

# The State of Compliance Survey

2021 Edition



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# Foreword

A positive compliance culture continues to be front of mind for organisations to drive better customer outcomes.

The continuing emergence of RegTech has led Compliance functions<sup>1</sup> to leverage automated solutions and increase their data capabilities as part of a push towards continuous improvement and effectiveness.

Organisations have also outsourced some of their compliance regulatory responsibilities to third-party providers as there is an increased need for capacity to manage ongoing responsibility for regulatory requirements.

This raises the question of how Compliance functions effectively and efficiently enable their organisations to meet obligations and societal expectations?

In the 2021 Survey<sup>2</sup>, we asked senior Compliance professionals for their views on four key questions to identify the challenges facing Compliance functions.

- What is the role of the Compliance function and do they have the capacity/capability to meet their responsibilities?
- What is the state of the compliance culture in organisations and how much work is left to do?
- How are Compliance functions leveraging RegTech solutions to assist with their activities?
- Are Compliance functions aware of the new ISO Standard 37301, if so, will they be seeking certification?

The 2021 Survey reports there is less spare capacity in Compliance functions, which is likely to be as a result of the ongoing need to manage new regulatory obligations. Not surprisingly, the Survey shows a continued expectation that Compliance functions will increase their headcount.

An emerging theme from the 2021 Survey is the importance of data analytics skills for the Compliance Function. Data analytics skills along with business/product knowledge are the joint top priorities for skills improvement.

Positively two-thirds of respondents described their organisation's culture as "should we" as opposed to "can we" which is an increase from last year's survey's results. This demonstrates that organisations have emphasised the importance of doing the right thing rather than focussing purely on what is permissible. More than half of respondents also feel that senior leaders are promoting good compliance behaviour. However, there is still progress to be made to achieve real and lasting change as all senior leaders should play a role in actively demonstrating the importance of good compliance behaviour.

Overall, it is clear organisations and Compliance functions still have many areas they can build on and that there is no quick fix or overnight solution, rather a strategic and long-term approach is necessary. The introduction of ISO 37301 should give organisations further guidance and an opportunity to uplift their capability in order to obtain certification against the new standard or to prepare to answer questions from the regulators or other parties regarding their level of compliance with the ISO.

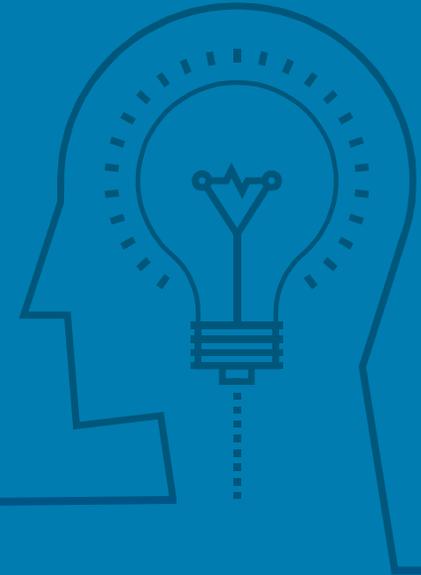
Note 1: Compliance functions refers to second line compliance within the three lines of accountability model.

Note 2: The Survey was completed November/December 2021.





# The Future Direction of Compliance



# What is the role of the Compliance function?



The role that the Compliance function plays within an organisation must continue to adapt and evolve as business strategies, regulatory requirements and societal expectations change. A recent change observed is an increased focus on control assurance and breach management in addition to advising and partnering with the business.

An integrated Compliance function is a key component of any successful organisation, however, there is often a disconnect between the first and second line in the interpretation of the Compliance function.

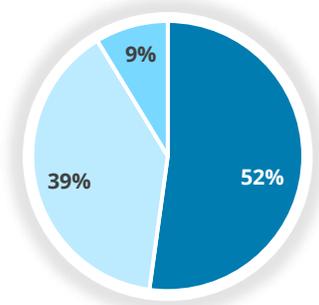
Over the past decade, the Compliance function has undergone a shift from being a “stop-go” function, sometimes unhelpfully described as an “organisation’s police force”, to be one that adds value and supports its strategy.

89% of survey participants felt strongly that the role of the Compliance function is primarily to advise and partner with the business.

Furthermore, we are now seeing a much stronger emphasis on incident and breach management (76%), control assurance, and monitoring (72%), and compliance training (76%). These results are likely to be in response to greater demands from the Compliance function for management information in reporting combined with the large volume and variety of regulatory requirements implemented in recent years.

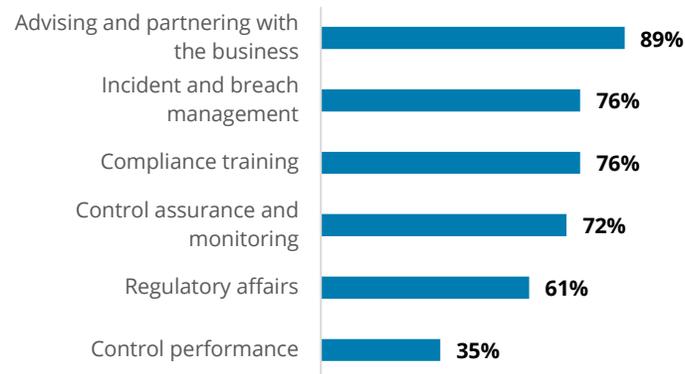
Disappointingly the 2021 Survey reflects, and we are also observing, a lack of clear distinction between the compliance activities performed by the first and second lines. Not surprisingly a lack of integration between first and second line Compliance continues to be reported. We have observed a key focus area is the first line where organisations are establishing risk and compliance functions that report directly to the business. However, we have also observed a lack of integration resulting in duplication of effort and gaps in coverage.

Does the organisation have a **clear distinction between the Compliance activities performed by the first and second line functions** ?

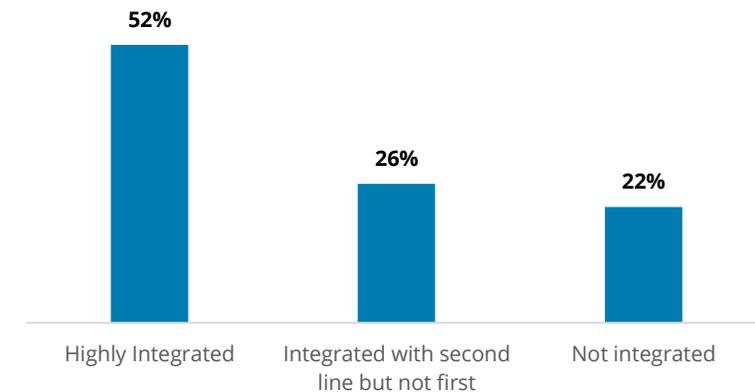


■ Clear Distinction ■ Unclear Distinction ■ No Distinction

How would you describe the **role of the Compliance function** in your organisation?



To what extent is the **Compliance risk management framework aligned to and integrated with business and first line risk frameworks**?



# Is the Compliance function at capacity?

In line with the 2020 Survey, demands on the Compliance function have continued to increase with capacity levels remaining the same. Compliance functions will need to become more efficient and effective or they risk relying on increases in headcount which may not be available.

The 2021 Survey indicated that 35% of respondents expect an increase in Compliance headcount. The three main drivers that prompt this are maturing Compliance frameworks, broader organisational growth, and an increase in regulatory requirements.

An increase in the volume of regulatory change over the year has driven a reduction in their ability to meet all of the demands placed on them by the business. 61% of respondents have noted that the recent level of regulatory change has had an adverse impact on the Compliance function's ability to perform its role effectively.

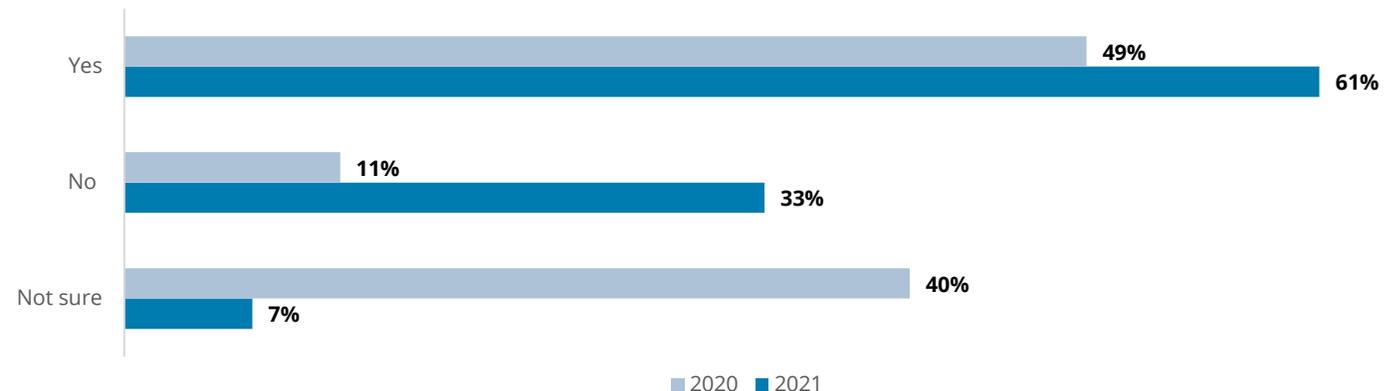
## Has the recent level of regulatory change had an adverse impact on Compliance's ability to perform its role effectively?

Two key solutions for a Compliance function that has no additional capacity and has no plans to increase staffing levels are:

1. Review the split of responsibilities between the Compliance function, the business, and other control functions to consider:
  - Increasing collaboration with other control functions; Increasing control performance and oversight by the first line;
  - Making sure that the Compliance function is acting as a genuine control and assurance function; and
  - Proactive reporting.
2. Become more efficient in the performance of their role by:
  - Utilising technological solutions to increase efficiency e.g. GRC systems;
  - Establishing the right skills and capabilities to deliver by upskilling or augmenting; and
  - Reviewing certain Compliance activities that could be suitable for outsourcing to third parties.

**35%**

Expect to **increase Compliance headcount** in the next 12 months. In 2020, only **22%** expected an increase



# What skills do Compliance functions lack?

Whilst it is important for Compliance functions to hold industry-specific skills such as business/product knowledge, technical regulatory understanding, and risk management ability, they should also maintain strong fundamentals such as stakeholder management/collaboration, influencing skills, and communication skills, and develop data analytic skills.

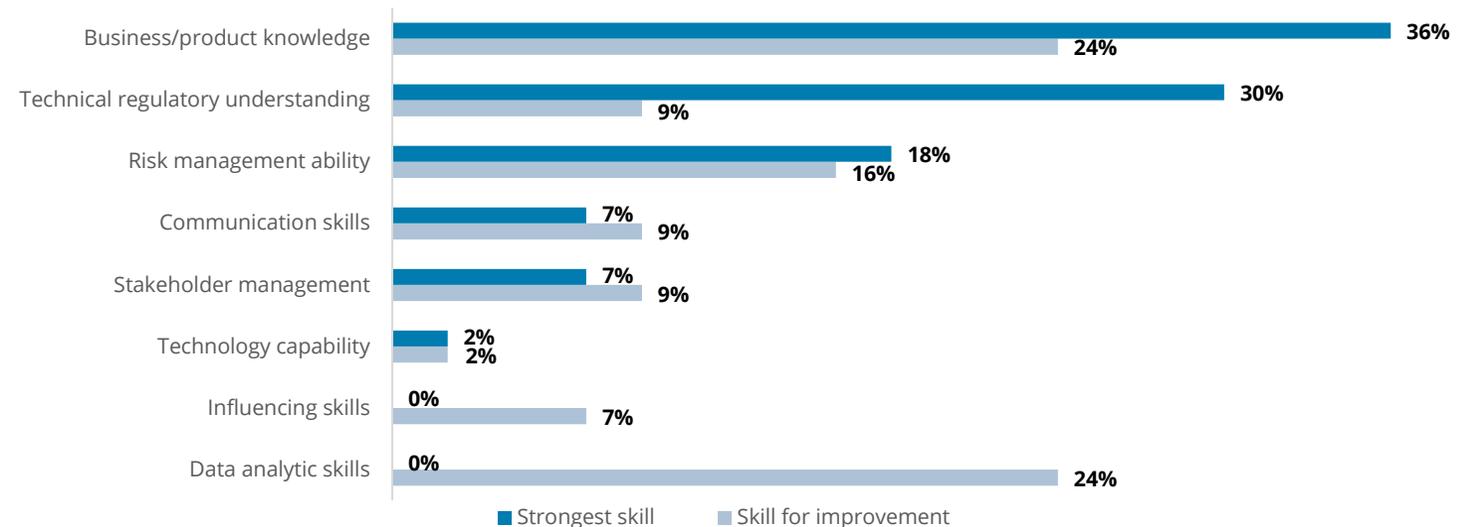
Compliance functions must keep pace with ongoing regulatory change and evolving uses of technology and ensure they have the technical capabilities to benefit from technological advances.

The 2021 Survey shows business/product knowledge and technical regulatory understanding to be Compliance functions strongest areas of competency. This is in contrast to the 2020 Survey when business/product knowledge was a relatively poor skill, suggesting that functions are improving their ability to provide relevant services and support to the business. We also noted a sharp increase in respondents who want to improve their data analytic skills. This is likely a result of more organisations seeing the impact that data are having on decision-making. It will be interesting to see how organisations will respond to this – will they begin to source these skills from within the organisations or will they choose an external option?

The shift of focusing efforts from improving soft skills towards improving analytic abilities matches the demand for analysis and reporting to support first-line management oversight and accountability.

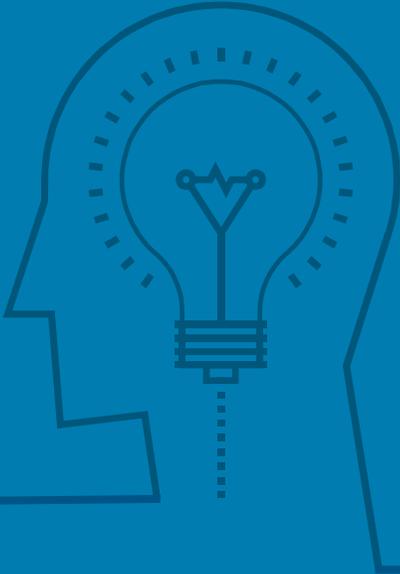
It is still vital for Compliance professionals to not only have the capability to understand regulatory requirements and the focus of regulators but to also hold strong soft skills that assist them in communicating succinctly. 7% see a need for improving their influencing skills and 9% for communication skills. This can be achieved by introducing proactive training and upskilling.

## What does the Compliance skillset look like?





# Cultural Change Takes Time



# How has Compliance culture changed in one year?

It is widely acknowledged that organisations successfully operating in a regulated environment need a positive Compliance culture. Since 2020 we observe a welcome shift in positive attitudes and mindsets across organisations.

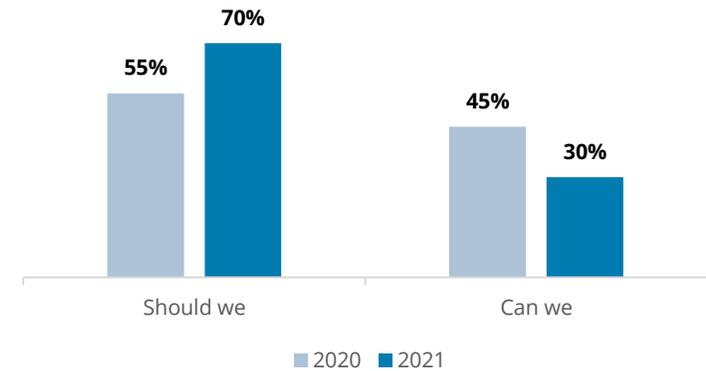
In recent years societal expectations of most industries, in particular financial services, have increased. So, it is very welcoming to see that the majority of respondents rated their organisation's Compliance culture as either positive or exceptional.

Last year, we were surprised only 55% of respondents rated their culture as being focused on a 'Should we' attitude. This year the prevalence of 'Should we' has risen to 70% which is a positive development.

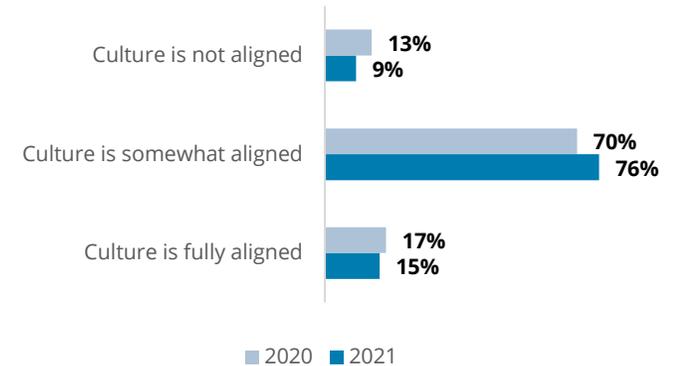
This shift in positive compliance culture may have been driven by rapid growth in cultural alignment across organisations. This could be due to employees being more likely to prioritise Compliance when they perceive alignment between their values and the values of the organisations.

Interestingly however, only 15% say that Compliance culture is fully aligned across their organisation. There is some upside with another 70% reporting that culture is somewhat aligned across their organisation. These percentages support observations that changing a Compliance culture is not something that can be undertaken overnight. Changing or maturing a Compliance culture requires time, investment, and persistent and strong messaging from the Board to senior management to middle management on an ongoing basis.

Is Compliance culture based around a 'can we' or 'should we' attitude?



To what extent is Compliance culture aligned across the organisation?



**67%**  
Rate their Compliance culture as **positive or exceptional**. In 2020 this number was **57%**.



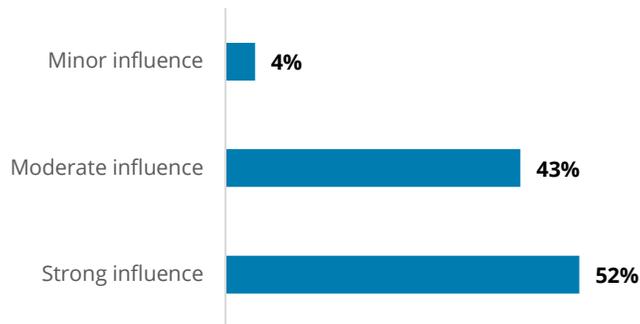
# How can we improve Compliance culture?

Organisations across multiple industries could benefit from improving their Compliance cultures.

Central to a strong Compliance culture is the role that leaders have in promoting the Compliance culture and management has in embedding the Compliance culture.

All Compliance functions play an important role in supporting leaders and management to embed a Compliance culture however the results show only 52% of feel that the Compliance function can strongly influence the business.

## Does the Compliance function have strong influence on the business?

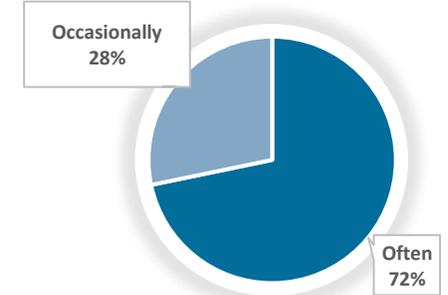


Respondents noted that the majority of senior leaders are playing an active role in promoting good Compliance behaviour (72%) or demonstrating taking accountability for compliance management actions (67%). Whilst these results are encouraging, with the implementation of the Financial Accountability Regime (FAR) for many financial institutions and a similar focus on accountability in other industries, we expect next year's results to include a significant increase in participation from senior leaders.

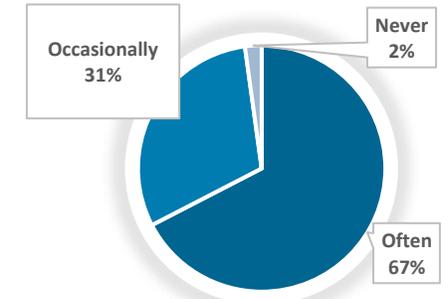
Respondents indicated Compliance functions only had some influence on helping the business to meet compliance obligations. Only a small majority, 52% of respondents, felt that Compliance had a strong level of influence.

There is a significant distinction between moderate and strong influence, with moderate influence suggesting that Compliance functions are not being as effective as they could be. If Compliance functions do not have a strong influence on the business, then there is an increased risk that regulatory requirements will be missed and problems are likely to result in remediation in the future.

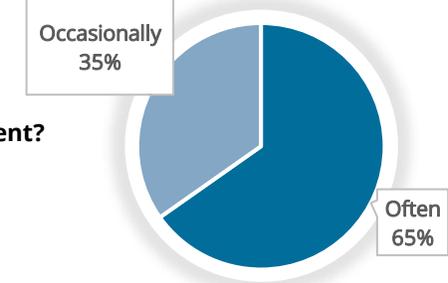
## How often do senior leaders promote and encourage behaviour that supports ongoing Compliance?



## How often do senior leaders demonstrate taking accountability over Compliance management actions?

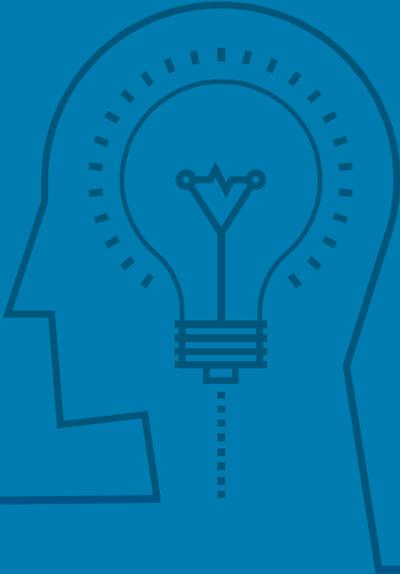


## How often does the organisation's senior leadership play a proactive role in Compliance management?





# Leveraging RegTech

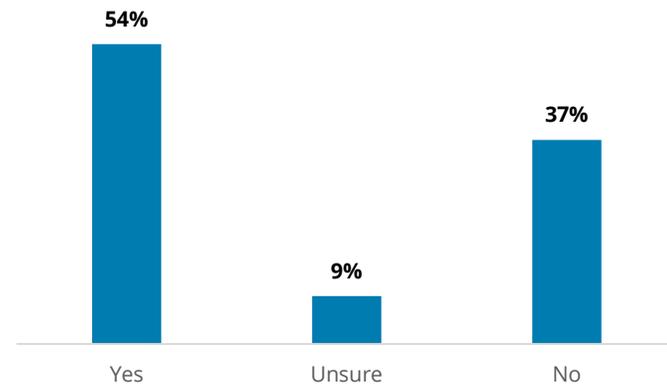


# The evolution of RegTech solutions

Regulatory Technology (RegTech) solutions are evolving to assist in the management of Compliance risk as organisations realise the value of meeting Compliance obligations through more efficient, technological-driven solutions, including automation.

Compliance functions must acknowledge the potential of RegTech and embrace technology-driven solutions. This would help increase process efficiency and allow organisations to effectively meet Compliance obligations.

## Does the organisation currently use RegTech to support automating and enhancing Compliance capabilities?



A key question is “how far organisations have come in terms of integrating RegTech solutions to meet their Compliance obligations?”

54% of respondents currently use some form of RegTech to automate and enhance their Compliance activities. Whilst this is encouraging adoption and implementation is far from wide spread. The hesitancy could be related to Compliance functions not having the appropriate skills and tools to assess, promote and implement opportunities.

Technology capability remains one of the weakest skillsets for Compliance functions but is also one where there appears to be little appetite to enhance the capability. We also see budget as one of the biggest barriers as reported by 35% of respondents.

As Compliance functions operate in a dynamic regulatory environment, automating Compliance obligations improves efficiency including reducing time and costs. Additionally, this supports effective management of accountability and facilitates the second line to perform oversight and challenge with more clarity.

We have observed Compliance functions are unlikely to have the capabilities and skills to evaluate and implement these solutions. Compliance functions are seeking support elsewhere such as partnering with other teams in the business to maximise resources and budgets or outsource to third-party providers to automate their Compliance activities.

## The biggest barriers to implementing RegTech solutions are...



BUDGET

35%



DATA CAPABILITY

28%



RESOURCES

21%



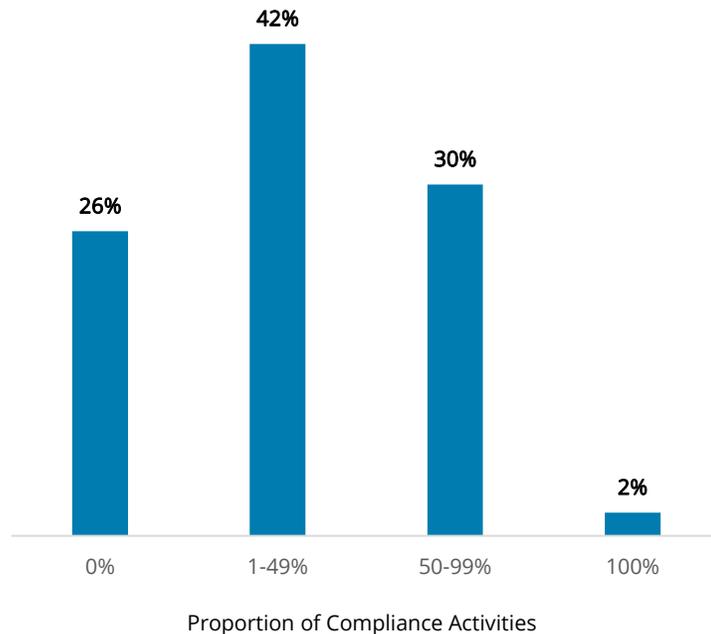
EXPERTISE

16%



# Are organisations prepared for increased Compliance automation?

What proportion of the organisation's **Compliance management is automated** by RegTech solutions?



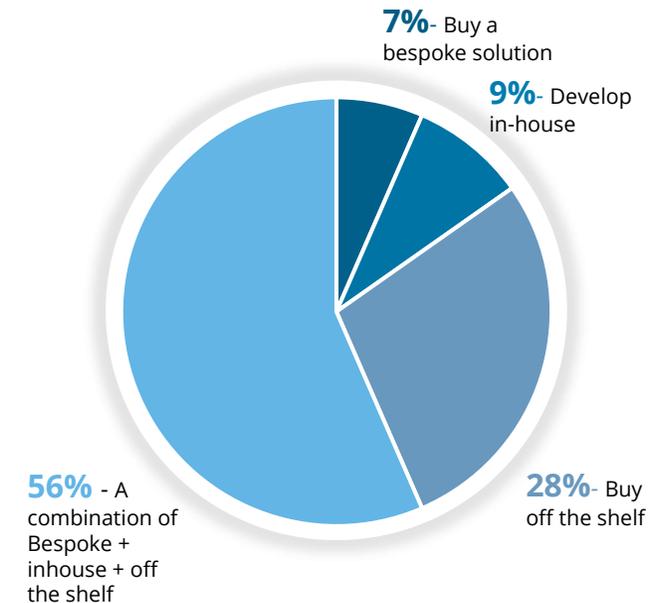
Only 2% of respondents reported that their Compliance management is completely automated. It suggests there still a significant number of organisations that are yet to fully adopt RegTech solutions.

The majority of respondents indicated that less than 50% of their Compliance management is automated through the use of RegTech. As seen on the previous page, there are a number of barriers to Compliance functions implementing these solutions and it is likely that it will take time before a majority of Compliance activities involve at least some level of automation.

A majority of respondents are open to outsourcing RegTech solutions as 91% have preferred an approach of completely or partially using third-party vendors to develop and implement RegTech solutions. There are tangible benefits to this approach in terms of implementation speed and access to necessary capabilities, however, organisations should be mindful of their ability to manage and improve solutions on an ongoing basis.

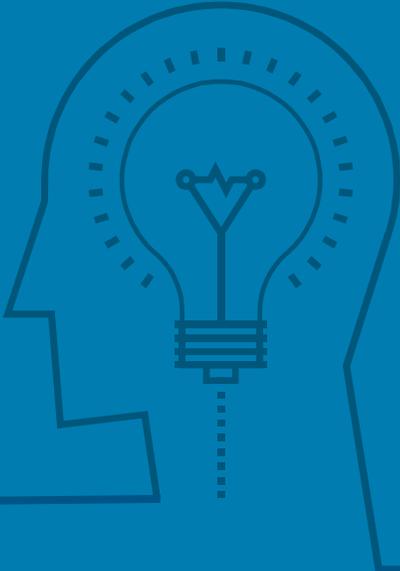
To maximise the value of RegTech solutions and automate their Compliance activities, Compliance functions could outsource to third parties whilst also enhancing their team's technical capabilities. This could help to manage their budget which is seen as the biggest barrier. Alternatively, organisations can rely on external expertise to implement these solutions without having to stretch their resources.

What is your organisation's preferred approach to **developing and implementing RegTech solutions**?





# ISO37301 and Certification



# How are organisations preparing against the new standard ?

The introduction of the new global ISO 37301:2021 provides guidelines for establishing, developing, implementing, evaluating, maintaining and improving an effective Compliance management system within an organisation. Many Compliance functions across the industry are not aware of or not focused on the new standard, which is possibly due to capacity issues and the constant wave of new regulations.

Almost two-thirds of respondents indicated they were not aware that ISO 19600 had been replaced by ISO 37301. This is not entirely surprising as the standard is relatively new and there are a series of regulatory changes and other competing priorities for Compliance functions to focus on in 2021. A third of respondents are currently in the progress of assessing their readiness against the standard.

It is not clear yet which regulators will require certification to ISO 37301. However, a regulator who examines an organisation that is implementing or implementing and seeking certification is likely to be reassured the organisation is focused on improving its Compliance management system to a recognised standard.

APRA's recently re-emphasised the need for the financial services industry to prioritise and address Compliance risk with the same rigour as financial risks<sup>3</sup>. APRA is looking to entities to effectively manage Compliance risk through a clearly defined approach, established processes and clear accountabilities, which are also emphasised in the standard.

## How prepared is your organisation to answer stakeholder questions about the adoption of or certification against ISO 37301?



Note <sup>3</sup>: "How to manage Compliance risk and stay out of the headlines", APRA, 17 February 2022





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