



Targeting compliance

The changing role of compliance
in the Financial Services Industry

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1

Introduction

The combination of the global financial crisis that started in 2008, challenges in respect of the mis-selling of Consumer Credit Insurance and the recent fines being imposed by the South African Reserve Bank (SARB) in respect of non-compliance with money laundering regulations by major South African banks have exposed weaknesses in the regulation, governance, culture and standards across the whole of the financial services industry, making these key risk for the board. In addition, the pending release of King IV and its increased focus on the substantive outcomes of compliance efforts as opposed to formulaic tick box compliance, has reinforced the need for a compliance function which clearly achieves the desired compliance outcomes. The role of the Compliance Officer (CO) has thus become critical.

The requirement for a Compliance Function was first introduced to the South African Financial Services Sector in 1989 by the South African Futures Exchange ("SAFEX"). Thereafter, requirements in respect of listed organisations (in 1990) and regulations to the Banks Act of 1995 placed a requirement on banks to have an independent Compliance Function. In 2004, with the introduction of the Financial Advisory and Intermediary Services ("FAIS") Act of 2002 which regulated non-banking financial organisations, a stringent requirement was placed on these organisations to have an approved and registered COⁱ.

In response to the global financial crises, the National Treasury published two policy papers:

- A safer financial sector to serve SA better (National Treasury, February 2011)ⁱⁱ; and
- Implementing a twin peaks model of financial regulation in South Africa (Financial Regulatory Reform Steering Committee, February 2013)ⁱⁱⁱ.

These policy papers introduced a "twin peaks" model of regulation and envisaged the creation of two regulators: A dedicated Prudential Authority which will be housed in the SARB and a Financial Sector Conduct Authority which the Financial Services Board will be transformed into.

The fundamental objectives of the twin peaks model are to:

- Create financial stability
- Provide consumer protection

- Expand access to financial services through financial inclusion
- Combat financial crime

Based on the principles from a document published by the Minister of Finance on twin peaks entitled "A safer Financial Sector to serve South Africa better", the regulatory and supervisory framework introduced by these policy papers aims to be transparent, comprehensive and consistent, appropriate, intensive and intrusive, outcomes-based, risk-based and proportional, pre-emptive and proactive in respect of the twin peaks model.

In addition, the twin peaks model of regulation creates a blend between a rules-based approach and a principles-based approach. A principles-based approach means looking beyond regulation (which of course remains important) and asking principle questions about whether or not a course of conduct is the right thing to do, even if it is currently not prohibited by the regulations. The increased prominence being attached to the principles based approach raises risks relating to supervisory predictability, consistency and the use of hindsight. All of these pose a particular challenge to the CO.

Simultaneously, the focus on the importance of organisations having the right culture to deliver compliance with regulatory obligations in the broadest sense, reinforces the principle that compliance is an issue for everyone and not just for the CO.



But it also raises some questions about where the CO's role starts and finishes. If compliance is for all in the organisation, what is the Compliance Function for?

While the King III Report^{iv} emphasises the Senior Management and the Board's ultimate accountability for delivering compliance with regulatory requirements, CO's are required to support management and organisations with their regulatory obligations and promote high standards of ethical behaviour within the organisation.

Although conventional solutions such as recruitment and training will continue to

play a key role, we are seeing COs looking to adopt more innovative approaches and solutions. Key among these is greater (and better) deployment of technology to support the CO and the Compliance Function, taking advantage of the pace with which new applications and solutions are being developed and also reflecting the cost pressures which organisations face (e.g. to use shared services, low cost environments, etc.). However, technology is not a universal remedy – in order to achieve a return on the potentially significant investment needed, organisations must first have a foundation of effective compliance policies and processes.

The range of skills needed by the CO and the Compliance Function is both broadening and deepening at a time when competition to recruit compliance professionals is high.

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Against this background, this paper explores some key areas of change that we are seeing take effect across our network of clients, looking specifically at:

- changing supervisory expectations, including the move to a more principles-based supervision and the consequences for the CO and the Compliance Function;
- the role of the CO as part of the overall senior management team of the organisation and the need to satisfy multiple demands from different stakeholders; and

- how COs can respond to the changing environment and the tools and techniques available to support them.

In summary: while the challenges facing COs have undoubtedly risen, given increasing demands from both regulators and from internal stakeholders, we see a range of innovative approaches in relation to people, processes and technology which can support COs and Compliance Functions in navigating through them successfully.

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Supervisory expectations and the spotlight on culture

Principles based supervision has been given greater emphasis and much more supervisory attention is being devoted to organisations' cultures across the world. The following section explores the implications of these changes in more depth.

Principles-based supervision and culture

While compliance with the letter of regulation is necessary, it is unlikely to be sufficient to prevent supervisory intervention or enforcement action being taken. The principles based, outcomes driven approach has been implemented by the Market Conduct Regulators in the UK and in Canada, India, Kenya and Peru^x. Further support for this view can be found in pronouncements to the effect that organisations should refocus from asking themselves whether they can do something (i.e. whether it is permitted by the rules) to whether they should do something. Martin Wheatley, the Chief Executive of the Financial Conduct Authority (FCA) in the UK, has contrasted the "ethics of obedience" with the ethics of care and of reason^{vi}. In the US, William Dudley, President of the Federal Reserve Bank of New York, has spoken of his supervisors looking for evidence of consistent application of "should we" versus "could we" in business decisions^{vii}. Regardless of the precise words or formulation chosen, there is clearly now an increasingly ethical dimension to the issue of regulatory compliance.

A number of consequences follow from this:

- Organisations' and individuals' concerns about the use of hindsight increase, particularly in relation to how a supervisor might judge a particular course of conduct or decision after the event. These concerns are further heightened if there is little or no guidance (whether formal or informal) from the regulators that indicate how they are likely to view such conduct. As a consequence organisations continue to spend significant time and effort creating an audit trail to demonstrate their rationale for reaching a particular decision. So in some respects even if "box ticking" is eschewed by the supervisors in favour of a principles-based approach, it is still very much needed by organisations, particularly to justify their actions if they are called to account by their supervisors. Even though supervisors recognise that their own judgments may, in hindsight, be wrong^{viii}, organisations are sceptical about how much understanding they will receive from their supervisors in such circumstances.
- There should be focused key performance criteria where specific risk events crystallise, such as compliance breaches, mis-selling, other risk-management failures or a material downturn in financial performance as compliance is now a significant responsibility for organisations, cutting across the Compliance Function, Risk, HR, Internal Audit and ultimately the Remuneration Committee. Decisions in this area require judgment to be applied to complex situations based on the evidence available, both reward to and sanction against executives who take decisions which are not aligned to the compliance culture of the organisation could be introduced.
- The supervisors' focus on the compliance outcomes and a

organisation's culture in delivering compliance with regulatory expectations in the broadest sense means that "compliance" is, more than ever before, a matter for the entirety of the organisation, albeit one in which the CO and the Compliance Function have an essential role to play.



The focus in South Africa is increasingly moving from a rules based approach to a principles based approach.

What has changed is the degree of emphasis now being placed on integrity and ethics over and above compliance with the letter of the rules. Moreover, there are differences in the extent to which COs, their Compliance Functions and their wider organisations are attuned to this new reality.

The CO is now much more frequently involved in corporate strategy, advising on whether and how strategic and business model considerations are likely to satisfy the supervisors' judgments about the fair treatment of customers, market integrity and, in some cases, financial soundness. Yet he or she will also be expected to be independent in terms of monitoring and assuring the outcomes of any advice given.

This in turn raises some important questions about what the role and responsibilities of the CO and the Compliance Function are relative to the organisation as a whole and what skills and capabilities they need to operate in this changing environment. In short, if compliance is for all, what is the Compliance Function for?

What is Compliance?

The CO has a number of different and, on occasion, competing stakeholders: regulators and supervisors, the Board, the Risk or Risk and Compliance Committee, the Audit Committee, the CEO, the front line of the business, Internal Audit, law enforcement agencies and so on. All will have a common view of the core of the role of the CO and the Compliance Function, but it is likely that at the margins their expectations will diverge.

Against this background, there is a risk that the CO and Compliance Function become “all things to all people”, lacking the distinct identity of, say, the Legal Function or Internal Audit and further complicating the relationship it has with the business. This can, at best, lead to confusion and, at worst, to the Compliance Function being held accountable for something that has gone wrong without having ever been told that it was allocated that responsibility in the first place.

These risks are manageable, primarily through a clear delineation of responsibilities for the CO and the Compliance Function. One framework for doing this is through the apportionment of responsibilities to the “three lines of defence”^{ix}, where the first line typically comprises the business (Operational Management), the second line the control functions (Risk Management and Compliance Monitoring) and the third line assurance in the form of Internal Audit. Although these distinctions seem reassuringly clear cut, closer examination suggests that there are grey areas.

As a consequence, there may well be some evolution in terms of the “advisory” aspect of the Compliance Function. It may be that South African organisations move further towards the approach that we have seen some US organisations adopt, whereby the Compliance Function is strictly “second line”, confined to carrying out monitoring and assurance. In such a structure, activities such as advising on transactions, managing relationships with the regulators, and compliance policies typically sit with a Legal Function. Clarity in this respect is however not costless – the Compliance Function, being less involved in day-to-day advisory matters, can become more remote from the business and lose some of its currency in terms of market practice and standing with the “first line”. Moreover, the fact that the Compliance

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In many organisations, the Compliance Function encompasses elements of advisory (including, in some cases, legal advice), monitoring, assurance, control and the management of regulatory relationships. This can blur perceptions: is the Compliance Function working in partnership with the business; a “Big Brother” peering over the shoulders

of the business and challenging every action; or a combination of both? If the answer to this question is “both”, there is a material issue about how the Compliance Function can be a truly independent second line of defence if it is challenging a course of conduct or a transaction on which it has already given advice.

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Function is involved solely with monitoring and assurance means the demarcation between it and Internal Audit is less evident.

South Africa aligned to global trends

The changing approach in South Africa and the introduction of twin peaks, follows the new regime in the UK. The proposed new SMR^x which came into force on 7 March 2016 and SIMR^{xi} which came into force on 1 January 2016, clarify the lines of responsibility at the top of affected organisations, thereby enhancing the supervisors' ability to hold senior individuals within them to account. It will also place increased emphasis on the need for organisations to satisfy themselves on a continuous basis that their senior managers remain fit and proper in relation to the responsibilities they hold.

Supervisory Expectations on the Compliance Officer and Compliance Function

The Financial Services Board is currently the regulator for the non-banking financial sector and certain products offered by banking institutions. According to the Financial Services Board, the role of the CO requires that the CO be positioned in the organisation in a way that will ensure independence and objectivity. The CO

should have sufficient authority and seniority to oversee the integrity of the Compliance Function and to challenge the internal stakeholders of the organisation^{xii}.

Access to relevant information in the organisation is required for the CO to provide an effective Compliance Function which delivers outcomes driven compliance. Access to the relevant governance structures within the organisation and unfettered access to relevant information is vital.

The FAIS Act of 2002 in respect of the non-banking financial services industry and the Banks Act of 1990 in respect of the banking industry, both require CO's in the respective industries to report any irregularity and non-compliance identified to the Financial Services and SARB respectively.

In addition, the Financial Services Board released Board Notice 158 of 2014 which maps a governance, compliance, risk management and internal control framework for insurers specifically. In terms of this Board Notice, the compliance function is responsible to inter alia:

- establish, implement and maintain a risk-based compliance plan;
- promote a compliance culture that

values responsible conduct and compliance with internal and external obligations; and

- identify, assess and report on key legal and regulatory obligations and the risks associated therewith, including obligations under the Act;

Both these regulators have certain expectations in respect of the CO and the Compliance Function.

A number of common threads flow through the legislation:

- Compliance outcomes take a central role where the CO is expected to promote a compliance culture within an organisation;
- Emphasis is placed on access to resources;
- Conducting regular assessments;
- Monitoring of controls and policies;
- Reporting compliance shortcomings and remedial action to the regulators; and
- Reflecting the importance of the Compliance Function and the necessity for it to maintain a level of independence from management control.





Skills and experience – a “war” for compliance talent?

Given increasing expectations of the CO and the Compliance Function more generally, we observe two significant trends.

First, the skills needed to succeed as a CO or in the Compliance Function are both broadening and deepening.

...increasing competition for the compliance professionals who either already possess or show themselves capable of developing both the traditional and newer skills and capabilities.

In addition to the “traditional” skill sets of understanding the rules and other regulatory requirements and their application to the organisation’s business, regulatory and supervisory horizon scanning, advocacy, negotiation and project management; COs and their Compliance Functions must also:

- Use insights from behavioural economics to help organisations identify risks of possible customer detriment;

- Understand competition theory and economics, in particular, which aspects of the organisation’s products and activities expose it to the threat of competition intervention;
- Draw on their knowledge of and insights into the organisation’s strategy in order to anticipate the challenges of moving into new activities and/or geographies and to recruit and/or develop the compliance skills needed to operate successfully in these new activities/markets;
- Continually reassess the compliance and conduct risks inherent in new technology, including linking old legacy systems with new, differing global infrastructure and data protection laws as well as threats to cyber security;
- Understand the interplay between prudential and conduct issues – for example Solvency II Article 45^{xiii} imposes on organisations the expectation that all risks, both quantifiable and non-quantifiable are included in the Own Risk and Solvency Assessment (ORSA); and
- Likewise, Article 46 ‘Internal Control’ imposes on the Compliance Function the requirement that compliance risks (which we interpret to include both prudential and conduct risks) are identified and assessed.

Second, and related to the first, is increasing competition for the compliance professional who either already possess or show themselves capable of developing

both the traditional and newer skills and capabilities. This has been described by some as a “war” for compliance talent. In our discussions with COs we have heard how almost all have actively broadened the range of skills within their teams by employing auditors, former supervisors and consultants. Nevertheless, staff retention and recruitment are still seen as a key obstacle to achieving the right mix and seniority of staff within the Compliance Function.

However, this comes at a time when many organisations are facing pressures to cut costs to offset (especially in the case of banks) the impact of higher capital and liquidity requirements and thereby improve returns to shareholders. The CO and the Compliance Function are certainly not immune to such pressures and, in the face of escalating staff costs, are looking to innovate in terms of their development of compliance professionals, introduce more effective processes and make better use of technology. These developments are discussed in the following section.

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How can Compliance Officers respond to the increasing breadth and complexity of their role?

Section 2 set out the increasing supervisory and other stakeholder expectations of the CO and the Compliance Function. This has in turn driven the demand for more, and more highly skilled, compliance professionals at a time when pressures to contain costs are also rising.

In order to deal with these multiple constraints we are increasingly seeing COs move to adopt, either in whole or in part, a three-pronged approach to resourcing their Compliance Functions, involving people, processes and technology.

People

The compliance failings highlighted by the financial crisis and the regulatory and supervisory responses since then leave no doubt about the breadth and depth of skill sets required to build and maintain a successful Compliance Function. As noted above, this has led to a very buoyant and competitive recruitment market to which many COs have responded by taking an innovative approach to sourcing, developing and retaining talent within the Compliance Function.

i. Compliance Function capability

While starting with a capabilities matrix is not in itself innovative, it is a necessary first step. To produce it requires a structured approach: the first building block is clarity about the roles and responsibilities of the Compliance Function in the face of the changing demands from supervisors and other (internal) stakeholders set out in Section 2, recognising that the "traditional" skills need to be augmented by new capabilities and perspectives. Moreover, capabilities need to be aligned to the organisation's strategy, including whether it intends to use offshoring or outsourcing as part of its Compliance Function. In other words, this is not a case of dusting off the capabilities matrix that has served the

CO well for a number of years, but rather about taking a fresh look at what is really needed from first principles, recognising the changing demands and realities.

Given the increasing difficulty and rising costs of recruiting compliance professionals externally, we are seeing some organisations looking to attract talent into the Compliance Function through internal job moves and to enhance the training and development they provide to compliance professionals.

As part of this "grow your own" strategy we know of some Compliance Functions which have recently started to hire graduates from tertiary education facilities directly, partly because of cost considerations, but equally because graduates may often be more receptive to new ways of working. In addition, in respect of the broadening skill set required, training graduates enables the Compliance Function to incorporate those topics which are not typically taught to compliance professionals.

Defining those capabilities should provide the basis for a first view of headcount and skills gaps as well as "key person" risks across the business. This in turn enables the recruitment and development of talent in the Compliance Function to align to overall business strategy. In addition, those organisations which have moved to centralise more compliance professionals in a group Compliance Function is perceived to have more flexibility in terms of deploying people across business lines and geographies, thereby increasing career development and promotion prospects.

The risk of remoteness from the business and a resulting lack of informed oversight that can be present in "group" approaches must be carefully managed in order to preserve these benefits.

Investing in staff and building capabilities require a structured training approach which will include developing behavioural skills and technical knowledge for all levels within the Compliance Function.

ii. Compliance training

While the costs of such programmes can be significant, they have to be set against the likely counterfactuals – the escalating costs associated with recruiting externally or, in the absence of investment in the required skills and capabilities, the prospect of ever higher financial penalties for both individual and corporate misconduct. One way of achieving such a structured approach is for organisations to establish some form of training academy for the Compliance Function, including a compliance curriculum and accredited training.

A structured and successful compliance curriculum of this nature both develops the required skills within the Compliance Function, while providing staff with the opportunity for personal and professional growth.

This approach could be invaluable in distinguishing the Compliance Function and for attracting and retaining talented individuals from other areas of the organisation or externally.

Processes

While progress to increase the resources and skill sets available to Compliance Functions is essential, it is only one part of the wider solution. Increasing compliance headcount, investing in training and expanding hiring budgets alone are not sustainable solutions for most organisations to their medium-term compliance challenges.

These new investments will only deliver returns if organisations can increase the productivity of their existing resources. This means improving operations, containing compliance expenditure and meeting compliance mandates by enforcing effective compliance processes and having supporting technology in place.

It is vital that organisations define and implement a globally consistent set of compliance processes: a “compliance taxonomy”.

An effective compliance programme is grounded in process, notwithstanding the supervisors’ move to a much more principles-based approach. Compliance must be a proactive endeavour, where policy and practices are embedded in the organisation as robust, repeatable processes.

This remains essential for organisations looking to demonstrate that effective compliance is part of their overall culture.

In addition, looking at the regulatory projects portfolio as a whole can yield significant efficiencies in respect of the types and number of processes which are incorporated into businesses processes to bring about compliance. As opposed to testing compliance on a per regulation basis, the move to a principles based approach enables testing the outcomes

of a process instead of the letter of the law “compliance of a process”. A further benefit could be to customer experience due to the development of principles based information gathering mechanisms, in a streamlined manner, avoiding unnecessary customer contact to request duplicate information. There are natural touch points between different pieces of legislation which seeks to achieve the same thematic compliance outcomes, for example Financial Intelligence Centre Act (“FICA”) and the Foreign Account Tax Compliance Act (“FATCA”) which both seek to identify customers. Ensuring that one information request includes both data requirements per customer is a simple quick win.

While the quantity of information generated by an organisations can seem dauntingly large to manage, a robust and accurate set of processes sets the foundation for compliance technology. Technology can then provide records management capabilities, mitigating the complexity of handling so much data. Records management processes which solely rely on human beings to identify the correct data for compliance and regulatory reporting will ultimately fail, as data volumes can often overwhelm manual approaches. A combination of human judgment and automatic categorisation is therefore essential.

Achieving efficient processes will ultimately result in reduced operational risk through having to rework less, fewer instances of risk appetite breaches and greater standardisation. It will also enable integration of compliance assurance, planning and reporting alongside the business, Risk and Internal Audit. This will in turn relieve some of the administrative burden on the CO and enable more effective governance of compliance issues. Equally, process excellence is a necessary prerequisite to considering potential technology solutions to compliance issues and challenges, since without this there is likely to be inefficient automation, at a significant cost.

Technology
i. Systems

Technology can be a great enabler of an effective compliance programme, but it is not a panacea and it must be used

appropriately. As discussed above, the foundation of effective automation lies in sophisticated process. Once COs have achieved this, they are much better placed to exploit technology tools in order to improve the efficiency of compliance operations and expand the organisation’s ability to manage and monitor its compliance risks.

We have observed that organisations are often reluctant to take a forward-looking approach to investment in technology in compliance (for example for monitoring). Instead, there is a tendency to bolt piecemeal solutions onto legacy systems. Organisations often benefit from taking a strategic approach.

Removing an inefficient system may be expensive in the short term, but it could cost less than a financial penalty imposed by a regulator for a breach which resulted from that inefficiency.

Similarly, we have observed differing approaches between those systems which are used to manage compliance within business units in the same group. This is usually caused by organisations trying to find solutions to address a particular problem existing within one business unit. This often manifests itself in a home-grown system that is inefficient or does not adequately manage the risk. There is often also some duplication across these systems.

These new investments will only deliver returns if organisations can increase the productivity of their existing resources.

There is a multitude of technology solutions which can help the CO utilise existing compliance resources more productively and extend the scope and depth of Compliance Function coverage, in particular to test the adequacy of compliance policies and procedures.

Robust technological tools, which supplement and in some cases replace manual compliance processes, increase the ability to report, govern and aggregate risks. This allows the Compliance Function to focus more of its time on the analysis of results, root causes and forward-looking horizon scanning.

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In a resource constrained environment, where it is difficult to deprioritise any compliance related task, freeing up time in this way can be invaluable.

Through our experience of implementing technologies in order to deliver efficient and effective compliance processes we have identified the following key areas where technology can help the Compliance Function:

- integration of operational and compliance risk technology platforms enabling operational risk- based exception reporting on conduct and broader compliance risk issues in a consolidated manner;
- better results from exception reports, so that organisations can more easily track and review the items arising with the highest real risk, rather than the many “false positives” that exception reporting can generate;
- improved capability to retrieve information and monitor across a range of media platforms such as voice and instant messaging;
- better capability for the Compliance Function to access front-office systems (and resources) to undertake best execution monitoring; and

- increased scalability for the Compliance Function to monitor across a broader number of transactions using computer-based testing.

ii. Analytics

In order for Compliance Functions to meet the array of compliance obligations which they face, end-to-end dataflow and compliance information is critical.

“Analytics” describe a range of data-driven approaches that, when combined with deep business and sector knowledge, can highlight risks normally obscured by large data volumes.

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Analytics draw on data sources from all compliance activity in the organisations and potentially from external sources to establish insights that provide a more comprehensive assessment of risk.

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This is particularly powerful when a risk, such as conduct risk for example, is dispersed across multiple data sets.

Because they are based on facts rather than hypotheses, analytics rely on both data volume and data quality to be accurate. This requires those working with the data to understand it and what to analyse. This links back to the human resources element of the CO’s solution. Since data, which is often stored and processed separately, needs to be pooled from across the organisation, a fully resourced data function needs to be in place to bring together an accurate and comprehensive data set and to analyse it. Inaccurate or incomplete data will hinder efficiency and may create significant false positives (which take time and resources to resolve) and false negatives (which store up problems for the future).

In the principles-based world, in which the many challenges that we have discussed exist for the CO, analytics can help the CO tackle compliance in a holistic and integrated manner. Linking data allows the CO to “join the dots” and enables more exceptions posing real risks to be investigated and fewer “false positives”. Analytics can link customer data, insights, knowledge and relationships, which in turn enable more informed judgment. Ultimately the data can be used to estimate the probability of future risks arising, which means that COs can become more risk sensitive and proactive in their approaches. Analytics enable the CO to add significant detail and context around compliance issues and, ultimately, put more relevant information to the Board, driving better decision-making at the top of the organisation.

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Linking data allows the CO to “join the dots” and enables more exceptions posing real risks to be investigated and fewer ‘false positives’.

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Conclusions

COs should be proactive in addressing the immediate needs of their Compliance Function in terms of putting in place structured training and development in order to attract and retain talent with the right mix of capabilities. Ensuring that processes within the Compliance Function are streamlined is a precursor to long-term investment in technology to enable more effective compliance.

The introduction of twin peaks, TCF and King IV have illustrated the move of regulation towards principle-based, outcomes-driven compliance. This is changing the breadth and of the role of the CO and the Compliance Function in financial services organisations, and in turn fuelling the “war” for compliance talent across the industry.

These changes can increase the risk that the CO and the Compliance Function become “all things to all people”, which can blur perceptions of their actual role and objectives, as well as interpretations as to what these should be. As we have discussed, this is compounded by the “grey areas” in which compliance can operate: advisory, monitoring, control and regulatory relations.

Equally, we expect the role of the CO and the Compliance Function to focus somewhat less on process design and review and more on providing challenge to the organisation’s Board, asking new questions of the organisation and its staff and demonstrating the organisation’s prevailing culture. In this respect, controls

can be a double-edged sword – while essential, they can, in some cases, detract from individuals taking ownership and from promoting a culture of responsibility. Ultimately, promoting and embedding the right culture within organisations will be key to avoiding some of the well-publicised and very costly problems of the past.

Against this backdrop we also suggest that in a principles-based world, the CO will be better placed to secure the investment that will be needed in the Compliance Function by demonstrating innovative approaches and increased productivity through a combination of people, processes and compliance technologies and systems.

COs should be proactive in addressing the immediate needs of their Compliance Function in terms of putting in place structured training and development in order to attract and retain talent with the right mix of capabilities. Ensuring that processes within the Compliance Function are streamlined is a precursor to long-term investment in technology to enable more effective compliance. Technology

and analytics solutions can be enablers of an effective compliance programme and reduce much of the administrative burden on compliance professionals, allowing more time to be spent on analysis. However, without process excellence, technology investment is likely to be an unsuccessful, costly endeavour.

Any changes should not be implemented in isolation. Instead COs should take a strategic view of how the various areas within the Compliance Function can link and where synergies can be drawn. This will be crucial to enabling the COs to adapt to the challenges of current and future expectations from supervisors and from stakeholders within the business.

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