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New horizons
Compliance 2020 and beyond

Contents

Introduction

Historically Compliance functions' primary focus has been to define the rules and framework for an organisation to achieve compliance with relevant laws and regulations. Whilst this will remain at the core of Compliance functions' remits, we expect to see a continuation in the evolution of the Compliance function in 2020 and beyond. We expect to see an increasing focus on ethics, culture and principles, and progress towards functions which are enabling change, acting in an advisory capacity to the business and (although hard to measure), providing a source of competitive advantage, with many functions rebranding as Compliance and Ethics.

This thought piece sets out four key areas where we expect Compliance functions will have to adapt and change in order to meet increasing expectations and scrutiny from both internal and external stakeholders. These insights have been developed from discussions with a number of Compliance Officers and their senior team members from leading organisations and we would like to take this opportunity to thank them for their valuable input.

This thought piece also explores the challenges to change and the actions that Chief Compliance Officers should be considering now.

We hope that you find this document thought provoking and useful in helping to shape the future direction of your Compliance (and Ethics) teams. Please do reach out to me or your usual Deloitte contact if you would like to discuss any aspects further.

Kirsty Searles
Partner, Risk Advisory –
Governance and Compliance

In summary

Organisations will integrate compliance programmes from across their enterprise to drive efficiencies, synergies and harmonisation.

Compliance functions will place increasing emphasis on the culture within the organisation and providing direction on ethical business practices and principles – with "Compliance & Ethics" increasingly becoming the typical remit.

Compliance functions will make more effective use of technology and data analytics to perform real time monitoring and to pre-empt compliance issues and hotspots.

Compliance will need 'enablers' with the ability to persuade, influence and communicate the 'why' and 'how' of compliance to the business.
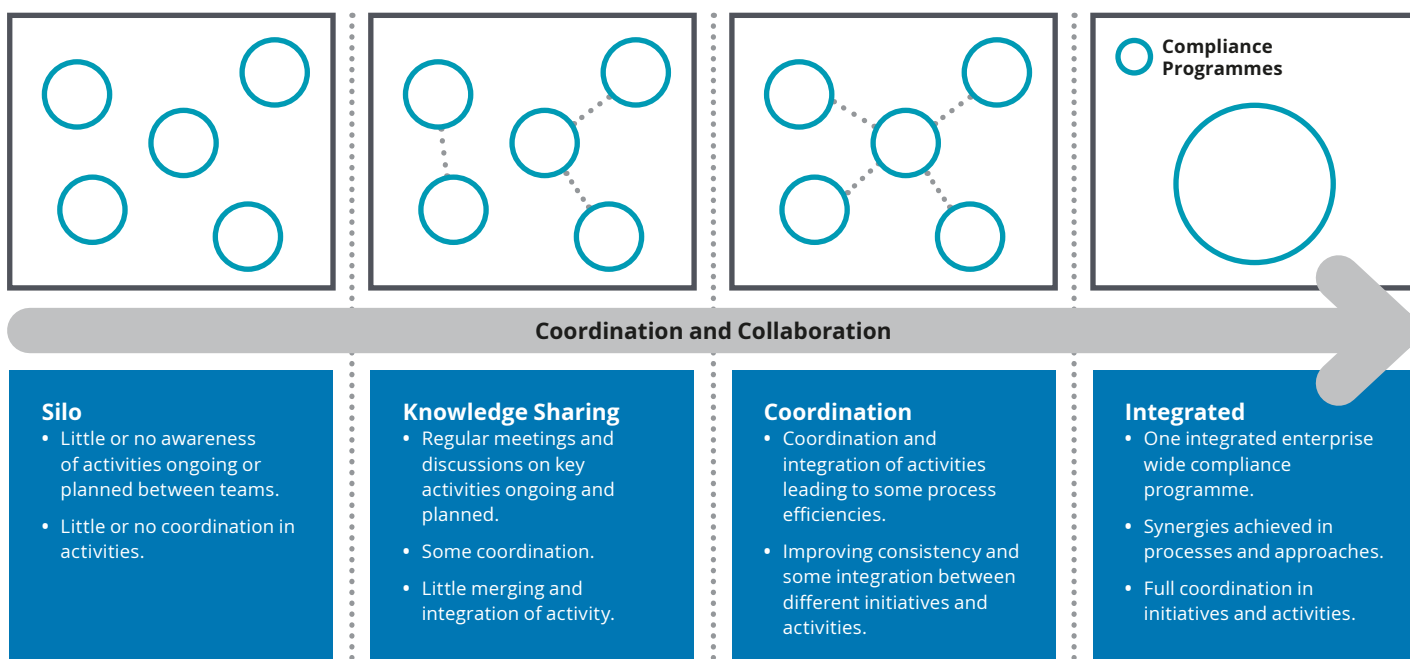
Integrated Compliance Programmes

"...This has to happen to drive synergies, simplification and harmonisation."

The organisations we spoke to agreed that as compliance programmes begin to mature, they are increasingly being asked to 'do more with less'. This is driving leaders to begin to consider how they really demonstrate the value delivered by Compliance. A number of Compliance Officers highlighted this is a key consideration for the future as the prevailing mind-set remains that a compliance programme exists mainly to prevent negative incidents occurring.

The historic approach to compliance across many organisations features specific risk and regulation teams operating in silos, each carrying out its own evolving approach and methodology in response to increasingly complex laws and regulations.

This, and the expanding list of requests from senior management, has often resulted in layers of inefficiency and duplication due to lack of coordination.

Facilitating integration of compliance programmes through greater knowledge sharing, leveraging of common systems and controls and coordination between teams will drive synergies through harmonising processes and approaches to (for example), risk assessment, training and monitoring. As the programme moves towards integration, the opportunity to adopt lean methodology, techniques and other methods will become apparent, driving efficiency, simplification and consistency across the programme. Ultimately, this will result in a clearer identity enabling better business relationships, improved credibility and greater clarity in the value delivered by Compliance.

Coordination and Collaboration

Silo
- Little or no awareness of activities ongoing or planned between teams.
- Little or no coordination in activities.

Knowledge Sharing
- Regular meetings and discussions on key activities ongoing and planned.
- Some coordination.
- Little merging and integration of activity.

Coordination
- Coordination and integration of activities leading to some process efficiencies.
- Improving consistency and some integration between different initiatives and activities.

Integrated
- One integrated enterprise wide compliance programme.
- Synergies achieved in processes and approaches.
- Full coordination in initiatives and activities.

Whilst the benefits of integrating compliance approaches across the organisation are clear, few organisations have a truly integrated compliance approach. The vast majority of Compliance Officers who provided input to this thought piece agreed that there are clear benefits to integration and this will increasingly need to happen in the future as compliance programmes come under increasing scrutiny.

Some organisations are working towards this version, for example, by bringing together compliance operations such as training and reporting teams. Longer term, integration will enable alignment between the compliance programme and various assurance functions, such as risk management and internal audit, making the three lines of defence model more fluid.

## So what has been stopping organisations from working towards integration already?

- Integrating functions requires time, effort, investment and a thorough programmatic approach.

- There can often be protectionism of existing teams and structures.

- A clear business case for integration needs to be made and articulating the cost of integration and the value of savings can be challenging.

- The business case needs to be approved by the Board who have to balance other organisational priorities.

- Some organisations perceive that integration could lead to a loss of focus in particular areas due to 'having all the eggs in one basket'.

Case Study
A major UK based FTSE 100 organisation has consolidated a number of its second line of defence compliance audit functions into one enterprise wide department with the objective of aligning audit activity, methodology and reporting. Key impacts have been greater levels of co-ordination and efficiency and a reduced impact of compliance audit activity on the organisation's markets.

Deloitte's Compliance Framework
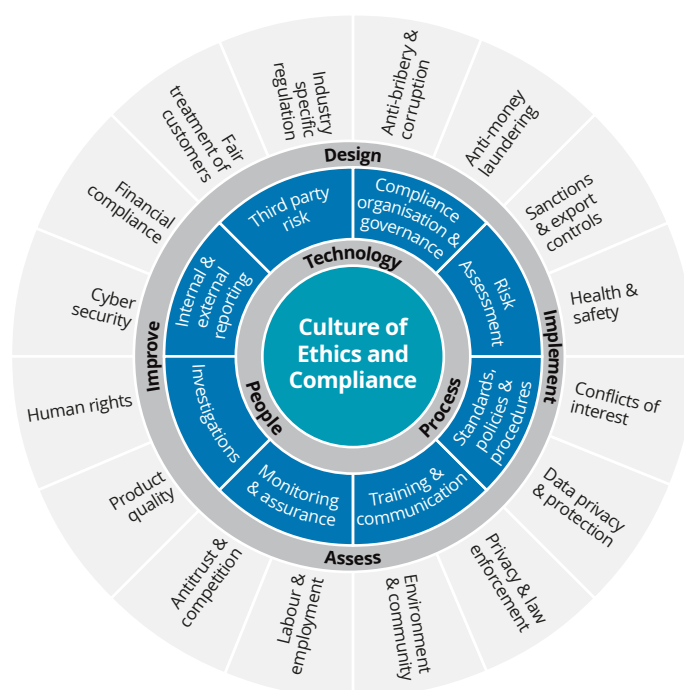
What actions should Compliance be taking now?

- Engage key stakeholders across all Compliance teams and assurance functions to enable greater coordination of compliance activities, leveraging common systems and controls and knowledge sharing across the key elements of the Compliance Framework shown above.

- Evaluate the extent to which integration and consolidation can be achieved, and the corresponding impact on the business.

- Understand where there is existing duplication between teams, systems, processes and activities which could be consolidated and combined.

- Develop a roadmap for your organisation setting out a possible integrated compliance operating model which achieves synergies and efficiencies and minimises the risk of loss of focus in existing risk areas.

Culture, ethics and principles

"Compliance only gets you half way and helps you to manage foreseen compliance risk. A focus on culture, ethics and principles gets you the rest of the way and helps you to also manage unforeseen compliance risks."

Policies, procedures and controls ("Rules") will always be required to help provide guidance to the business on what is expected to manage compliance. Rules help to manage the expected, known and foreseen compliance risks. However, they cannot cover every scenario or eventuality.

They leave less margin for error, and do not encourage principles and ethics based approach or one that considers the substance and not just the form of the organisation's activities and compliance risks.

Organisations are facing increasing scrutiny from external stakeholders of their business practices and those without a strong culture and questionable business practices can soon find themselves in the middle of a media storm, facing potential business and reputational damage. Organisations with strong cultures within which people understand the organisation's ethical stance and principles will be better prepared to deal with unforeseen compliance risks.

This understanding is partly driven by compliance's role as 'influencers', where the team is able to drive change through strong networks and clear, consistent messaging (see section four – Compliance and ethics skillsets).

All contributors to this thought piece agreed that strong compliance functions are a must have for organisations. Some believe that (although hard to prove), Compliance can provide a source of competitive advantage to organisations. Most agreed that an increasing focus on ethics and principles is one of the key levers that Compliance can deploy to enable better decision making and therefore both protect and add value to the business.

Many organisations are therefore placing increasing emphasis on the culture within the organisation and providing guidance on ethical business practices and principles. One of the contributing organisations to this thought piece has recently embarked on a project to update their global ethical business practices policy across the organisation and is designing the highest level policy to be principles based. Principles can be applied to all business scenarios and practices and therefore help to increase accountability for compliance across the organisation.

For these reasons many Compliance teams have already rebranded themselves as Compliance and Ethics functions with some moving beyond this designation, branching out of the 'compliance box'. The increasing emphasis on the culture within the organisation and providing guidance on ethical business practices and principles is a trend we expect to accelerate into 2020 and beyond.

However, many organisations are struggling to effectively measure and assess their culture and are therefore potentially missing opportunities to influence and shape the culture of the business.

An effective culture assessment requires:

- A holistic approach using an effective framework combined with surveys, interviews, workshops, observed behaviours and data analytics.

- The skills and capabilities to conduct and identify relevant cultural insights from the assessment.

These skills and capabilities are often lacking in today's compliance functions.

What actions should Compliance be taking now?

- Consider rebranding Compliance to include a clear focus on culture, ethics and principles.

- Consider the skills, capabilities and experience of the existing team against those required to perform culture assessments and organisational change (see section 4 – Compliance and ethics skillsets).

- Support the organisation with cultural assessments and targeting of key improvement areas.

- Identify where Compliance can add further value in translating the rules and supporting the business in understanding what they need to do.

Organisations with strong cultures within which people understand the organisation's ethical stance and principles will be better prepared to deal with unforeseen compliance risks.

Analytics and technology

"Compliance needs to get much better at triangulating issues and compliance hotspots and closing the gates before issues re-occur elsewhere."

Analytics for compliance

The benefits of a mature data analytics approach to help identify and prevent compliance issues before they occur are well recognised amongst the Compliance community. In particular, data analytics can help Compliance functions to:

• Identify potential compliance issues and remediation activities required;

• Prioritise management monitoring and independent monitoring activities into higher risk areas;

• Perform real time monitoring of high risk areas and transactions;

• Enhance the efficiency of compliance testing; and

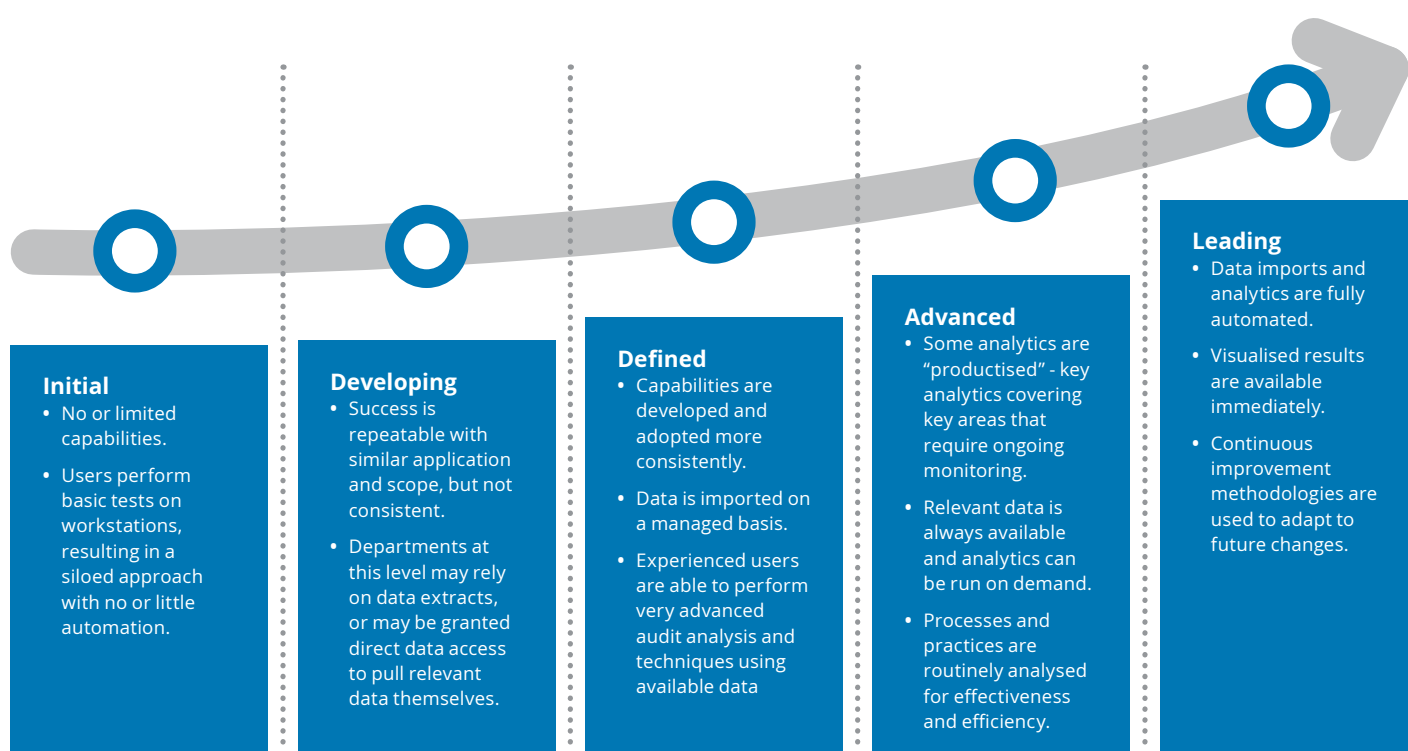• Identify where compliance issues may occur in the future.

Yet there are only a handful of examples of organisations who have achieved a mature and advanced compliance analytics approach. So what are the key success factors to achieving this level of maturity and what actions can organisations take now to evolve their approach?

The key success factors to the successful use of analytics in Compliance include the following:

• Accessibility to data in a consistent format when required.

• Data analytics capability combined with compliance 'know how'.

• Pilots that can demonstrate immediate benefit across the stakeholder groups.

• IT involvement and engagement in the project to assist with access to the data Compliance needs.

• Deployment of a range of simple tools and techniques.

• Building a community of subject matter experts and 'advocates' across the business.

• Awareness, buy-in and involvement from the wider Compliance team.

The use of technology

The most common use of technology for compliance is in supporting compliance monitoring activity, while various forms of technology are being embedded and utilised to gain oversight into the organisations activities. As this use matures the Compliance Officers we interviewed all agreed that technology presents a great opportunity within communication and training activities. The rapid growth of mobile devices, for example, has already prompted some organisations to develop apps for their staff to access and search their organisation's policies more effectively. One organisation has taken a bold approach which involves locking out all users' laptops once every quarter until users have answered three compliance related questions correctly. We expect the opportunities to develop further as technological advancements continue to accelerate.

Initial
- No or limited capabilities.
- Users perform basic tests on workstations, resulting in a siloed approach with no or little automation.

Developing
- Success is repeatable with similar application and scope, but not consistent.
- Departments at this level may rely on data extracts, or may be granted direct data access to pull relevant data themselves.

Defined
- Capabilities are developed and adopted more consistently.
- Data is imported on a managed basis.
- Experienced users are able to perform very advanced audit analysis and techniques using available data

Advanced
- Some analytics are "productised" - key analytics covering key areas that require ongoing monitoring.
- Relevant data is always available and analytics can be run on demand.
- Processes and practices are routinely analysed for effectiveness and efficiency.

Leading
- Data imports and analytics are fully automated.
- Visualised results are available immediately.
- Continuous improvement methodologies are used to adapt to future changes.

What actions should Compliance be taking now?

The actions you will need to take will depend on your organisation's level of maturity, and the following actions should help as a guide:

- Decide which key analytics you want to perform and what data you will need to perform them.

- Seek assistance from IT to gain access to the data you need.

- Choose which tools and techniques best compliment your needs and skillsets.

- Upskill your team members in analytics tools and techniques.

- Pilot the use of analytics in a small number of process areas and build from there.

- Consider ways in which technology can be used more effectively for communication and training.

Case Study

A large, multinational corporation with operations in 76 countries wanted to make better use of analytics to inform their decision over compliance audit location and scope. A team was formed to determine data requirements and access and establish a country based analytics scorecard which was used to prioritise countries and identify potential exceptions for validation and follow-up. Advanced visualisation and analytics techniques are now being deployed as part of the country compliance audits

Compliance and ethics skillsets

"We need more than just people who can write rules and policies. We need people who can translate the rules into what the business needs to do and help the business to change."

As Compliance matures, the skillset of staff within the function will need to move beyond being able to interpret the law into a set of policies for the organisation. The Compliance function will increasingly require those who have the skills to:

- Translate the rules into practical guidance for the organisation.

- Effectively communicate, persuade and connect with employees.

- Work cross functionally to embed the Compliance function's vision, strategy and principles into the organisation's culture and day to day operations.

- Interrogate and evaluate data into meaningful information.

- Develop and embed effective compliance training strategies.

Compliance will need 'enablers' with the ability to persuade, influence and communicate the 'why' and 'how' of compliance to the organisation. The 'enablers' are those who are able to talk to the business in language that clearly demonstrates they understand the organisation, who communicate how compliance is adding value (and not a burden), and ensure the organisation is clear on why compliance is important.

Compliance will need to reconsider the mix of skills and the background and experience of their team members. Traditionally Compliance team members' backgrounds reside in Legal, Assurance, Finance and Risk. Whilst these skill sets will remain at the core of Compliance organisations, we envisage these skillsets will need to be complemented with people who have experience in areas such as business psychology, change management, communications, marketing and organisation design.

This need is demonstrated clearly by the extending role of Compliance beyond enforcement of rules and requirements. As the list of compliance objectives, priorities and planned initiatives continues to grow, the ability to identify opportunities to embed compliance related touch points and weave compliance related priorities into other ongoing operational initiatives is invaluable. This will help enable Compliance to become embedded into the way the organisation operates, adding value to the organisation and effectively making Compliance 'invisible' rather than layered on top of business processes.

This means Compliance needs those who can build relationships, implement change and project manage in order to drive the evolution of the function and its culture. Being able to effectively connect with the organisation will help to build trust with the organisation and help it to be viewed as an asset to an organisation's operation.

Longer term, this will help to shift the attitude and approach to compliance within organisations – enabling Compliance Officers to provide guidance and advice, rather than setting policy and rules. Achieving this requires Compliance professionals who are well connected across the organisation, able to work cross functionally and effectively partner with the business to integrate the compliance agenda into other ongoing business initiatives and priorities.

The ability for Compliance to connect with the organisation and flush out these opportunities is in part driven by strong leadership at the top. The Chief Compliance Officer (CCO) must be able to openly and consistently communicate the core values and principles of the Compliance function. This message should permeate across the organisation through a CCO who has the ability to connect at all levels working as a 'trusted advisor' to senior management enabling a clear 'tone from the top', and in turn allowing a clear 'mood in the middle' to emerge, which compliance staff can build on and amplify.

Building effective organisational relationships and networks will enable a thorough understanding of the business and its operations which can assist Compliance in providing practical and useful guidance. Combining this with strong communication skills will enable Compliance to demonstrate that they understand the organisation, which in turn can improve overall relationships with the organisation, shifting the view of the function away from being detached from the business.

Compliance may face a challenge in finding and attracting those who have an understanding of compliance, the organisation and the required soft skills. A possible solution is to recruit those who have either of the required skills and invest in training and personal development to 'round' them out. This extends to recruiting directly from the organisation, hopefully allowing the team to leverage and build on existing networks within the organisation.

Overcoming this challenge will require investment in people through personal development and training programmes and a clear and attractive promotion path.

What actions should Compliance be taking now?

- Evaluate the current capabilities of your team against future capabilities required.

- Understand where there are gaps in training to enable the development of a tailored training programme to cultivate the required skill sets to drive change and evolution of the function.

- Work closely with departments such as HR, to help ensure the priorities and requirements for Compliance are accounted for when recruiting, evaluating and promoting Compliance team members.

- Identify and evaluate opportunities to attract talent to the compliance team, for example, through implementing a compliance rotation as part of the management development track.

Conclusion

It is clear that Compliance faces a challenging time ahead with increasing internal and external scrutiny and an expectation that the function increasingly demonstrates the value they are providing. Compliance teams which start to take action now around the key areas identified in this thought piece will be better prepared to respond to these challenges, and build on the capabilities and value their function provides to the business in the future. We have summarised here the recommended actions you should be considering now to make a head start in these areas.

Area of change	What actions should Compliance be taking now?
Integrated compliance functions	• Engage key stakeholders across all Compliance teams to enable greater coordination of compliance activities and knowledge sharing across the key elements of the Compliance Framework. • Evaluate the extent to which integration and consolidation can be achieved, and the corresponding impact on the business. • Understand where there is existing duplication between teams, systems, processes and activities which could be consolidated and combined. • Develop a roadmap for your organisation setting out a possible integrated compliance operating model which achieves synergies and efficiencies and minimises the risk of loss of focus in existing risk areas.
Culture, ethics and principles	• Consider rebranding Compliance to include a clear focus on culture, ethics and principles. • Consider the skills, capabilities and experience of the existing team against those required to perform culture assessments and organisational change. • Support the organisation with cultural assessments and targeting of key improvement areas. • Identify where Compliance can add further value in translating the rules and supporting the business in understanding what they need to do.
Analytics and technology	• Decide which key analytics you want to perform and what data you will need to perform them. • Seek assistance from IT to gain access to the data you need. • Choose which tools and techniques best complement your needs and skillsets. • Upskill your team members in analytics tools and techniques. • Pilot the use of analytics in a small number of process areas and build from there. • Consider ways in which technology can be used more effectively for communication and training.
Compliance and ethics skillsets	• Evaluate the current capabilities of your team against future capabilities required. • Understand where there are gaps in training to enable the development of a tailored training programme to cultivate the required skill sets to drive change and evolution of the function. • Work closely with departments such as HR to help ensure the priorities and requirements for Compliance are accounted for when recruiting, evaluating and promoting Compliance team members. • Compliance will need 'enablers' with the ability to persuade, influence and communicate the 'why' and 'how' of compliance to the organisation. • Identify and evaluate opportunities to attract talent to the compliance team.

Contacts

Kirsty Searles
Partner, Risk Advisory –
Governance and Compliance
+44 20 7007 2823
kasearles@deloitte.co.uk

Ian Bennington
Director, Risk Advisory –
Governance and Compliance
+44 7770 831736
ibennington@deloitte.co.uk

Ros Baston
Director, Risk Advisory –
Governance and Compliance
+44 7796 940981
rbaston@deloitte.co.uk

Co-authored by
Ikki Sangha
Manager, Risk Advisory –
Governance and Compliance
+44 7825 693725
isangha@deloitte.co.uk

Notes

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