



## The future of compliance

Building strong compliance mechanisms “now” for a robust “next”

September 2023



# Contents

Introduction	04
The need for compliance	05
The significance of compliance in highly regulated industries	06
Thoughts from industry leaders	07
The way forward	08
Connect with us	10

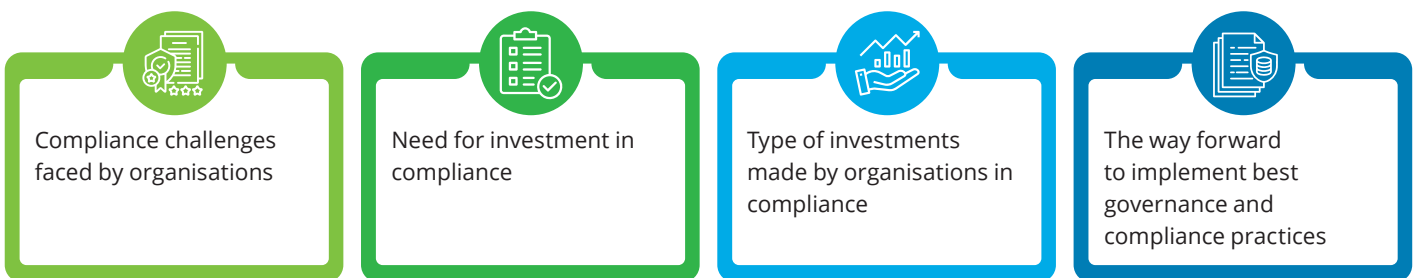


# Introduction

In the current compliance and risk landscape, compliance is now a mandate for organisations rather than a discretionary activity. If there are lapses or violations, the senior leadership could be subject to legal action and penalties. Infractions of the law and regulations pose a threat to an organisation's reputation due to the increasing

number of rules and regulations, and increased sensitivity to climate change and environmental issues. Although implementing compliance programmes might be burdensome for some enterprises, many are moving towards achieving their compliance goals.

This POV touches upon four important areas where organisations should focus on achieving these goals:



It also provides key insights on the importance of compliance in highly regulated industries.

# The need for compliance

Today's organisations operate in a complex regulatory environment. Although they need to grow as an organisation, meeting regulatory and environmental expectations is also important. Organisations should have effective compliance programmes in place to identify, assess, and mitigate compliance risks.

Organisations need to stay updated and comply with large volumes of applicable legislation, making the compliance function an imperative for them. Currently, India's regulatory ecosystem has 1,536 legislation pieces and 69,233 compliance rules; a number of these regulations were enacted in colonial times or right after the country's independence.<sup>1</sup> Of 1536 legislation pieces in India, more than half carry imprisonment clauses and 69,233 compliance rules that organisations must comply with. About 37.8 percent carry imprisonment clauses.<sup>2</sup> Organisations that are not taking compliance into account face consequences in the form of penalties and Imprisonment.

Organisations require expertise and ample resources to remain compliant with the regulatory environment. Lack of required resources can lead to many issues hampering operations, finances, and the goodwill of a business. These compliance challenges rise manifold as the company expands its footprint outside India. When each geography has its own separate laws, organisations find it difficult to keep track without a robust compliance management system. The following factors have been seen to majorly affect an organisation's compliance hygiene:

1. **Lack of expertise:** A business is required to interpret and comply with multiple laws and regulations that may vary for each city, state, or country. It requires a set of expertise and knowledge to interpret these laws and track the regular updates and changes in the regulatory environment. Additionally, as multiple government authorities deal with different laws, only an individual with a particular skill can liaise with them.
2. **Lack of resources:** A majority of businesses lack the necessary or devoted resources to investigate compliance-related concerns. Only two or three employees make up the compliance management team in many multinational firms. A medium-sized business sees a further decline in this number.
3. **Unawareness of senior leadership:** Due to frequent additions and modifications in laws/regulations, the management finds it difficult to be well-versed with the requirements pertinent to their sector. As a result, the top management is unable to set appropriate rules at the higher echelons or give employees adequate guidance.
4. **Absence of digitisation of compliance management and tracking:** Many businesses use manual tracking mechanisms, such as Excel spreadsheets, calls, and emails, to keep track of their compliance obligations. Due to lack of ownership, promptness, and responsibility, compliance obligations are constantly missed. This finally results in monetary or non-monetary implications. The absence of digitisation and dependence on manual tracking poses a real challenge to compliance.
5. **Increased investigation and enforcement:** The regulatory authorities' investigation and enforcement activities have gradually increased. They will continue to carry out these activities in the future as well. Compliance officers must maintain a clean environment and evaluate the effectiveness of the compliance programme by posing the right questions to promote a compliance culture.

<sup>1</sup> <https://timesofindia.indiatimes.com/blogs/voices/how-technology-is-transforming-compliance-in-india/>

<sup>2</sup> [https://www.orfonline.org/research/jailed-for-doing-business/#::-:text=Of%20the%2069%2C233%20compliances%20that,every%20five\)%20carry%20imprisonment%20clauses.](https://www.orfonline.org/research/jailed-for-doing-business/#::-:text=Of%20the%2069%2C233%20compliances%20that,every%20five)%20carry%20imprisonment%20clauses.)

# The significance of compliance in highly regulated industries

Although organisations need a compliance function, it becomes even more significant in highly regulated industries, such as pharmaceutical, financial services, oil and gas, and mining. Let us see how a strong compliance function can help these organisations:



**Pharmaceutical:** Due to factors such as safety, effectiveness, and the significant effects that medications and therapies can have on patients' lives, the pharmaceutical business is highly regulated. Pharmaceutical operations are subject to a regulatory review in areas that include sales and marketing, drug pricing reporting, patient privacy, clinical trial operations, preclinical research, and manufacturing. In the pharmaceutical industry, non-compliance with regulatory requirements can have serious repercussions, including criminal prosecution. A strong compliance function helps organisations ensure that products meet relevant regulations before they are launched in the market. Additionally, it will help identify and address problems before they affect customers or incur large losses to organisations.



**Financial services:** The financial services sector is highly regulated, with a complex gamut of laws and standards that businesses must abide by to stay compliant. Poor lending and compliance practices over the past several years have contributed to a decline in consumer confidence in financial services brands and the emergence of creative challenger companies. Financial institutions are also under pressure from regulators, customers, and the public to adhere to regulations because customers have more options. It is simpler to move to competing companies. A robust compliance function will help the organisation meet key regulatory objectives to protect investors and ensure that markets are fair, efficient, and transparent. It further prevents fraudulent activities, money laundering, and other illegal practices.



**Oil and gas:** As part of the infrastructure requirements, oil and gas corporations conduct most of their operations in remote areas, including offshore oil rigs. For this, businesses need a solution that enables real-time communication between their locations and assets. Oil and gas firms are subject to several restrictions that vary depending on the region and type of assets. As the legislation are constantly changing, businesses require a highly compliant system to cope with this complexity. Companies often need to meet the standards from one or more governing agencies. For oil and gas service companies, regulatory compliance is a multi-faceted process that must be accurate; non-compliance may lead to severe penalties.



**Mining:** The mining industry is highly regulated specifically in terms of the work health and safety requirements. These risks are due to the physical and complex nature of mining operations. To ensure employees' protection, mining businesses must be aware of the work health and safety regulations that apply to them and implement measures to enforce these regulations on the job site. There is an immediate need for mining companies to build a powerful compliance function to stay updated and meet regulatory requirements, specifically for health and safety.

# Thoughts from industry leaders

## Compliance officer of a leading IT/ITES company explains:

### Future of compliance is continuously evolving and is extremely bright

The day you stop being compliant, you will lose your existence. In today's era, as blood flows into the body, compliance runs through the system (whether internal/external, personal/professional, individual/business/corporate, domestic/global, national/international, and so on...).

You call compliance officer – policemen or a watchdog – he/she has lots of roles to play with reporting to various authorities for countless responsibilities. The compliance officer is the backbone for the organisation and is the most sought-after person when it comes to advisory, de-risking, and bringing efficiency into the system while being on the right side of the law.

## Chief compliance officer of a top financial sector company explains:

Compliance should be given due importance both in letter and spirit. From a sustainability

standpoint as well, compliance should be accorded the highest materiality.

## Director, Legal and Compliance, of a leading multinational technology company explains:

It is about time we break the stereotype and rephrase the narrative around compliance efforts; and change begins with each one of us. Compliance should no longer be perceived as a cost, but as a key business driver that gives our organisation a competitive advantage, to stand out, stay ahead, and grow sustainably. And that cannot be a "one-time" effort, but an ongoing one. Compliance need not necessarily be a complicated, daunting process that we are averse to, as it is commonly perceived. It can be a strategy, a "risk-intelligent" one, that elevates our business to the next level. This philosophy and strategy lie at the core of our organisation's compliance efforts.



# The way forward

To foster better compliance and create a robust compliance mechanism, organisations can consider the following recommendations:

## 1 Set the tone at the top and define a clear compliance strategy

Organisations must establish a clear strategy and vision to create a robust compliance management system. This needs to be well-communicated and established across levels.

The clear strategy and vision also help organisations focus on what matters most, such as identifying and addressing the areas with the highest compliance risk, and promoting a culture of consistent compliance. These also enable companies to improve the effectiveness, affordability, simplicity, reusability, and reliability of compliance processes.

This kind of strategy ultimately helps organisations create a compliance culture that is sustainable and flexible enough to adapt to future changes in regulations and business operations. It also transforms the way compliance programmes are perceived within organisations. Instead of being treated as just another check-box exercise, these programmes become an important tool to drive value by protecting the organisation's brand and reputation and preserving its credibility.

## 2 Establish a clear line of defence

To protect themselves from various legal and regulatory risks, organisations are required to establish a clear line of defence/structure that may comprise board of directors at the top followed by a compliance committee, functional compliance heads, and compliance owners. This structure helps the organisation define responsibilities and expectations across levels and ensures that organisations avoid significant fines and potential reputational damage.

## 3 Enable a risk-oriented approach to compliance

A risk-based approach to compliance is about prioritising efforts on areas with the highest compliance risk in an organisation. The emphasis should be on allocating compliance resources to regions that warrant the most attention. This will help in better resource distribution and increased efficiency.



## 4 Sensitise employees about the significance of compliance

Sensitisation of employees about the compliance vision and strategy plays a significant role in achieving a mature compliance management programme. The first step towards sensitisation is to provide training to employees at each level to bridge the knowledge gap and ensure their attendance. Employees must be aware of their activities and behaviour to promote compliance.

## 5 Automate the tracking mechanism for compliance checks and updates

To effectively track compliance obligations and daily updates in the regulatory environment, manual intervention must be eliminated. High-performing organisations should automate and digitise their compliance monitoring systems to help their teams perform better and fulfill management objectives. This can be done by either purchasing web-based applications to track compliance obligations and changes in the regulatory environment, or building an in-house application to perform same activities.

## 6 Enable a whistleblowing mechanism

Organisations should adopt a whistleblower mechanisms to build a loyal workforce and reduce significant risks. This will encourage employees to speak up and eventually help the organisation fight fraud, corruption, and unethical behaviour.

As organisations continue to evolve their compliance programmes, merely responding to the changes in the regulatory environment or dealing with compliance issues as and when they arise, may no longer be sufficient. Organisations are required to transform their approach from a reactive to a proactive one and add a new dimension to the meaning of compliance. An effective compliance framework allows a business to strike the right balance between corporate governance and social responsibility, as well as respond to everyday changes in the regulatory environment.

# Connect with us

**Anthony Crasto**

President, Risk Advisory,  
Deloitte India  
acrasto@deloitte.com

**Sandeep Sarkar**

Partner, Risk Advisory,  
Deloitte India  
sarkars@deloitte.com

**Prasad Nakashe**

Partner, Risk Advisory,  
Deloitte India  
pnakashe@deloitte.com





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a more detailed description of DTTL and its member firms.

This material is prepared by Deloitte Touche Tohmatsu India LLP (DTTILLP). This material (including any information contained in it) is intended to provide general information on a particular subject(s) and is not an exhaustive treatment of such subject(s) or a substitute to obtaining professional services or advice. This material may contain information sourced from publicly available information or other third party sources. DTTILLP does not independently verify any such sources and is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such sources. None of DTTILLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this material, rendering any kind of investment, legal or other professional advice or services. You should seek specific advice of the relevant professional(s) for these kind of services. This material or information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person or entity by reason of access to, use of or reliance on, this material. By using this material or any information contained in it, the user accepts this entire notice and terms of use.