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The Nordic Compliance Survey

September 2014

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Executive summary

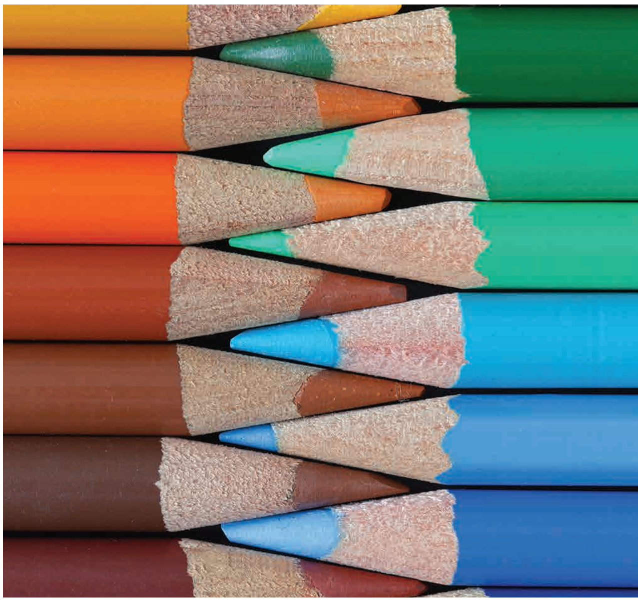
Need for compliance

Strong compliance is increasingly becoming part of corporate agenda essentials, due to the continuing persistence of the economic and financial crises. Although companies seem to be making progress in establishing compliance as part of their corporate agenda, the 'Nordic Compliance Survey Results 2014' show that the majority are still struggling to gain a firm grip on the nuances of compliance and controls. This concern is significant in light of the fact that regulatory burden is inclined to assume further relevance, especially with no regulatory 'end-game' in sight and firms needing to design and build compliance systems against a highly volatile setting. Nordic countries acknowledge this fact; but several companies are still not investing enough to support a strong compliance function.

Do compliance teams wield enough authority?

The record is uneven. Just over half of the respondents (51 percent) do not have a stand-alone compliance officer, which impedes the progress of a company's compliance agenda. Respondents from the 51 percent were from both large and small firms, indicating that the size of the firm does not play a role in the recruitment of a stand-alone compliance officer. Another similar trend emerged from the findings. 49 percent reported to the CEO or the board and 43 percent stated that they met with the board at least once quarterly; 13 percent met annually.

Only about half of the respondents have a stand-alone compliance officer – impeding the progress of a company's compliance agenda.



The size of budget, staff numbers, and executive presence was small. Statistics speak for themselves. 54 percent had just three or fewer full-time staff devoted to compliance and ethics. Around 39% of the surveyed companies with revenues of more than 1 billion euros had an annual budget of less than 1 million euros for the compliance function. Close to two-thirds of the respondents (74 percent) said that the chief compliance officer (CCO) did not hold a seat on the executive management committee, and only 21 percent said that the compliance officer was considered an equal business partner.

Another significant point was that senior management was not adequately rewarded for ensuring compliance. The key takeaway is that to drive compliance, compensation should be realigned so that it is more closely pegged to those objectives.

Are compliance teams addressing the right risks?

Compliance officers must address a wide spectrum of risks and responsibilities - 27 to be precise. This could result in an unfocused approach. Key responsibilities include: 'compliance with domestic regulations', 'compliance with international regulations', 'establishing and monitoring standards for business conduct', 'compliance training', and 'compliance strategy and processes' (over 70 percent respectively). The good news is that 96 percent feel they do not have a cultural problem; that is, they believe their organization's culture, as demonstrated by its behavior, is aligned with its professed ethical values.

Outsourcing or co-sourcing is a tactic that is frequently used. While 57 percent of the respondents preferred to outsource compliance activities, 43 percent preferred to do it in-house. The highest outsourced activity was employee and ethics hotlines at 26 percent, followed by third-party compliance risk management at 17 percent.

Are compliance teams adopting the right metrics?

Firms that actually measure the effectiveness of their compliance programs tend to do a fair job of adopting the right metrics.

The most common metrics used to gauge the effectiveness of a compliance program were focused internally. These include: analysis of internal audit findings, self-assessment results, feedback from employee ethics surveys, and tracking completion of required compliance trainings, among others. Metrics that incorporated external information (such as independent evaluations, benchmarking studies, analysis of regulatory reviews) were much less common.

Outsourcing is set to continue, as 57 percent say that they outsource compliance activities; employee and ethics hotlines as the highest outsourced activity.

Less than half of the respondents had confidence in the metrics they tracked. 23 percent were not confident that their IT systems captured and reported all the compliance data needed to get a better sense of the effectiveness of the program. This could be due to the fact that many compliance tasks still rely heavily on desktop software applications. The usage of specialty technologies such as Governance, Risk and Compliance Software, for example, remained sparse.

Finally, the compliance function appears to be a profession in transition. When asked to describe the maturity of 10 basic compliance tasks, the most common answer was 'evolving' followed by 'proactive', which came at a distant second.

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Do compliance teams wield enough authority?

Leadership challenge

A compliance officer's 'authority' can be defined in terms of three elements: freedom to act without fear of organizational backlash; access to resources to run the compliance function effectively; and access to the CEO or Board to discuss ethics and compliance issues when necessary.

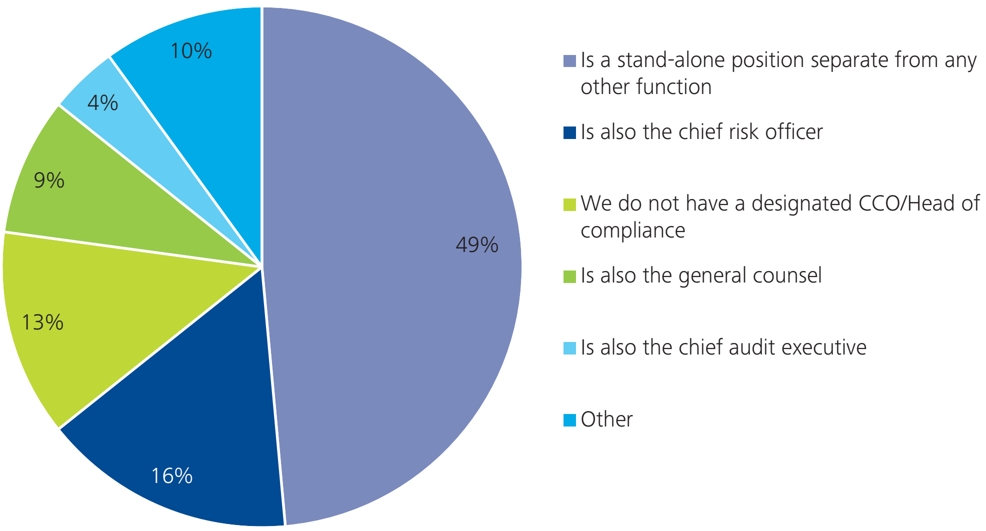
The 'Nordic Compliance Survey 2014' suggests compliance is still not a major priority for companies and compliance executives have yet to be regarded as equals to other key executives in the company. Only half of the respondents (49 percent) said their company had a stand-alone compliance officer who was fully engaged with compliance issues. When the CCO role is combined with another role, it is often combined with the risk function (cited by 16 percent). Only a handful combined the CCO role with ethics and audit roles.

The survey reveals some worrisome observations - 51 percent had no stand-alone head of compliance and 13 percent had no designated head of compliance. This either means there is no general consensus among companies with regard to having a dedicated head of compliance, or the compliance division takes a backseat while revenue generating business divisions get prioritized. Both scenarios expose a firm to innumerable risks.

It should be noted that the idea that only large firms appoint a stand-alone CCO does not hold water. Five to six percent of companies that had a stand-alone CCO generated less than €1 billion in revenues, while the remaining 44 percent generated more than €1 billion in revenues.

The designated head of compliance at your business

Figure 1:
Head of compliance – the state of affairs
% of respondents who had a stand-alone compliance officer
Source: The Nordic Compliance Survey 2014



Survey suggests that compliance is still not a major priority for companies: Half of the respondents do not have a stand-alone compliance officer; compliance function lacks sufficient resources; and budgetary allocations are not expected to improve.

Reporting structures

Some of the respondents had reporting structures in place. 49 percent reported to the CEO or the Board. In addition, 43 percent met the Board on a quarterly or monthly basis. Thirteen percent met annually and another 11 percent met only when the Board requested them to.

Compliance officers generally have the right reporting lines to maintain their independence; 49 percent say they report to the CEO or the Board.

Reporting structure of the head of compliance

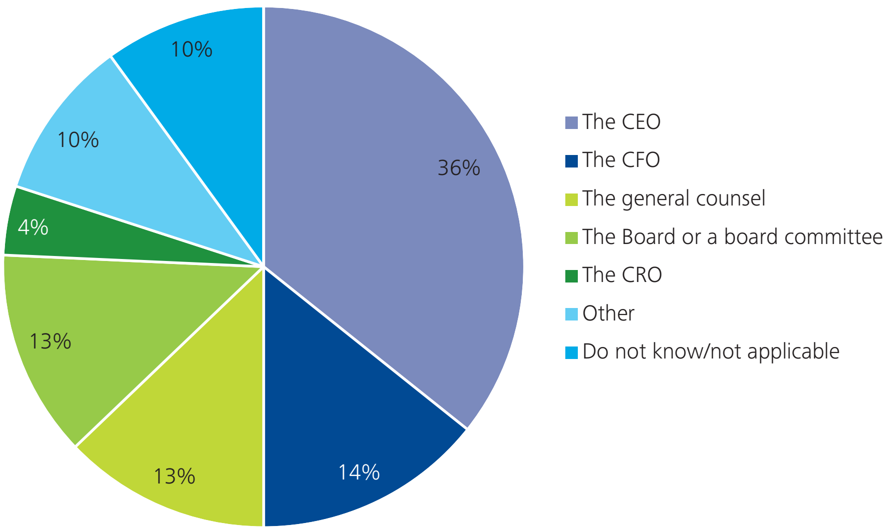


Figure 2:
Reporting structure
% of respondents who report to various heads
Source: The Nordic Compliance Survey 2014

Insufficient resources

Survey results suggested that the compliance division lacked sufficient resources. 54 percent of the companies had three or fewer full-time staff members devoted to compliance and ethics. For companies with a revenue larger than 1 billion euro, 44 % had three or fewer full-time staff members devoted to compliance and ethics.

50 percent of respondents said that they had a budget (including salary) of €1 million or less. 43 percent said they neither had nor were sure how large their budget was, partly because many compliance departments relied on other departments to accomplish their objectives. In addition, budgetary allocations were not expected to improve in the near future. Nearly half of the respondents (53 percent) expected budgets to remain at the same level, while 41 percent expected it to increase. The silver lining was that only six percent of respondents expected the budget to decrease in 2015.

Figure 3: Team size
% of respondents in terms of the number of full-time people focused specifically on ethics and compliance
Source: The Nordic Compliance Survey 2014

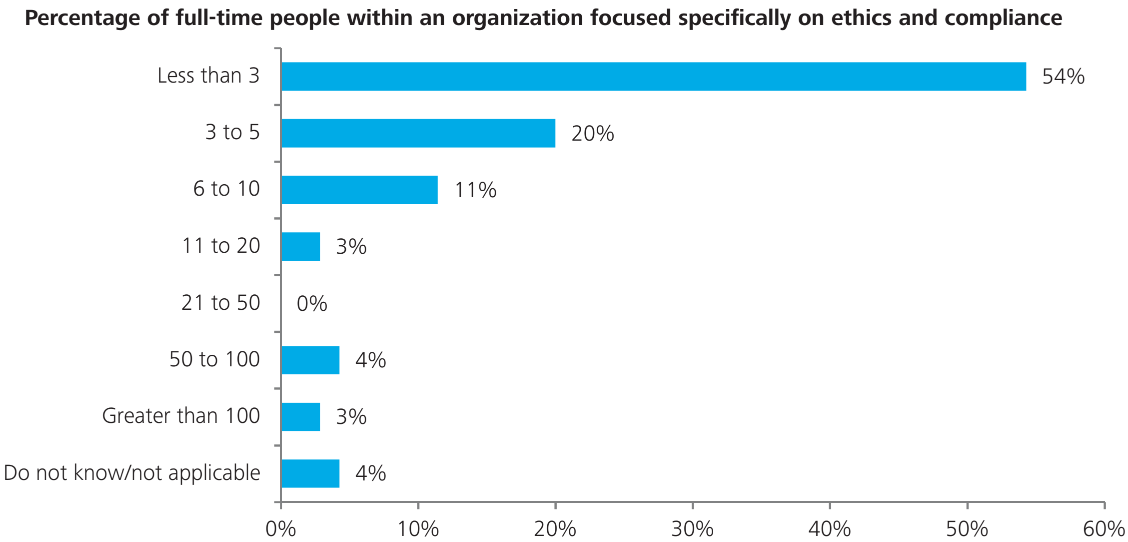
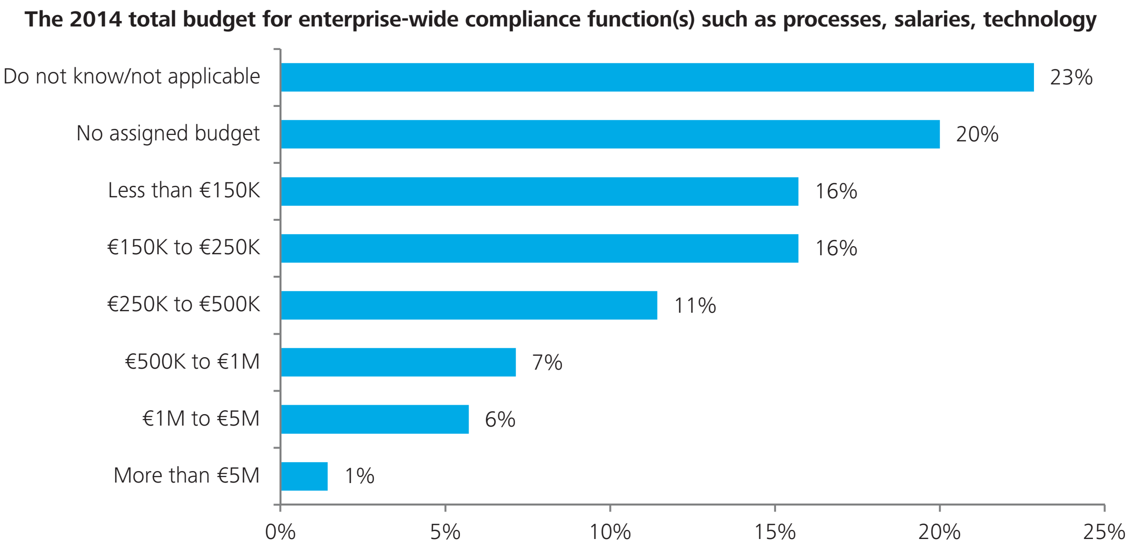


Figure 4: Budget
% of respondents by the total amount of budget earmarked for compliance division
Source: The Nordic Compliance Survey 2014



The budget mainly depended on the number of resources available for the compliance function. Hiring or termination significantly influenced the budget (40 percent indicated that employee termination was the main reason for budgetary decrease; 24, 17, and 16 percent pointed at employee hiring, third-party fees, and changes in regulatory requirements as reasons for budgetary increases).

Weak executive presence

CCOs have their tasks cut out as they have to do a lot more for the power and visibility they ideally ought to have. Nearly two-thirds of the respondents (74 percent) said that the CCO did not hold a seat on the executive management committee.

21 percent said that the compliance officer was seen as a business partner across the enterprise, while 66 percent said it was the case only "in some respects". Out of the 21 percent, a massive 73 percent held the title of 'chief compliance officer'; 60 percent were from companies with annual revenue of over €500M.

74 percent say CCOs do not hold a seat on the executive management committee.

Another highlight was that the senior management was not being significantly rewarded for ensuring compliance. 56 percent said compliance was not considered for measuring senior management's annual performance and discretionary bonus (out of the 56 percent, 41 percent of the respondents were from companies with an annual compliance budget of less than €250K); only a dismal 24 percent said compliance was considered as a measure. This dis-incentivized senior management from ensuring compliance objectives were met. Therefore, to ensure compliance, it is important to realign compensation with specific objectives.

Are compliance teams addressing the right risks?

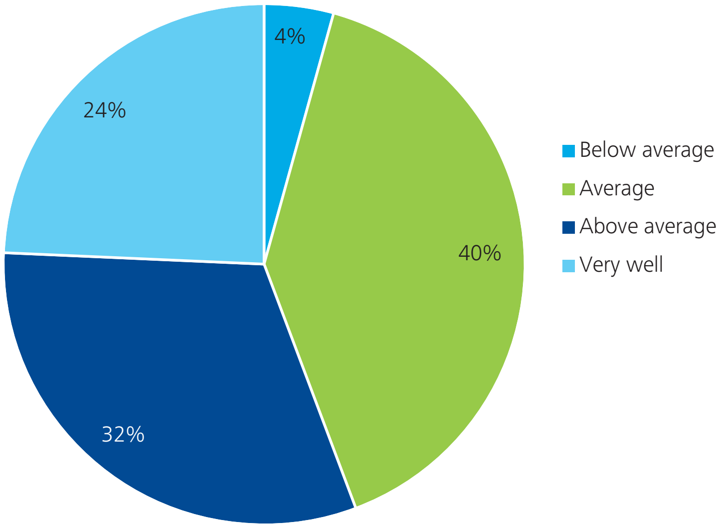
Is there a cultural problem?

69 percent of respondents felt that there was no cultural problem, while only four percent indicated a problem in this regard.

The 'executive level' was identified as having the least of culture-related issues. The biggest gap exists among 'middle management' followed by 'first-line supervisors'. A lack of awareness of compliance objectives could be a reason for these gaps.

How well your organization's culture, as demonstrated by its behavior, aligns with its professed ethical values

Figure 5: Culture alignment
% of respondents who believe the organization's culture aligns with its professed ethical values
Source: The Nordic Compliance Survey 2014



Compliance officers have a wide range of responsibilities; Over 70 percent focus on managing regulations, business conduct, compliance training, and compliance strategy and processes.

Fragmented focus

Compliance officers have a wide range of responsibilities, from privacy, policy management to investigations into anti-bribery training. The survey findings surprisingly suggest there is no uniform set of major responsibilities that the compliance function is responsible for. The responses were spread across 27 areas of responsibility, signifying a possible lack of consensus on what the compliance function must focus on. Over 70 percent were charged with managing domestic regulations, compliance with international regulations, establishing and monitoring standards for business conduct, compliance training, compliance strategy and processes.

Challenges to managing compliance risks

The number one priority for several respondents is 'third-party compliance risk management.' This is followed by 'policy/procedure management' and 'monitoring compliance with policies'. The most common challenges across priorities were 'policy/procedure management' and 'monitoring compliance with policies'. Over 35 and 34 respondents selected them, respectively.

The primary challenge is third-party relationships; several respondents say that their number one priority is third-party compliance risk management.

Priority 1	Priority 2	Priority 3
Third-party compliance risk management	Conducting internal compliance audits/reviews	Monitoring compliance with policies
Policy/procedure management	Policy/procedure management	Conducting internal compliance audits/reviews
Monitoring compliance with policies	Monitoring compliance with policies	Policy/procedure management
	Data analytics and reporting	Compliance training

Figure 6: Challenges in managing risks
Top three to four challenges (that had individually nine or more responses)
Source: The Nordic Compliance Survey 2014

Outsourcing to continue with re-assessments at regular intervals

57 percent of the respondents preferred to outsource compliance activities. 43 percent preferred to do it in-house. The highest outsourced activity was the employee and ethics hotline at 26 percent, followed by third-party compliance risk management at 17 percent.

The compliance activities that are outsourced or co-sourced

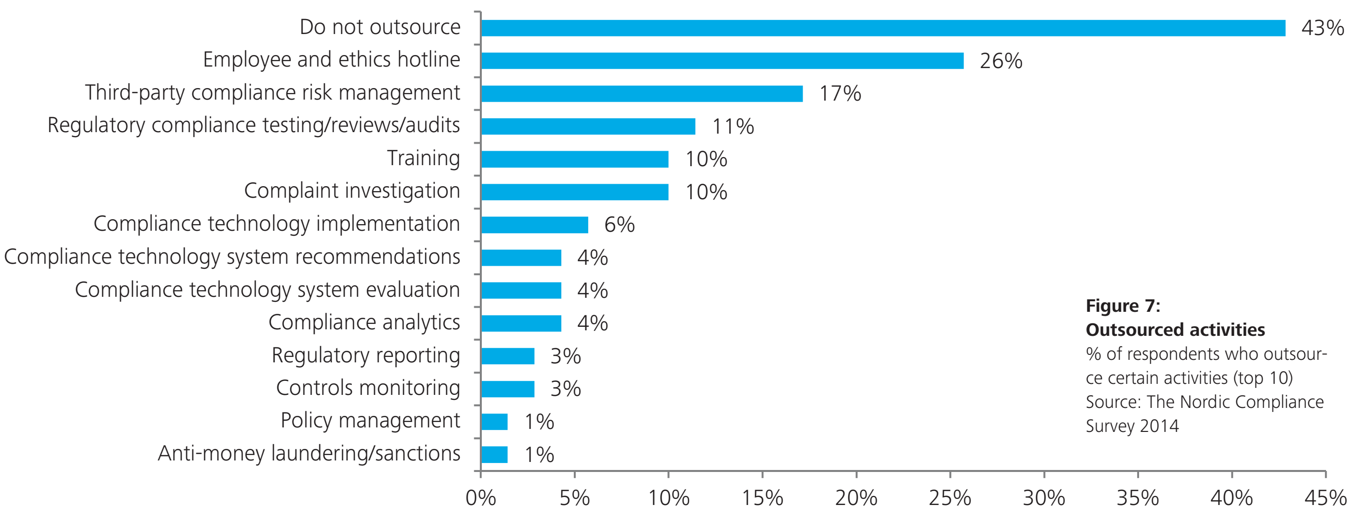
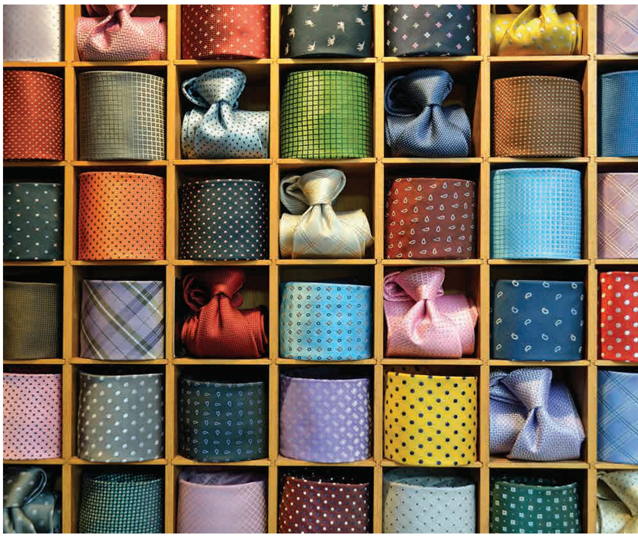


Figure 7: Outsourced activities
% of respondents who outsource certain activities (top 10)
Source: The Nordic Compliance Survey 2014

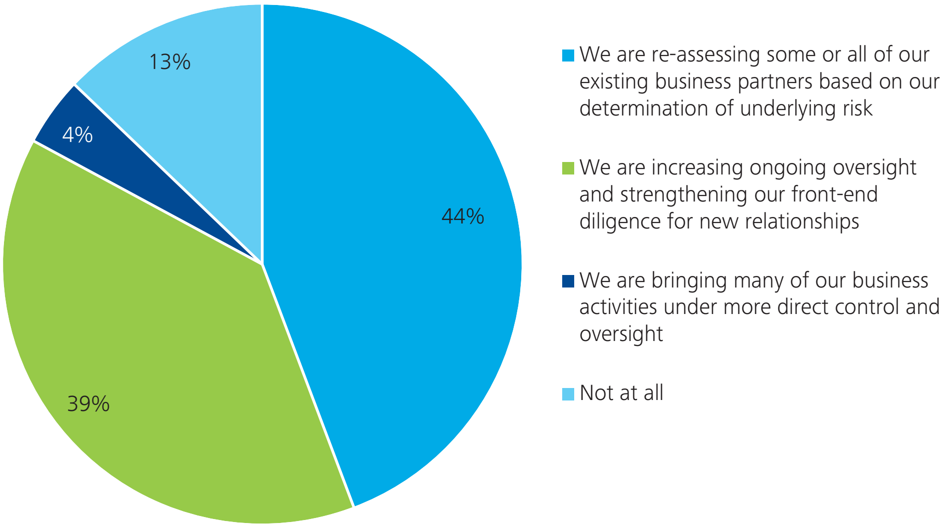
The respondents were divided in their approach towards re-assessing business links with joint-venture partners, suppliers, distributors, agents, among others (44 percent were re-assessing). 39 percent were increasing on-going oversight (i.e., auditing, monitoring) on a prospective basis, and strengthening front-end diligence for new relationships, while merely four percent were bringing these activities under direct control.

20 percent of the respondents always managed risks related to third-party relationships, while 35 percent did it sometimes and 21 percent did it rarely. Some of the common methods employed to identify and manage compliance risks related to third-party relationship included 'providing the company's code of conduct', 'performing extensive background checks', and 'auditing compliance with regulations and/or agreements'.



How much changing regulatory landscape is driving re-assessment of third-party relationships, including joint ventures, suppliers, distributors, agents, or other business relationships

Figure 8:
Re-assessing third-party relationships
% of respondents who are re-assessing some or all of their existing business partners
Source: The Nordic Compliance Survey 2014



Are compliance teams adopting the right kind of metrics?

Predicament of measurement

Compliance officers have long struggled to find the right way to measure the effectiveness of compliance programs. An alarming number of respondents (57 percent) said that they did not measure effectiveness at all.

Among the firms that did measure effectiveness, the most popular measurement metrics tended to be internally focused. These included analyzing internal audit findings and self-assessment results, getting feedback from employee ethics surveys, tracking completion rates for required compliance training, among others. Externally-focused metrics (independent evaluations, benchmarking studies, analysis of regulatory reviews, among others) were considerably less common.

Only 43 percent say that they measure the effectiveness of compliance programs and only 50 percent were somewhat confident that the metrics works.

How is compliance program effectiveness measured?

Figure 9: Measuring effectiveness of compliance programs
% of respondents who use various tools to measure compliance program effectiveness
Source: The Nordic Compliance Survey 2014

Level of confidence about the right metrics being used for measurements

46 percent of the respondents who did measure effectiveness were confident that the metrics gave a true sense of the program. 50 percent were somewhat confident that the metrics worked.

59 percent of the respondents performed an annual enterprise-wide compliance risk assessment. Only 15 percent did it more often than once a year.

Technology and tools prowess

Respondents felt compliance functions were not well equipped with the necessary technology. 53 percent were not fully satisfied with their compliance departments' IT systems. 43 percent expressed satisfaction and only a paltry four percent felt very confident.

Compliance appears to be a profession in transition. Most of the respondents describe the maturity of their function as 'evolving' followed by 'proactive'.

Generally, companies rely on desktop tools to support key components of compliance programs such as 'tracking legislation or regulation', 'policy development', 'documentation management' and 'conflicts of interest', among others. Currently, the tools and technology used are pretty basic, which has a negative effect on decision-making capabilities and the level of insights generated. Two other areas of concern are 'measuring effectiveness of compliance programs' and 'third party risk management'. Here, 25 percent and 18 percent of respondents, respectively, said they had not used any technologies or tools.

The use of specialty technology such as 'Governance, Risk and Compliance' Software remains sparse. 34 percent of the respondents, the largest share, used continuous monitoring as a predictive modelling technique to better understand compliance risks, measure effectiveness, or allocate compliance resources.

A reasonable number of respondents (15 percent) used no predictive analysis technique. Several firms were still caught up in day-to-day operations and failed to leverage analytics to gain a distinctive edge.

Compliance seemed to be a profession in transition. When asked to describe the maturity of 10 basic compliance tasks – governance, culture, risk assessment, compliance organization, policies and procedures, communications and training, supervision, controls and monitoring, reporting, IT systems and information management – the most common answer was 'evolving' followed by 'proactive', which came at a distant second.

Methodology

The 2014 Nordic Compliance Survey was conducted among an audience of senior-level corporate compliance, audit, risk, and ethics officers.

The report surveyed 70 respondents (senior level executives), working in ethics, compliance, audit, risk management, or corporate governance departments.

The respondents were from Norway (39 percent), followed by Denmark (27 percent), Sweden (17 percent) and Finland (16 percent).

Of those 70 respondents, 46 percent held the title of chief compliance officer and nine percent had the title of compliance manager or equivalent.

The survey encompassed a wide range of industries. Of the 70 respondents, the single largest industry group represented was financial services at 44 percent. 29 percent of the respondents were from companies with annual revenue of €1 billion to €5 billion, followed by 16 percent with annual revenue of less than €100 million.

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