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L O N D O N

# The evolving role of Compliance

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# Presenter Details



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# Disclaimer



*Statements of fact and opinions expressed in this presentation are those of the author and do not necessarily reflect the official policy or position of any other company, employer or organisation connected with the author*

# Overview



A. The never ending changes in the regulatory environment

B. Redefining the role of Compliance

C. What makes a good Compliance Officer



## A. The never ending changes in the regulatory environment

# Upcoming Regulatory Initiatives (indicative)

The number of upcoming legislative initiatives is constantly increasing

## Data Protection

- General Data Protection Regulation (GDPR)

## Financial Crime

- Fourth Money Laundering Directive (MLD4)
- Market Abuse II package (MAR and MAD II)

## Asset Management

- UCITS V Directive
- Packaged Retail Investment and Insurance based products (PRIIPs)
- Money Market Funds Regulation (MMFs)

## Prudential Regulation

- CRD IV
- CRR IV

## Banking Union

- Supervision (SSM)
- Resolution (SRM)
- Deposit Guarantee Scheme (DGS)

## Markets & Trading

- MIFID II package
- Central Securities Depository Regulation (CSDR)
- European Market Infrastructure Regulation (EMIR)

## Tax

- FATCA
- OECD Automatic exchange of information (CRS)

## Credit

- Mortgage Credit Directive (MCD)
- Payment Services Directive (PSD2)

# Regulatory Compliance – A top priority for BoDs



Boards of directors and CROs have common top priorities for 2016



\*Excluding cybersecurity

Source: Seventh annual global EY/IF Bank Risk Management Survey, 2016 (67 Banks - incl. 23/30 global systemically important- 29 countries)



# Supervisory expectations have risen



**BNP PARIBAS**

**2014**

\$9 billion settlement for violating U.S. sanctions against Sudan, Cuba and Iran

 **Santander**

**2012**

(UK sub) fined £12.4m for investment advice failings

**2011**

£10.5m fined for mis-selling

**2015**

£28m for AML breaches

**HSBC** 

**2012**

fined \$1.9bn for AML breaches

 **UBS**

**2012**

fined \$1.5 billion for manipulating Libor

 **BARCLAYS**

**2012**

fined £290m for manipulating Libor

**2015**

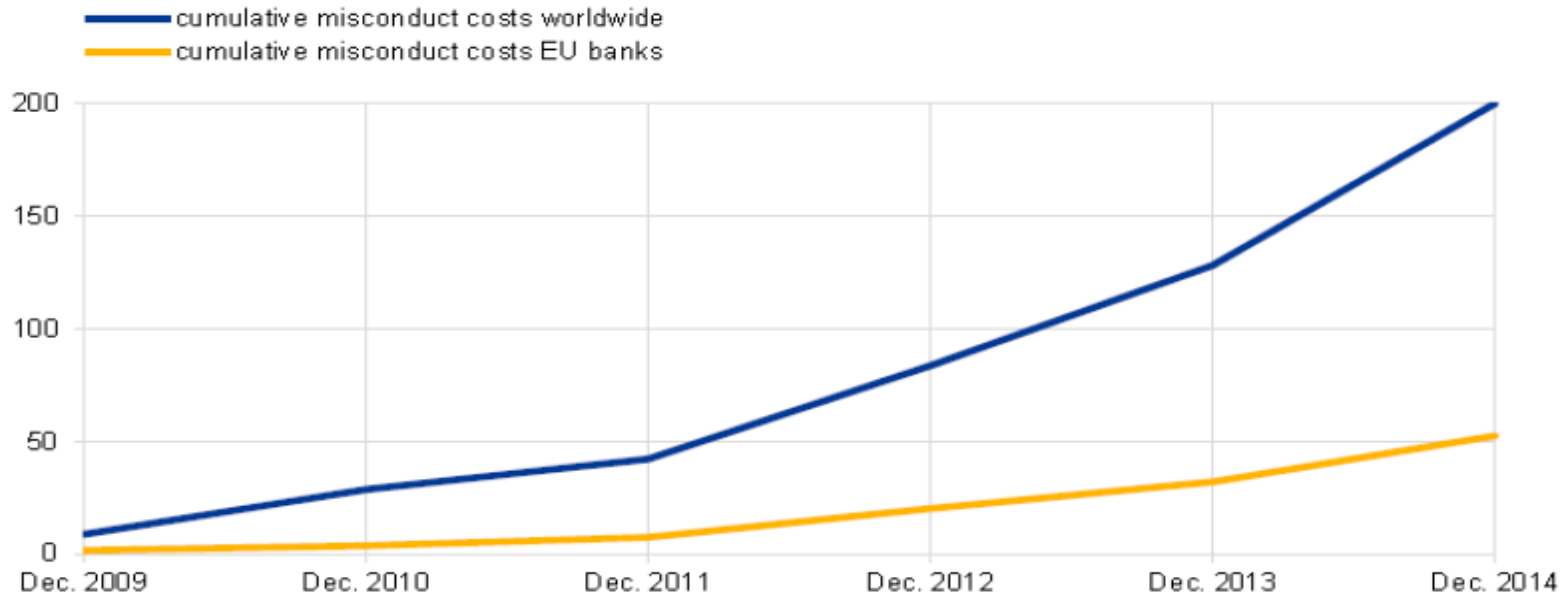
fined £72m for financial crime failings



# Cost of non-compliance has increased



## Chart: Cumulative misconduct costs for banks from 2009 to 2014 (EUR billions)



Source: "Fines for misconduct in the banking sector- what is the situation in the EU?", IPOL, European Parliament, 29 March 2017 (based on ESRB Report on misconduct risk in the banking sector in 2015, p 12).



# Personal liability and fines have increased



**2012** : The Compliance Officer, of Greenlight Capital (UK), LLP was fined £130K for failing to question and make reasonable enquiries before Greenlight sold shares in Punch Taverns plc in 2009. He was prohibited from performing the Compliance Oversight and Money Laundering Reporting functions

**2013**: The FCA has fined Compliance officer of Paul E Schweder Miller & Co, £70,258, and a broker at the same firm for enabling market abuse.

**2015** : The FCA has fined the Bank of Beirut and the former Compliance officer at the Bank of Beirut, and Michael Allin, the internal auditor for providing the regulator with misleading information.

**2015**: The FCA has fined an Investment firm founder a record £75m, the firm's sales director £4m, the Compliance officer a further £200,000 for misselling of investment products and banned the three of them from working in financial services again.

# Regulatory supervision method changes



| Rules Based  | Principles based   |
|--|--|
| <p><b>Pros</b></p> <ul style="list-style-type: none"><li>○ clarity for firms (prescriptive)</li><li>○ little room for interpretation allows little room for different application by different firms</li></ul> | <p><b>Pros</b></p> <ul style="list-style-type: none"><li>○ allows more flexibility</li><li>○ encourages innovation</li></ul>                     |
| <p><b>Cons</b></p> <ul style="list-style-type: none"><li>○ may lead to tick box approach</li><li>○ the rulebook cannot cover every eventuality</li><li>○ cumbersome to administer/update</li></ul>             | <p><b>Cons</b></p> <ul style="list-style-type: none"><li>○ interpretation may prove to be more challenging</li><li>○ requires judgment</li></ul> |



# Change in Supervisory Focus

Regulators have increased attention on conduct risk

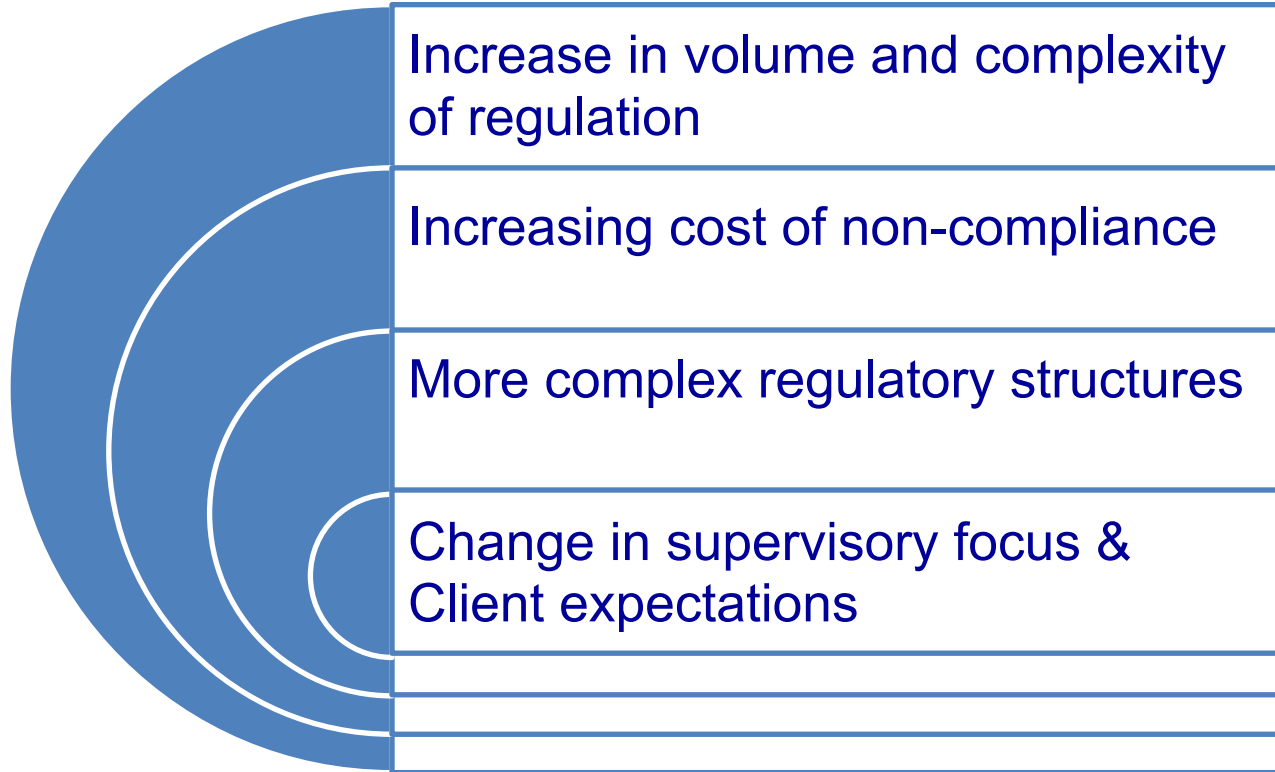


# Change in client expectations - Ethics

- ❖ Recent scandals (eg tax avoidance cases)
- ❖ Loss of trust
- ❖ Legal vs ethical
- ❖ What is right and what is wrong?
- ❖ Corporate Social responsibility



# Key trends





## B. Redefining the role of Compliance

# The past

- ❖ Regulations expert
- ❖ Policeman
- ❖ Rules lover/ box ticker
- ❖ Business opportunities “killer”
- ❖ Re-active/defensive/hindsight
- ❖ Operational compliance
- ❖ Reporting data not information
- ❖ Not an attractive career





# The future

- ❖ The strategic partner
- ❖ The adviser & facilitator
- ❖ The educator
- ❖ The compliance risk manager
- ❖ The relationship manager
- ❖ The contributor to the development of a robust compliance culture



# How do you go from A to B?

A



B



# How do you go from A to B?



1. Introduce a holistic approach & educate key stakeholders

2. Shift mindset towards risks

3. Automate and invest in tools and methodologies

4. Strengthen Compliance division staff knowledge and skills



# Introduce a holistic Approach

Business strategy

**Tone at the top**

**Risk Assessment**

Compliance should develop a framework to help the business manage Compliance issues

Business management

**Lines of communication**

**Oversight and responsibility**

**Policies and procedures**

Business oversight

**Monitoring**

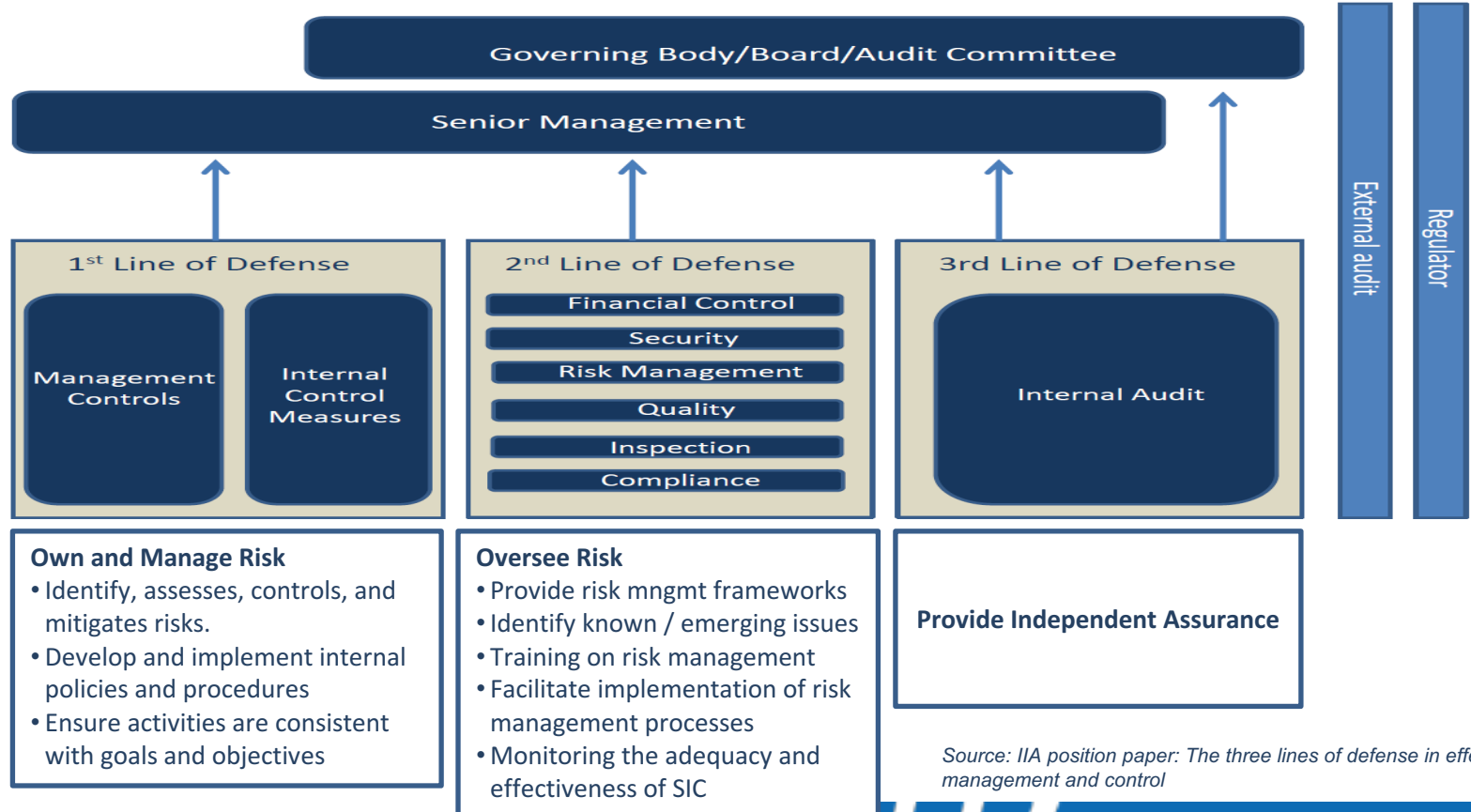
**Response and prevention**

**Auditing**

Source: PWC, State of Compliance Survey 2015.

**Training**

# The 3 lines of defense model



# Educate key stakeholders



- ❖ Strengthen the role of the Compliance function as a trusted strategic advisor to the business
- ❖ Become involved in the business planning process in a pro-active role
- ❖ Undertake initiatives to raise compliance culture across the organisation.

Indicative actions may include:

- ❖ Set up an overall training strategy to cover BoD members, Top Management and staff at all levels
- ❖ Ensure Top Management leads by example and that this is communicated to all staff
- ❖ Issuance of Codes of Conduct and Best Practice manuals
- ❖ Transfer staff from Compliance to the business units and vice versa
- ❖ Performance appraisal policies that focus on compliance and penalize those with repeated offences.



# How do you go from A to B?



1. Introduce a holistic approach & educate key stakeholders

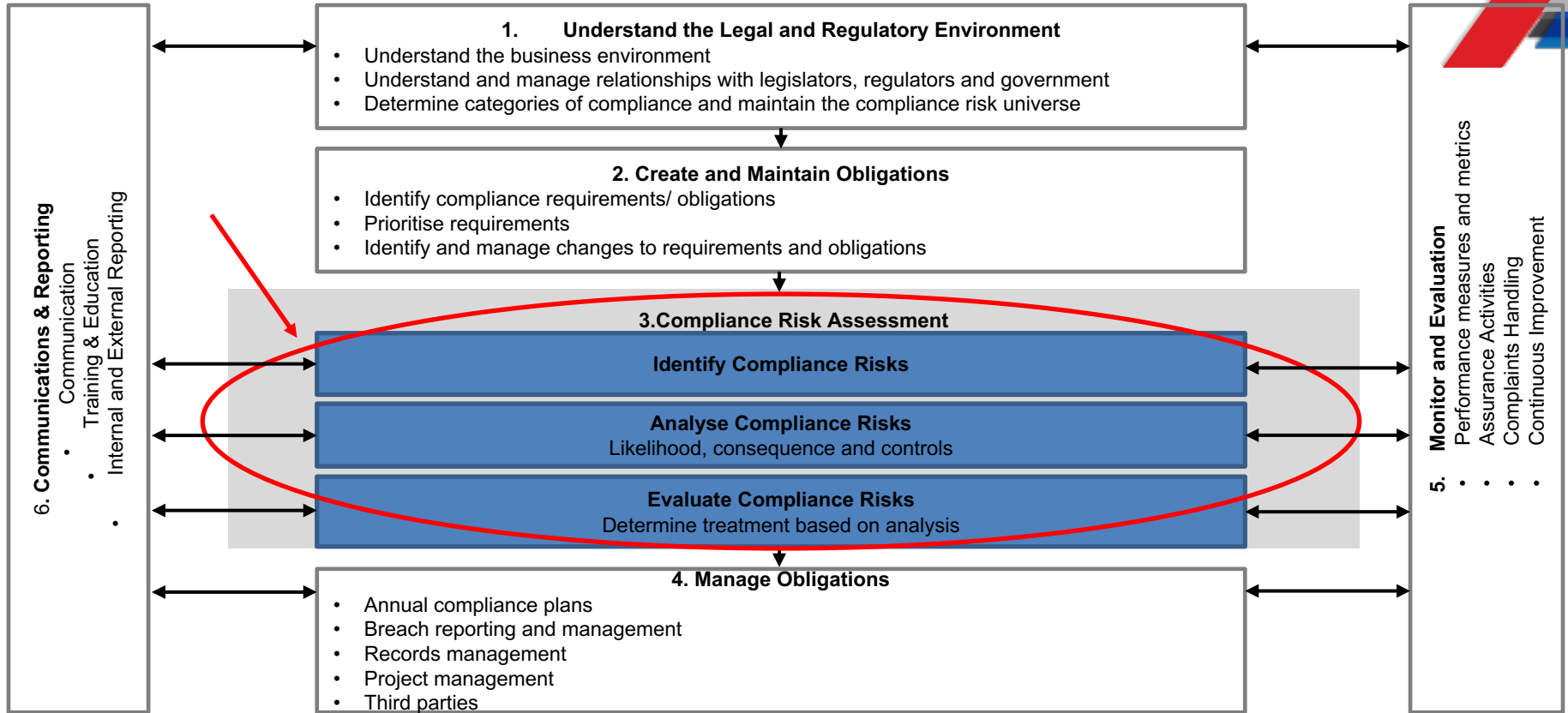
2. Shift mindset towards risks

3. Automate and invest in tools and methodologies

4. Strengthen Compliance division staff knowledge and skills



# Compliance Risk Management Framework



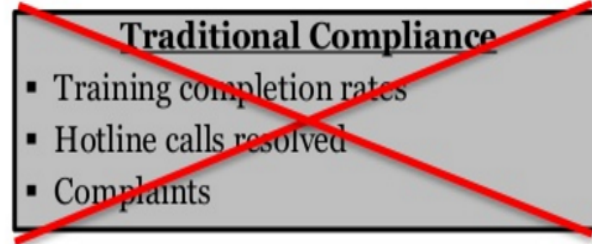
\* "Compliance Management Framework", Victorian Managed Insurance Authority (VMIA)



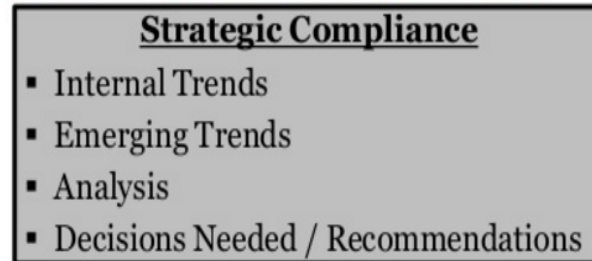
# Changing the content of Compliance reports



## *Informative - Not Actionable*



## *Actionable Data Relevant to Business Operations*



Source: PwC, 2015 Managed Care Compliance Conference

# How do you go from A to B?



1. Introduce a holistic approach & educate key stakeholders

2. Shift mindset towards risks

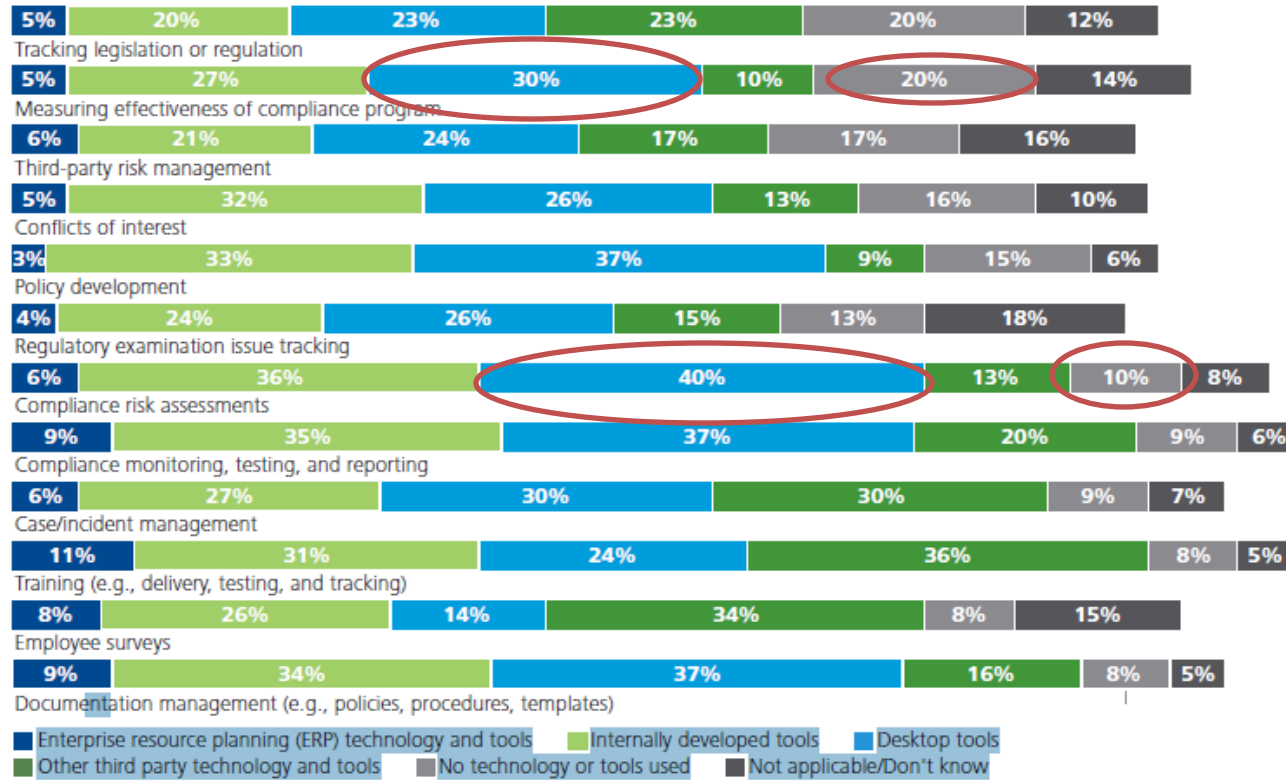
**3. Automate and invest in tools and methodologies**

4. Strengthen Compliance division staff knowledge and skills



# Large Scope for introducing technology

Please indicate which tools and technologies are used to support each component of your organization's compliance program.

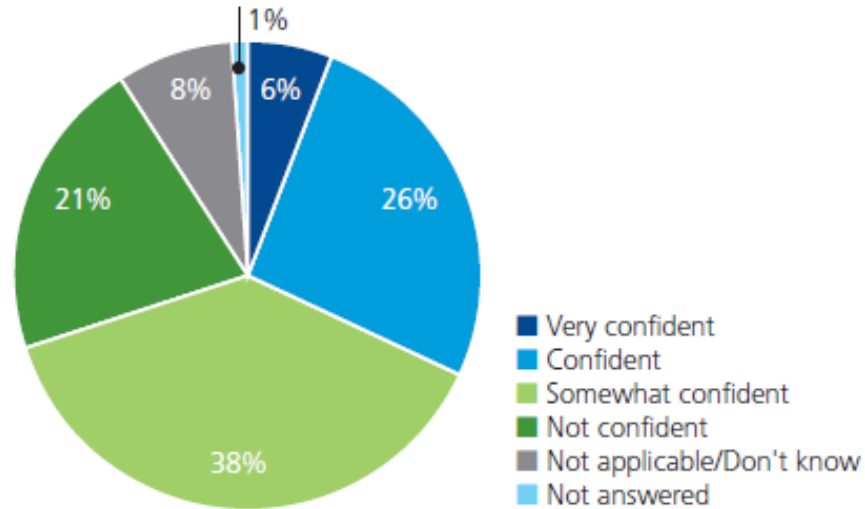


Source: Deloitte, Compliance Week In Focus: 2015 Compliance Trends Survey, 365 respondents – 30% financial services)

# Large Scope for introducing technology



How confident are you in the ability of your compliance department's IT systems to fulfill your organization's compliance responsibilities and reporting requirements?



Source: Deloitte, Compliance Week In Focus: 2015 Compliance Trends Survey



# How do you go from A to B?



1. Introduce a holistic approach & educate key stakeholders

2. Shift mindset towards risks

3. Automate and invest in tools and methodologies

4. **Strengthen Compliance division staff knowledge and skills**



# Strengthen staff

## Is chucking more people into compliance the right approach?

- ❖ Significant growth experienced in the last decade
- ❖ Pressure to reduce costs will lead to efficiency improvements
- ❖ Indications that trend may gradually be reversed



# Compliance Staff Market Trends

While a skilled, high-quality compliance function is expensive to build **it will be one of the best investments for a firm and its senior managers**. Many firms have employed more compliance staff but there is a growing need for more truly skilled compliance officers. The results show a consistency of expectation that the costs of skilled compliance staff will continue to rise, but **the growing issue is in the availability of high-quality skills and experience**.

Thomson Reuters Annual Cost of Compliance Survey 2015.

....the demand for compliance specialists, such as compliance officers, is rising. And that trend is likely to continue,... Robert Half Management Resources, 17.08.16

A compliance officer requires a unique skill set to ensure a company's operations fully comply with regulations and procedures. INVESTOPEDIA





## C. What makes a good Compliance Officer



# Most relevant Skills for Compliance Staff



Results of survey among staff



**Critical Thinking and**



**Business knowledge**

**are perceived by**

**Compliance staff as**

**the most relevant skills**

**for Compliance staff**

Up to 3 choices allowed

# of respondents = 129; # of responses = 383



# Most relevant skills for Compliance staff

## □ Technical knowledge and skills

- ❖ Sound knowledge and understanding of the business
- ❖ Business awareness and pragmatism
- ❖ Critical thinking
- ❖ Knowledge of laws and regulations
- ❖ Analytical, investigative and research skills



designed by  freepik.com

# Most relevant skills for Compliance staff

## □ Key personal skills and qualities

- ❖ Integrity & high ethical values
- ❖ Influence & Leadership
- ❖ Communication skills
- ❖ Presentation and training skills
- ❖ Management skills
- ❖ Listening skills



# Training suggestions for compliance professionals



## Internal training

- Presentations by business units
- Presentations by compliance experts
- Workshops on key issues

## Professional Certifications

- ICA, Governance Risk and Compliance Diploma
- Certified Internal Auditor (CIA)
- Chartered Certified Accountant (ACCA)
- Certified Anti-Money Laundering Specialist (ACAMS)
- Data Protection Officer Certification
- Certified Fraud Examiner (CFE)
- Chartered Financial Analyst (CFA)

## Training Courses & Conferences

- Regulatory developments (eg MiFIDII)
- Business developments (eg digital)
- Soft skills (eg management, project planning etc)

The background is a solid blue color. It features several abstract, overlapping geometric shapes in red, white, and light blue. These shapes are arranged in a way that suggests movement and depth, with some appearing to be layered on top of others. The shapes are primarily rectangular and trapezoidal, with some having a slight 3D effect through shading.

# What lies ahead

# What next?

- ❖ External regulatory environment more complex and demanding
- ❖ Compliance to become a strategic partner
- ❖ Overall compliance framework to adapt to new requirements
- ❖ Risk & compliance awareness to be raised
- ❖ Use of technology to be re-assessed and expanded

Compliance to become a comparative advantage





**Any Questions?**

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Thank You!

