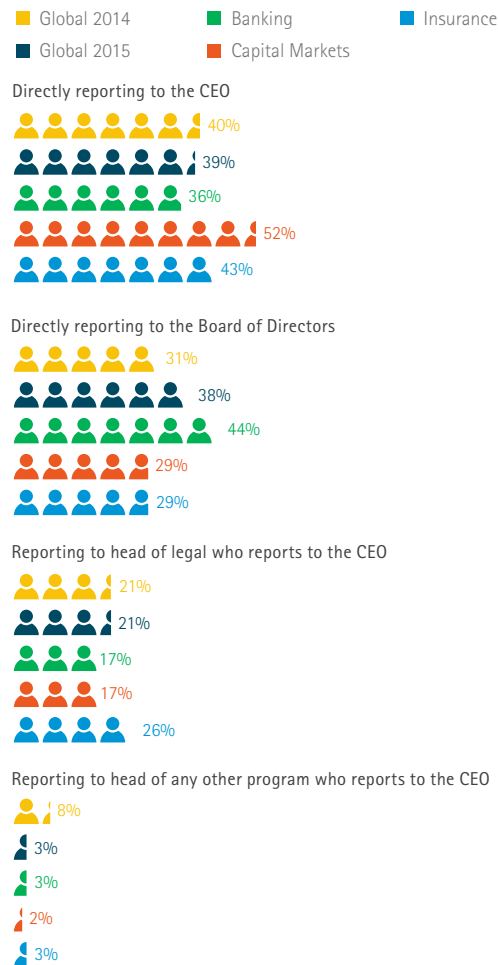
Such investment is to be expected in light of the ongoing financial penalties being imposed upon banks that continue to fall short of compliance standards, as seen by the over \$100 billion incurred by the largest US banks in legal fees alone between 2008 and 2013.<sup>1</sup>

Our study indicates that the importance of compliance's role continues to grow, and, as a result, the function continues to benefit from access to senior management and from significant investment. Its "seat at the table" is yet to be challenged. (See Figure 2.)

**Figure 1. Investment in compliance is expected to grow**  
Over the next two years, how does your organization expect investments in the compliance program to change? (Select one)



**Figure 2. Senior management reporting lines**  
Which of the following best describes the compliance program's reporting lines? (Select one)



Source: Accenture 2015 and 2014 Compliance Risk Study

## 2.

### A changing ecosystem demands greater compliance awareness

The last year has seen ongoing disruption to the financial services industry, accelerated by the rise of digital technology (cloud, mobility, social media, etc.). Customer behavior has changed, while a shifting regulatory landscape has also created new risks of concern to compliance officers, such as those represented by cyber-crime. In our view, this more complex world will increase future compliance requirements and will mean that the compliance function needs a better understanding of organizational compliance needs in the future.

Though the environment is changing rapidly, compliance officers in the 2015 study voiced the same concerns and preoccupations as those of previous years. Study respondents continue to be focused on managing relationships with external stakeholders, with 70 percent of respondents citing managing reputation in the public and media as critical to their function today.

While these remain important, less evident among survey respondents are signs that compliance officers are addressing the impact of advanced technologies and changing customer behaviors as they affect future compliance needs. We believe compliance officers should consider activities that would help them get ahead of these challenges. These would include engaging with emerging technologies to understand their impact on the compliance program, or how they can advance the activities of the compliance function. While 80 percent of the 2015 Compliance Risk Study respondents agree that new banking business models will force compliance to rethink its operating model, 59 percent did not see understanding technology trends as likely to be a key skill for a compliance officer, and half of the respondents did not see understanding changing customer expectations as important.

Another external factor given less emphasis by our respondents was the recognition of growing supplier and supply chain diversity in increasing compliance complexity. Only 30 percent of study respondents strongly agree with the view that a bank's supply chain can add greater complexity for compliance. Recent enforcement actions, such as those related to the Foreign Corrupt Practices Act, as well as more stringent rules regarding controls upon suppliers, highlight the greater importance placed by regulators on the possible compliance risks posed by suppliers.

Our experience indicates that supplier diversity – including reliance on third parties – continues to increase for financial institutions as business process outsourcing becomes more of a reality (in response to cost pressures) and operational subsidiaries develop in response to regulations (for example, Dodd-Frank Section 165 in the US and Global Recovery and Resolution planning rules and "ring-fencing" in the UK).

We are therefore sounding a cautionary note for compliance. Although the stature of compliance continues to rise (along with investment in the function), compliance officers' understanding of the implications of a changing ecosystem seem less advanced than it should be. In our view, compliance needs to make sure its development priorities become informed by these emerging agendas, while retaining a balance against ongoing imperatives such as regulatory engagement. We think compliance officers who fail to strike such a balance risk developing a function that fails to meet the needs of the future.

### 3.

## Creating and maintaining relevance and value

To succeed in a changing ecosystem, compliance functions should develop new ways to understand their changing business model, detect emerging risks, and steer their organizations toward improved ethical conduct and stronger controls. Although 2015 Compliance Risk Study respondents view traditional compliance program activities such as “lessons learned” becoming less important in the next five years, in our view many financial institutions appear ill-equipped to detect and address new industry trends or embrace emerging technologies that could better enable their programs.

As compliance officers consider these changes in the environment, they should consider a number of emerging best practices to help address these challenges:

### Be data and insight driven

Emerging leaders are developing forward-looking capabilities that source data from a wide environment. Data regarding client transactions, employee conduct, and controls performance is now abundant, and can help compliance functions generate early warnings and predictive insights through analytics. Currently, we have seen only a handful of leading compliance functions deploy analytics in these areas, mainly to assess current or past issues. Examples include analytics capabilities used to support employee surveillance and client onboarding activities.

Yet advanced data insights can be applied to a much wider range of compliance challenges in our view. These include predictive analysis of employee compliance (such as gifts and entertainment or outside affiliations), business compliance (such as conflicts of interest or due diligence), and financial crime (including transaction monitoring and fraud). At a number of banks, social media data is beginning to provide deeper insight into employee affiliations, potential conflicts of interest, and fitness for senior roles. Analytics targeting fraud and financial crime also help build a unified view of customers, supporting both regulatory compliance and customer servicing and retention.

As financial services providers become increasingly digital, we see multi-channel businesses, better predictive analytics giving compliance the agility it desires to advise the business on more of a real-time basis, while building on a view of risk that is unique to the organization rather than simply an industry standard or norm.

A strategic shift to forward-looking capabilities also entails developing compliance employees' skills and confidence to manage quantitative and analytical decision-making. Compliance officers who are comfortable working with the latest technologies in a digitized world, including knowledge of new data types, social media and predictive analytics, will be sought after to deliver a “rational” compliance response to emerging challenges. Over 50 percent of all 2015 Compliance Risk Study respondents indicate that skills to deliver effective management reporting will be a priority within the next year, and a similar proportion say external competitive hiring can be the best immediate way to add those skills.

### Be a collaborator

The war for talent and the changing role of compliance pose non-traditional challenges in getting the right people with the right skills on board. In our view this involves attracting and retaining talent with different skills, capabilities and backgrounds.

The industry should also take steps to openly discuss these challenges, learning and evolving in a collaborative manner. A very high number (86 percent) of study respondents say that sharing resources with other banks for the delivery of certain compliance processes will be key to the long-term sustainability of compliance operations.

There are a few pioneering examples of shared services or utilities for data processing, which can help standardize data, triangulate insights, and thus identify issues. Some examples today would include the use of PIPJIU (Payment Industry and Police Joint Intelligence Unit) in the UK, as well as UK banks using a centralized sanctions screening service (SWIFT) to cross-check their sanctions list. Centers of excellence have developed industry views on standards and regulation, and we feel these can be leveraged by financial institutions for knowledge-sharing of technical skills. While these collaborative models are relatively new, we believe they have proved their value and merit further consideration.

## Be an ethical monitor

Along with technical skills and data management, compliance functions seek to understand, reward, and deliver a culture of ethical behavior. Four out of five (80 percent) respondents agree that compliance will be the pre-eminent group in the bank for ethical and cultural change within financial services. This recognizes that many compliance challenges cannot be overcome with controls and analytics alone, no matter how strong these capabilities are. Senior managers are increasingly being held personally liable for the conduct of less senior employees, and yet these executives face enormous difficulties in maintaining visibility into what is happening in large and complex institutions. The answer, we believe, is to promote a stronger culture of ethical, self-correcting, and self-policing behaviors.

There is a range of new models to support cultural change and organizational learning. These can form an important part of compliance's suite of capabilities. These models include "nudge" programs, "gamified" approaches to learning, and internal social networks, among many others. The "nudge" approach encourages small, incremental changes to be implemented daily over a set period of time. For example, this may involve challenging employees to have one detailed feedback conversation with someone from a different part of the business (such as audit) on one day, and the next day to carry out an action responding to the feedback received. Small daily actions are used to help create sustainable new habits. Innovative ways of working can also be developed through "gamification"; that is, turning ordinary activities such as knowledge-transfer into in-built competitions that use rewards and acknowledgement as incentives.

These "games" can be run via internal social media, which can prove effective as a means for compliance leaders to feel the pulse of their organization, identify influencers and compliance champions, and crowdsource innovative ideas that challenge traditional ways of working. Historically, compliance organizations have not benefitted from the incentives to innovate that their market-facing counterparts have. These approaches to developing ethical behaviors can help empower compliance team members to become productive partners in financial services transformation.

In addition to encouraging self-correcting behaviors, another aim of cultural change should be to support stronger collaboration across the three lines of defense, helping front office risk, compliance, and audit functions to pull in the same direction. Although it would seem to be self-evident, only two-fifths of 2015 Compliance Risk Study respondents see this objective as a priority over the next three years. This represents, in our view, a missed opportunity. Without stronger links across these functions, compliance will find it difficult to deliver on its mandate (its "seat at the table") while working within a cost environment that remains a factor into the future. In particular, we feel that responsibility for preventive controls should continue to shift towards the front office in order to help compliance take a more proactive role in product design governance and establish a strategic view of emerging challenges. As Federal Reserve Governor Daniel Tarullo put it, what the Fed wants to see is "good compliance", not just compliance.<sup>2</sup>

COMPLIANCE



PEER NETWORK



WORKFORCE OF THE FUTURE



#### 4. ☁️ ⚡️ 🌐

### Be the disruptor, not the disrupted

Our view is that expectations of compliance have never been higher, and the role of the compliance officer has never been more central to the ongoing health of the financial services industry. At a time when regulatory and consumer trust in financial services remains low, the compliance function can play a powerful role in influencing and transforming the industry. According to the study, 80 percent of respondents agree that the compliance function's ability to predict and avoid reputation and financial crime events can be a driver of competitive advantage for banks.

Over the years we have seen compliance take a reactive role to business strategy, facilitating strategic decisions that were often taken without its input. As a consequence, gaps developed between the second-line support that organizations need and the capabilities that compliance could offer. We think that many of these capability gaps contributed to the recent financial and reputational crises, and thus to the regulatory challenges that the financial services industry faces today. While compliance now enjoys a higher profile with the CEO and the board, it must deliver on its strategic mandate in order to maintain this status.

We believe that to thrive as a strategic partner in business transformation – and to protect the organization's reputation – compliance should become a disruptive force in its own right. Our interpretation of the 2015 Compliance Risk Study results, and our own experience, suggest that compliance functions should take steps to become more aware of the changing ways in which consumers interact with their financial services providers in the digital space, and the new types of products, transactions, and ways of working that this transformation brings.

To do this, compliance needs forward-looking capabilities such as data management and analytics. We think that compliance skills should also include more structured and forensic understanding of analytics and related technology. Compliance cannot solve for every emerging risk, so its practitioners should acquire the skills that help influence cultural and ethical change, thus encouraging self-correcting and self-policing behaviors. This can require significant investment and add complexity, but compliance functions can leverage a number of existing collaboration models across the industry, such as industry utilities and shared services, to pool costs and insights. In these ways, compliance can begin to use its "seat at the table" for positive disruption.





**ETHICAL  
MONITOR**

Below the text are three white icons on a teal background: a prohibition sign (a circle with a diagonal slash), a pair of binoculars, and a pair of scales of justice. Below these icons is a horizontal row of five small white squares.

**SHARED  
SERVICES**

Below the text are three white icons on an orange background: three stylized human figures, a document with a checkmark, and a line graph with an upward trend.

# Accenture 2015 Compliance Risk Study

## Key findings across regions

North America



Latin America



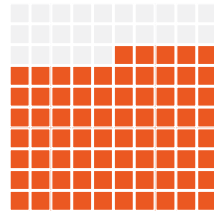
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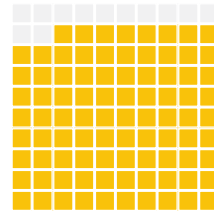
Asia-Pacific



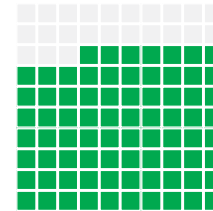
Compliance has preserved its "seat at the table" reporting directly to Board and CEO



75%



88%

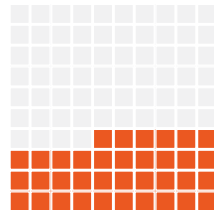


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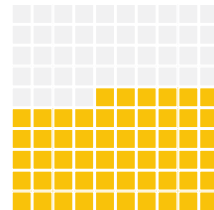


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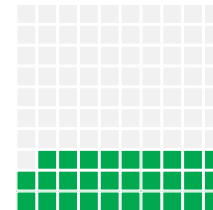
Most important success factor for compliance: Forming effective working relationships with the front line



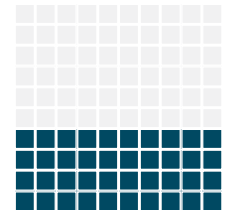
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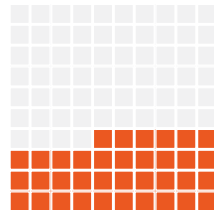


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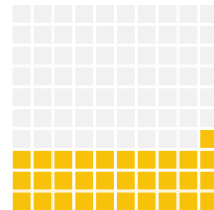


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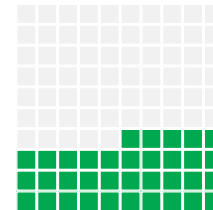
Most important success factor for compliance: Seeking a competitive advantage through compliance



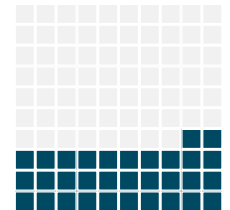
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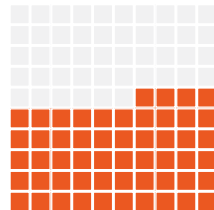


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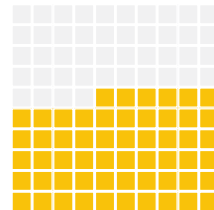


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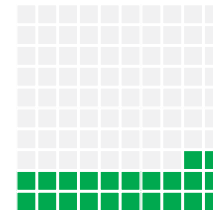
Most important success factor for compliance: Forming effective working relationships with internal audit



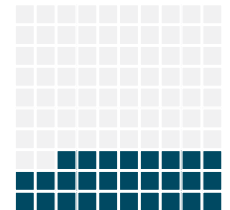
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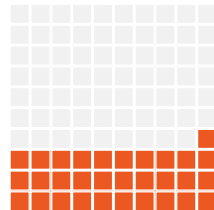


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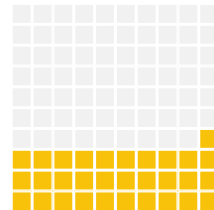


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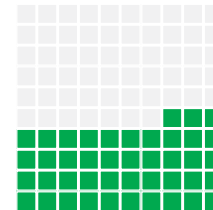
Lack of skills is the greatest barrier to the evolution of compliance



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North America

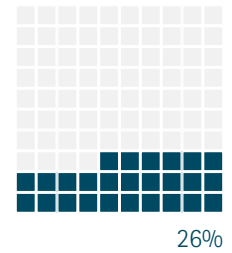
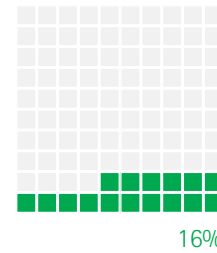
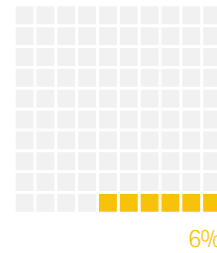
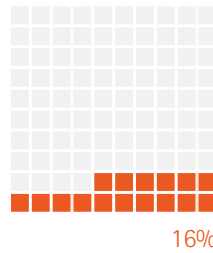
Latin America

Europe

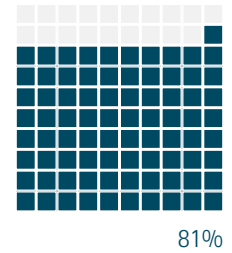
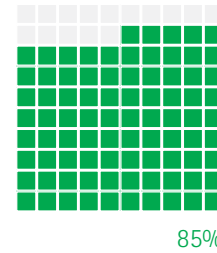
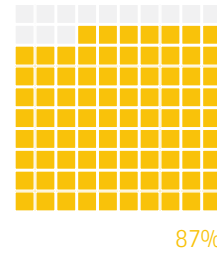
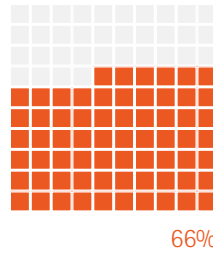
Asia-Pacific



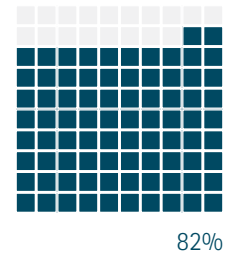
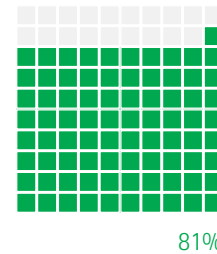
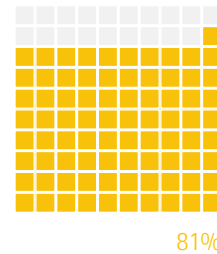
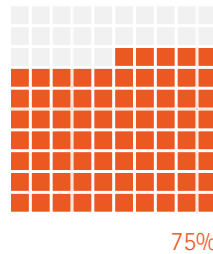
In five years' time ...  
Lack of skills will be the greatest barrier to the evolution of compliance



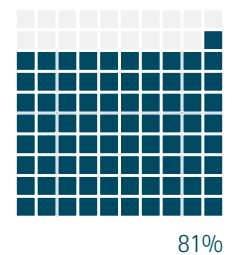
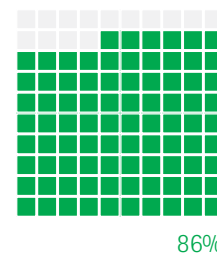
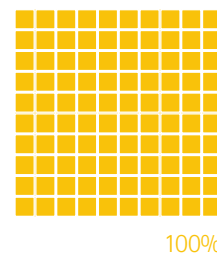
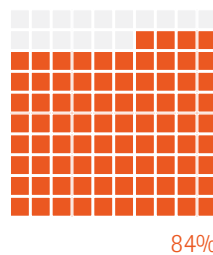
In five years' time ...  
Globalization, digital technology and customer expectations will require compliance to rethink the bank's operating model (strongly agree/agree)



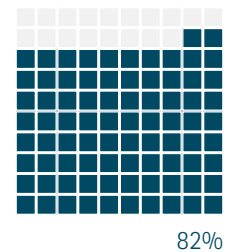
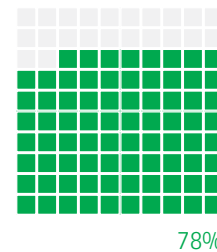
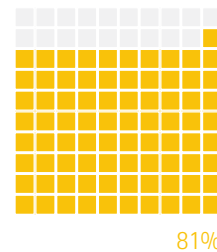
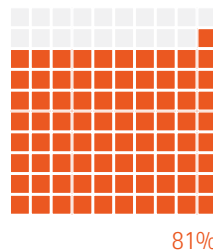
In five years' time ...  
Compliance's ability to predict/avoid reputation and financial crime events will be a driver of competitive advantage for banks (strongly agree/agree)



In five years' time ...  
Sharing resources with banking peers to deliver certain compliance processes will be key to the long-term sustainability of compliance (strongly agree/agree)



In five years' time ...  
Compliance will be the pre-eminent group in the bank for effecting culture change and improved ethical behavior within financial services (strongly agree/agree)



Note: Responses for the Latin America region should be taken with caution given the size of the responder base.  
Source: 2015 Compliance Risk Study

## Notes

1. "U.S. Bank Legal Bills Exceed \$100 Billion," Bloomberg, August 28, 2013. Accessed at: <http://www.mainjustice.com/2013/08/28/u-s-bank-legal-bills-exceed-100-billion/>
2. "Reforming Culture and Behavior in the Financial Services Industry," Governor Daniel K. Tarullo at the Federal Reserve Bank of New York Conference, Board of Governors of the Federal Reserve System. Access at: <http://www.federalreserve.gov/newsevents/speech/tarullo20141020a.htm>

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## Acknowledgements

The authors would like to thank the following Accenture employees for their contribution to this document: Laura Bishop, Haralds Robeznieks, Paul Stanwick, Melissa Volin, Chang A. Liu and Christian Munoz.

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