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COMPLIANCE: DARE TO BE DIFFERENT

2017 COMPLIANCE RISK STUDY

Accenture's fourth annual Compliance Risk Study indicates the transformation journey for Compliance has entered a new phase in the face of the digital age and escalating margin and performance pressures as financial institutions look to rationalize and reduce costs while improving efficiency. Our 2017 Compliance Risk Study – based on a survey of 150 leading Compliance officers at banking, capital markets and insurance institutions across the Americas, Europe, and Asia-Pacific – indicates that Compliance functions have matured but need to take the next step to enhance their capabilities to increase efficiency and effectiveness.

Our research reveals that institutions are choosing different paths to optimization. Regardless of the path taken, the common challenge is keeping Compliance innovative so the function remains sustainable while managing the demands of a transforming financial services business and risk ecosystem.

A NEW PHASE IN THE TRANSFORMATION JOURNEY

Having established its stature within financial institutions, Compliance functions are facing a newer challenge that demands sustainability across an expanded set of responsibilities. Investment in capabilities is projected to increase for 89% of institutions surveyed in the Accenture 2017 Compliance Risk Study over the next two years as institutions manage the demands of the digital age.

89%

OF INSTITUTIONS PROJECT INVESTMENT IN CAPABILITIES TO RISE OVER THE NEXT TWO YEARS.

A COMPLEX RISK ECOSYSTEM DEMANDS CONTINUED INNOVATION

Compliance's role as both a strategic advisor and a risk assessor continues to be challenged by the diversity of risks to understand, monitor and manage. **In three years' time, cyber risk is expected to be in the top three most challenging risks to manage** for the majority of surveyed institutions, further widening the gap over more established risk themes such as regulatory compliance risk. This underscores the need for Compliance to continually advance their capabilities and innovate to understand, monitor and manage the shifting demands of the new risk ecosystem.

POWERING UP COMPLIANCE

Compliance functions are encouraged to invest wisely to deliver sustainable risk management that is cost effective while maintaining the integrity of the control environment.

Our 2017 Compliance Risk Study indicates that **while investment in the function is rising and expectations have matured, Compliance has in many cases not taken advantage of the tools and technologies that can help it effectively leverage this investment.**

As well, Compliance has not taken the steps to equip the function with the right skills and mastery of emerging regulatory topics such as the use of systems and data. Powering up Compliance will have a different context for institutions based on their path to optimization but each institution should collaborate and contribute more across its organization and better leverage advances in technology and tools to allow sustainable innovation.

INNOVATORS, INTEGRATORS AND IMPROVERS

The challenge to address sustainability has resulted in Compliance functions no longer at a crossroads in their roles within their organizations, but rather plotting different paths toward their desired end state.

"Innovators" are establishing leadership positions through investments in capabilities such as advanced analytics, artificial intelligence, or managed services.

"Integrators" are moving towards becoming part of an integrated second line of defense that shares infrastructure, skills and capabilities with other non-financial risk functions, while a third group of **"Improvers"** are taking incremental steps as they acquire a better understanding of business expectations that can help them make leap frog investments as they aim to learn lessons from peers.

READY FOR TOMORROW'S COMPLIANCE

The rules of the road for Compliance have changed. These are driven by the accelerating demands of the digital age and the expanding awareness of the importance of strong conduct risk management. These are necessitating advancement and sustainability of compliance capabilities.

Compliance functions should recognize this shift and enhance their investments if they are to remain relevant to their institutions and maintain their role as both an objective control function and strategic advisor to the business. Without this focus, the future of Compliance functions may be chosen for them.

A NEW PHASE IN THE TRANSFORMATION JOURNEY

Compliance has now assumed its rightful place alongside other functions such as Finance and Risk within financial institutions as a mature control organization.

Despite the ongoing focus on simplification within financial services, the stature of Compliance is further re-affirmed by continued investment in the function, with **89% of institutions surveyed in the Accenture 2017 Compliance Risk Study projecting investment to rise over the next two years.**

Compliance's role within financial institutions has also evolved to a stable set of responsibilities and expectations, where it should both preserve the integrity and use of compliance risk management capabilities while balancing business expectations to take a more active role in front line processes and business strategy.

Eighty-six percent of study respondents characterize their role as a regulatory advisor to their institutions. Compliance's more strategic role continues to be re-enforced by its direct reporting line to senior management, which after some retrenchment last year has been re-established to the point where 66% of respondent institutions are now reporting directly to the Chief Executive Officer or Board of Directors.

86%

CHARACTERIZE THEIR ROLE AS A REGULATORY ADVISOR TO THEIR INSTITUTIONS.

A COMPLEX RISK ECOSYSTEM DEMANDS CONTINUED INNOVATION

The challenge for Compliance has now evolved to a new phase where functions are delivering risk management and strategic advisory support at greater scale than ever before and with a backdrop of growing complexity in the risk ecosystem.

For example, we have observed that digital business models driven by client expectations for ever-ready banking and insurance services are causing significant increases in business volumes that can stress control frameworks and open new risks, for example cyber and data privacy. **Fifty-one percent of institutions in our 2017 Compliance Risk Study forecast cyber risk to be in the top three most challenging risks to manage in three years' time**, and according to a global insurer, cyber-attacks cost businesses as much as $400 billion a year, highlighting the new levels of volatility within the risk ecosystem that Compliance needs to manage.[1]

Compounding this challenge is the belief that risk assessment is already seen as one of the most time-consuming activities for Compliance, with 46% of respondents saying it will remain a significant capacity drain in the next three years. Risk assessment remains a highly manual activity among respondents, with only one in three functions using risk mapping/reporting tools, and less than half using big data analytics. Furthermore, the use of centers of excellence to provide consistency and scale in delivery has only increased by 5% since our study commenced in 2014, further indicating the efficiency opportunities that Compliance is not currently exploiting. This can result in challenges to monitoring the diversity of risk over time or reporting complex risks to senior management in an actionable way.

In Accenture's experience, a key strategic priority for Compliance is to **maintain a continued spirit of innovation that sustains capabilities at the level of sophistication needed to manage a more complex risk ecosystem**, rather than looking to meet these growing demands by continuing to drain an increasingly scarce talent pool of compliance professionals. The focus should therefore be on investing strategically in the function to solve for sustainable and adaptable solutions that do not compromise the integrity of the control environment.

POWERING UP COMPLIANCE

The challenge to innovate is a powerful one for Compliance leaders. Mature capabilities are at their disposal to radically transform the compliance risk outlook for the firm.

Previously, Compliance officers relied on fragmented views of risk from across the organization and experienced long lags before controls could be adjusted. Today, advanced analytics make it possible to fuse enterprise-wide data sets and identify how risk is diffused across the business, staff and customer network. This information can be used to improve compliance controls automatically through artificial intelligence powered by machine learning.

CASE IN POINT. WITH A WELL CALIBRATED INVESTMENT STRATEGY, COMPLIANCE OFFICERS CAN DEPLOY LARGE, LOW-COST ROBOTIC FACTORIES TO PROCESS LOW-IMPACT, HIGH-FREQUENCY ALERTS.

Rather than focus on process execution, they are empowered by streamlined alerts to collaborate efficiently with digital, cyber, and data specialists across the business.

In our view, the need for the Compliance officer of the future is here. Advances in compliance-ready technology for the digital age are cost efficient, effective in driving consistent outcomes in the control environment, and yielding actionable intelligence that enable Chief Compliance Officers and their functions to make a strategic impact on the business. Leveraging these tools is no longer optional for Compliance as the paradigm for how financial services are delivered continues to be disrupted by advances in technology and manifestation of compliance risks across the ecosystem.

Last year's study highlighted the expectation of Compliance functions to adopt new tools and technologies. However, this year’s study points to a certain “doubt” around emerging technologies as only 27% of respondents currently consider artificial intelligence to be one of the most impactful technologies while 23% consider robotic process automation to be that impactful.

In our view, the risk of continued inaction around these new tools and technologies is significant for Compliance. The potential for the function to fall behind the rate of change in the risk ecosystem is high, and could lead senior management to miss the opportunity to deliver a Compliance function fit for the digital age. The consequence of failing to rationalize compliance costs may well result in the function losing out in the ongoing competition for investment during budget rounds. These factors may prevent Compliance from maintaining relevance as either a control function or a strategic advisor to the business.

IN OUR EXPERIENCE, COMPLIANCE FUNCTIONS SHOULD DEVELOP AND EXECUTE A CLEAR STRATEGY FOR THE ADOPTION OF TOOLS AND TECHNOLOGY WITHIN THEIR INSTITUTIONS.

This plan should anchor to longer-term business outcomes but also commit to short- and medium-term results, for example deployment of robotic process automation in production environments can take weeks and not months. Delivering this strategy in concert with dedicated efforts to equip Compliance officers with the skills needed to exploit these technologies is key for gaining returns on investment, which in our experience should continue to be a barometer of “success” for senior management sponsoring the transformation.

INNOVATORS, INTEGRATORS AND IMPROVERS

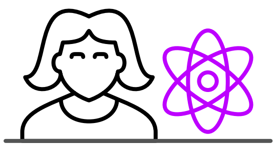
The paths taken by Compliance functions to an enhanced state will vary from institution to institution. Having faced a crossroads last year, Compliance functions are today plotting different transformation paths. In our experience and as confirmed in our 2017 Compliance Risk Study, there are three main models that, while not absolute or comprehensive, can help summarize some of the key approaches being taken.

INNOVATORS

"Innovators" are establishing leadership positions through a continued focus on new tools and methods to strengthen core risk and control capabilities, extend breadth and depth of coverage and provide the adaptability to deliver against future demands on the function.

Among study respondents, insurers currently show a stronger motivation to invest in artificial intelligence, banks are more focused on big data analytics while capital markets firms are more inclined to invest in transaction monitoring capabilities.

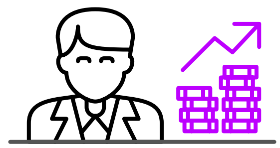
Institutions that choose to be at the forefront in the use of leading edge technologies are in our view setting new standards for peers to attain, raising the productivity of their talent through faster decision making and freeing resources from mundane activities to focus on higher value investigative work. Our experience indicates innovators expect investments to increase the adaptability of their Compliance function against complex challenges within the organization.



INTEGRATORS

A second group are "Integrators" who are seeking greater efficiency through improved integration of capabilities within Compliance as well as integration with other second line of defense functions

An example of the latter in Accenture's experience has been the pursuit of a more integrated approach to non-financial risk assessments, for example between compliance and operational risk.[2] By sharing infrastructure, skills and capabilities, integrators are able to develop a more holistic view of risk exposure both externally to regulators and internally to relevant stakeholders in addition to reducing the risk of duplication in assessing the same process or control multiple times. Operating within a common risk framework can drive greater efficiencies for Compliance such as more streamlined governance as well as in the deployment of talent. These steps can lay the foundations for greater innovation, though would likely not close a gap in the adoption of innovative tools and technologies and therefore limit the opportunity for longer term sustainability of the function.



IMPROVERS

"Improvers" are a final group of institutions who are adopting a more watchful stance in their investment.

This approach enables institutions to learn from the experience of peers and blend leap frog investments with spending on more foundational tooling, for example in the implementation of foundational tools such as governance, risk management and compliance (GRC). While this approach can reap benefits of more informed implementation approaches that build on the experience of others, it can also serve to maintain positioning behind institutions' peers as the opportunity for true innovation can be limited. Fifty-two percent of institutions in our study face difficulties understanding business needs, which can help explain the need to observe wider industry practice before placing more strategic bets in capability.

READY FOR TOMORROW'S COMPLIANCE?

Having established its stature within financial institutions, Compliance is facing a new challenge to innovate in order to manage the rising day-to-day complexity of its expanded mandate in a world where the delivery of financial services is continually disrupted by advances in technology.

Institutions are responding though some still lack a clear spirit of innovation to provide the level of insight and connectivity to the risk ecosystem that is ultimately needed.

Such inertia in the adoption of new tools and technologies can only further reduce Compliance's effectiveness as risk managers and strategic advisors. The pace of external change within the financial services business and risk ecosystem should continue—the test for Compliance is how it can innovate to maintain its relevance in the digital age.

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ABOUT THE STUDY

The Accenture 2017 Compliance Risk Study is the fourth edition of this global survey of leading compliance and risk executives. The focus of the study is to explore the future of compliance programs and the evolving role of the compliance function.

This year's edition surveyed 150 banking, insurance and capital markets senior compliance and risk executives across Europe, North America, Asia-Pacific and Latin America. The study was conducted between December 2016 and January 2017.

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