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**What this presentation is not about is the traditional view of compliance.....**

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Compliance is changing with the risks.... 

- The compliance paradigm has (or should have) changed
- Compliance is now longer a tick box task
- And remember the cost of failure is eye watering if not a terminal risk to some.

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Compliance and the compliance function in banks 

April 2005

Basel Committee on Banking Supervision

3. The expression "compliance risk" is defined in this paper as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities (together, "compliance laws, rules and standards").

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Comsure

**As a result of failing to comply:**

- Laws,
- Regulations,
- Rules,
- Related (self) regulatory organisation standards, and
- A firms own Codes of Conduct (policy and procedures / systems and controls)

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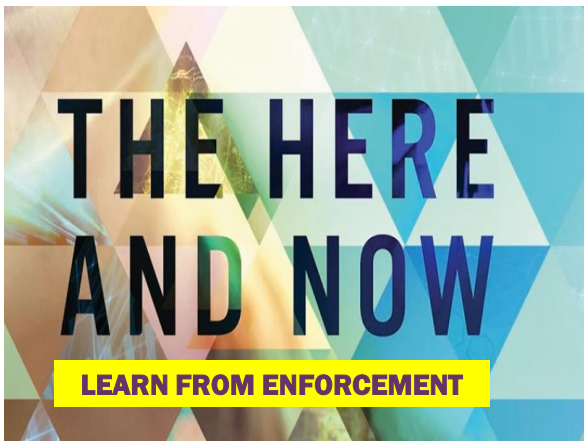
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2013-17 Regulatory Fines



1. MARKET CONDUCT

2. FINANCIAL CRIME

3. CONDUCT OF BUSINESS

4. REGULATORY OBLIGATIONS

5. CORPORATE GOVERNANCE

6. PRIVACY AND CYBERSECURITY

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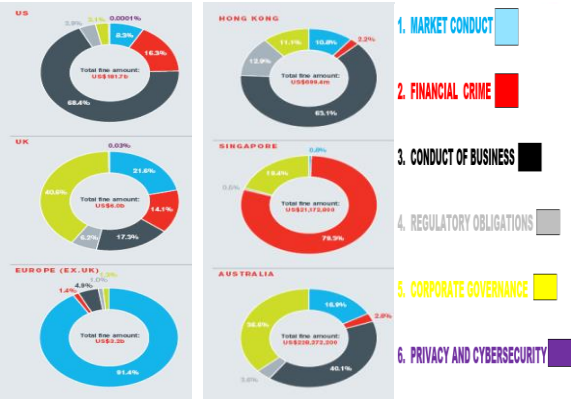
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<https://www.duffandphelps.com/insights/publications/compliance-and-regulatory-consulting/global-enforcement-review-2018/trends-in-penalty-amounts>

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**WHAT DOES THIS ALL MEAN FOR COMPLIANCE MEAN?**

**The greatest compliance challenge(s) the board expect to face in 2019 is/are...**

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**WHAT DOES THE FUTURE HOLD?**

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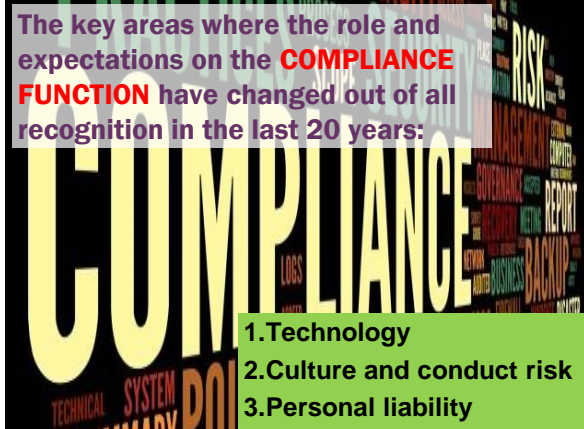
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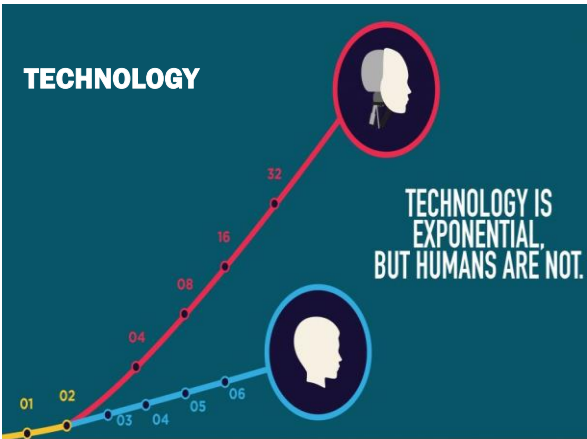
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Technology



- 1. It is technology we have seen the greatest change over the last twenty years in terms of
  - remit, expectations and terminology.
- 2. In 2019, we have “all things cyber” & “AI” &:-
  - 1. Fin-tech,
  - 2. Reg-tech,
  - 3. Insur-tech,
  - 4. Sup-tech and
  - 5. Big-tech
- 3. However in itself new technology is not and should not be viewed as the panacea of all the risks we now face and are likely to face.

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Tech...



- 1. The successful deployment of technology and the ability to automate future compliance activities
  - is seen as one of the greatest potential innovations for the next **TEN – TWENTY** years in compliance.
- 2. While there will be numerous challenges to overcome,
  - there are huge possible benefits to firms and their customers alike from solutions deployed successfully **ON A SECURE IT INFRASTRUCTURE** by highly skilled in-house specialists.
- 3. Therefore **RISK AND COMPLIANCE FUNCTIONS** have to
  - consider and deal with substantive issues before firms can begin to realise the potential benefits offered by technological innovation.

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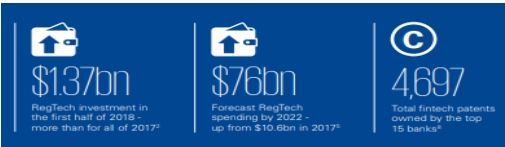
Cost of compliance...



The challenges in isolating out the monetary spend on compliance activities and solutions has not stopped firms from working on the problem.

A recent report from KPMG

- 1. Firms' annual compliance spend is US\$270bn.
- 2. Expects that reg-tech will make up 34% of all regulatory spending by 2020,



<https://home.kpmg/content/dam/kpmg/uk/pdf/2018/09/regtech-revolution-coming.pdf>

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CULTURE AND CONDUCT RISK



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Culture and Conduct Risk



**Culture and Conduct Risk** has become the new normal with regulators and financial services are investing heavily to tackle the 'how' and the 'what' with regards to substantive issues such as

1. External =

- Transparency & demonstrating good customer outcomes.

2. Internal =

- Competency & Integrity

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Culture and Conduct Risk



Culture and Conduct Risk issues

- 1. are **NO LONGER** being considered as a separate and distinct area of risk and compliance,
- 2. but rather have moved much closer to being seen as **INHERENT IN THE BUSINESS** – and must be treated as such.

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Culture and Conduct Risk



A required core competency for firms and **THEIR COMPLIANCE OFFICERS** with all of the challenges associated with a qualitative, rather than a quantitative issues are...

- 1. the capacity to be able to demonstrate a **STRONG POSITIVE CULTURE IN ACTION** and
- 2. the ability **TO MITIGATE** any culture and conduct risks arising

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Personal Liability



With the added complexity of having to accommodate evolving culture and conduct risk expectations personal liability,

- there has been **AN INEVITABLE RISE** in the implementation of accountability regimes around the world.

As with so many aspects of regulation, **THE COMPLIANCE FUNCTION MUST** take the lead in determining how best to

- Identify, Manage and Mitigate Personal Liability risks

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Accountability



The introduction of accountability regimes now require

1. the allocation of prescribed **accountabilities and responsibilities** for all senior managers is another area where the value are being adopted and
2. increased recognition for the **compliance function** has become the new normal.

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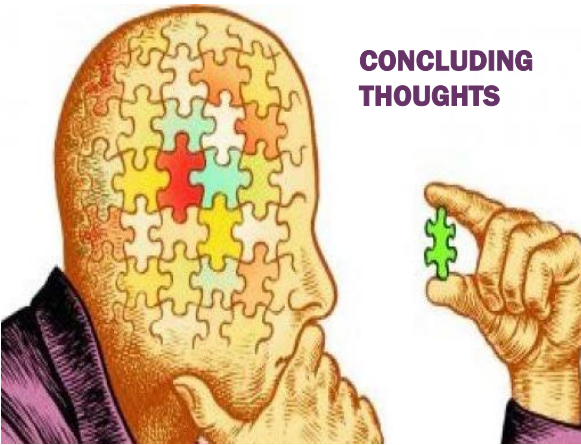
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Judgement based supervision



The use of judgement based supervision is not set out in a black and white rulebook

What is needed is the input of **A SKILLED COMPLIANCE OFFICER TO**

- 1. **analyse and interpret** the practical ramifications for the firm.
- 2. **Subtly and craft solutions** with risk owners

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Now and the future



The introduction of Technology has come to the fore.

New ways of working the implementation of **FINTECH AND REGTECH, or the possible threats posed by CYBER-ATTACKS,** will continue to **transform both**

- firms and their compliance functions
- and
- will require the expansion of existing skill sets in all areas of a firm.

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But....



Of potentially equal impact we must consider for example....

- 1. The uncertainty created by **GEOPOLITICAL RISK** and former political co-operations and certainties shifting creates potential fragmentation

All the above will again require expert compliance skills to help navigate the challenges.

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**Closing message**

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