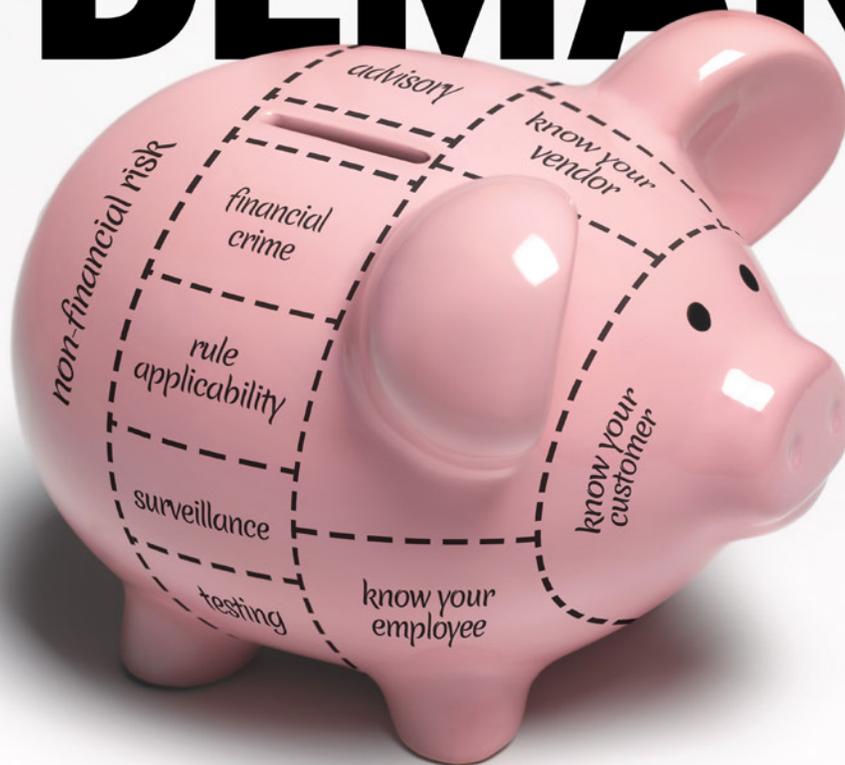


2018 COMPLIANCE RISK STUDY

COMPLY & DEMAND



A modular approach to Compliance transformation, so you can move at the pace of the digital age.

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Accenture's 2018 Compliance Risk Study based on a survey of 150 leading Compliance officers at banking, capital markets and insurance institutions globally provides insight into the different strategies that firms are pursuing to deliver the capabilities that shape a Compliance function fit for the future of financial services.

Accenture has conducted the Compliance Risk Study every year since 2013. Over that time, Compliance functions have made a dramatic turn towards innovation-fueled strategies, as they seek to deliver the risk management outcomes required in an era of digital transformation.

Our 2018 Compliance Risk Study has identified key obstacles to Compliance continuing to mature its skills and capabilities to achieve its strategic goal of being a risk advisor, regulatory change overseer and surveillance agent. Key study findings include:



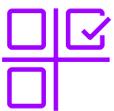
Compliance can no longer rely upon adding headcount to increase its effectiveness. Only 22% of respondents said they now have more than 500 people in their compliance function, representing a 9% drop since last year.



Despite reductions in headcount, Compliance spending is slated to increase. In line with findings over the last four years, 89% of respondents indicated that investment in Compliance will increase over the next two years. Compliance technology transformation is the top spending priority for respondents, both over the next 12 months (57%) and within the next three years (51%) as Compliance moves towards deploying technology rather than people to fulfil its mandate.



To realize returns on technology investments, Compliance needs to re-train its people. More than three-quarters (76%) of respondents saw a gap between skills currently available and those required. We see this skills gap preventing Compliance from understanding the ecosystem of risks it faces, while planned investments in technology should have a limited return if Compliance officers cannot effectively deploy the tools acquired.



Data quality issues are also a significant barrier to progress and realization of technological capabilities. One in three (31%) of respondents said that data quality issues were key barriers hindering their organization from delivering on its key mandates over the next three years.



The skills gap and the challenges with data may also be hindering a proactive approach to managing important risks.

Only 7% of respondents in the 2018 study saw conduct risk among the top 3 most challenging risks to manage (down from 27% in 2017), 14% claiming this for product risk and 13% identifying model management risk as in their top 3 most challenging risks to manage over the next year. These findings may indicate that Compliance is too focused on the key risks facing the industry today such as cyber risk and financial crime and not focusing on the risks that are now coming to the fore, such as the proliferation of virtual currencies, new concerns about corporate conduct and a responsible approach to the use of artificial intelligence.

In last year's Compliance Risk Study, our findings confirmed that Compliance functions were using three main strategies to address the challenge of sustainability—"improvers, integrators, and innovators." Results from this year's study and our industry experience indicate that time has run out for the more watchful stance of the "improvers." Organizations should pivot towards action, to adapt their functions to the ever-changing compliance risk profile and to their role within the organization as a critical part of the control framework.



CONTINUAL, TARGETED INNOVATION:

SURVEILLANCE SYSTEMS CAN UNLOCK EFFICIENCY

Given the challenge of maintaining sustainability across an expanded set of responsibilities while keeping up with broader changes within the financial services industry, the increased pace of innovation and the evolving regulatory landscape, change is required for Compliance operating models, technology and talent.

The pressure on Compliance to re-shape the function—with optimal allocation of resources to increase efficiency and effectiveness as both a control function and strategic advisor to the business—is greater than ever.

As digital transformation drives changes in customer behavior and demand for banking services, the threat landscape for financial institutions is expanding while the focus of regulators is changing to one where they demand that financial institutions demonstrate compliance in their business outcomes in addition to adopting the right controls. These forces are driving complexity for the Compliance function to evidence their value as both a relevant business advisor and effective control function. After years of increasing headcount as a strategy to manage such complexity, Compliance is now facing greater scarcity of resources.

In response to internal and external mandates, some Compliance leaders have already started on that journey through revision of their operating models and deployment of technology. For example,

firms have started to reshape the boundaries between the first and second line of defense—in line with regulatory expectations—and have consequently re-allocated resources to the first line. According to the 2018 study, around one in two organizations surveyed have between 50 and 299 employees who provide compliance support in the first line of defense.

Since last year's study there has also been a dramatic uptake in the deployment of technology—as mentioned earlier, technology transformation is now the strategic initiative most commonly cited by respondents as being pursued over the next 12 months, and most impactful within the next three years. This will allow Compliance functions to deliver on their mandates in a more efficient and effective way. For example, 49% of respondents are looking to deploy a new surveillance system to support them in achieving their mandate. Without this new technology they face additional challenges as older technologies have reached the end of their life or they no longer have the same breadth of proactive capabilities that would be needed by the future compliance surveillance agent.

RESPOND WITH REGTECH TO EXPOSE WEB OF RISKS

Despite progress in establishing an innovation mindset among industry-leading Chief Compliance Officers, meeting future expectations will in our view still require a transformation strategy that turns today's Compliance into a resilient risk management and control function that better detects and anticipates the increasingly complex landscape of risks.

With 89% of respondents indicating that investment in Compliance will rise over the next two years, setting a strategy that is holistic, actionable and anchored to measurable business outcomes is more crucial than ever.

Leading Compliance functions are beginning to rotate their operating model to capture integration opportunities for risk and control processes across the second line of defense. For example, they are enhancing integration of risk assessment, monitoring and testing, and analytics programs. This trend seems likely to increase as the threat landscape broadens, exposing financial institutions to a web of risks—including other non-financial risks—that necessitate cohesive risk management across Compliance. As an example, financial crimes pose threats demanding

greater integration across anti-money laundering, fraud and cyber risk management frameworks. In establishing more integrated teams across the second line of defense, industry leaders can also generate increased operational bandwidth to reinforce product, business and regulatory advisory support for the firm as it navigates a changing risk profile.

Accenture's experience with industry leaders highlights a growing trend towards the use of RegTech to accelerate risk management outcomes as well as to acquire a level of maturity in detective capabilities, matching the sophistication of approaches deployed by bad actors. Techniques such as machine learning, natural language processing and natural language generation allow organizations to extract the "signal from the noise" in increasingly dense data landscapes.

Machine learning, for example, is creating opportunities for Compliance officers to better visualize patterns of behavior in their own organizations and among institutions' clients and third parties. When looked at holistically, these patterns may paint a very different picture of misconduct or criminal activities than if such information were confined to its traditional silos.

Natural language processing is transforming traditionally manual, costly activities—such as review and interpretation of regulatory text—into actionable components that can be distributed to responsible owners in a fraction of the time and at a fraction of the cost of manual processing.

Innovations in technology also allow Compliance functions to finally free up their talent to stay on pace with evolving advisory issues, such as the use of virtual currencies, or to focus on more investigative work like advising the business on more complex compliance issues. However, investing in innovative tools and technologies—without upgrading the skills of Compliance officers to use such tools effectively—significantly limits return on investment in

this area. Compliance functions recognize this dependency, with 76% of 2018 study respondents perceiving a gap between the skills currently in-house and those required to become the deep subject matter advisors their business counterparts need.

As the threat landscape continues to evolve, the pace of industry change quickens and the pressure for new revenue streams and client offerings increases, Compliance leaders are strongly encouraged to innovate to remain a timely mainstay of control against bad actors that are exposing financial institutions to an increasingly complex web of risks. A continued investment in technology to better visualize risk, a re-skilling of resources to exploit technology innovation and to be more data-driven in investigations analysis, can prove critical to the completion of Compliance's responsibilities, and to retaining its organizational relevance. Furthermore, Compliance should also adopt a mindset of continual education and learning to understand the threats of the digital age and to develop the appropriate risk management and advisory responses.

With 89% of respondents indicating that investment in Compliance will rise over the next two years, setting a strategy is more crucial than ever.

BUILD, BUY & SUBSCRIBE TO DELIVER THE COMPLIANCE FUNCTION OF THE FUTURE

By 2020, Accenture expects most Compliance functions to be driving an innovation-led strategy for their function.

As part of this pivot we see industry-leading Compliance functions adopting a mixture of three investment approaches —building in-house capabilities, buying end-to-end solutions, and subscribing to managed services and industry utilities that mutualize cost of ownership across firms with similar needs. Combining these approaches within one integrated strategy allows Compliance functions to deliver the sustainability of outcomes required to be both a control function and a strategic advisor to the business while addressing an ever more complex threat landscape.

Accenture sees industry leaders adopting a combination of strategies to move their functions from the Compliance of today to the function of the future. Some institutions are continuing down the more traditional path of building their own capabilities, while others are looking to cut the cord and lower their costs of ownership through subscribing to software as a service (SaaS) solutions from vendors or buying end-to-end managed services from third parties that can bundle leading plug and play technologies, innovation, and skilled resources to rapidly deploy leading edge processes.

The choice of strategies preferred for any one function within Compliance is often driven as much by in-house factors as by external drivers. Compliance functions seeking to maintain close oversight of end-to-end controls continue to build their own capability. While maintaining ownership may provide additional career opportunity for in-house Compliance officers, such a strategy can require significant change and maintenance effort. In our study, only 42% of respondents favored building proprietary technology rather than leveraging third-party solutions.

Functions seeking to buy capability are facing a proliferating and often hard-to-navigate choice of vendor solutions, creating difficulties in identifying those that are dependable or sufficiently mature. In this year's study, 50% of respondents said they intend to invest in technologies to leverage proven solutions and third-party investment in innovation.



A third model emerging within the financial services industry is for Compliance functions to leverage third-party managed services. These services offer a much shorter time-to-implement and can generate savings for Compliance functions from ongoing maintenance costs for software and hardware as well as from reductions in department headcount, as day-to-day execution responsibilities reside with a third party. A substantial 45% of study respondents currently use a managed service for financial crime, while 43% leverage the model for surveillance and 40% for regulatory change management.

A variant on this model is for institutions to subscribe to third-party capability in common with peer organizations, leveraging a host platform to perform either all or part of a control process where there is no clear competitive differentiation.

These models provide commercial flexibility through a “pay as you go” type model, as well as the opportunity for continuous improvement using investments made by the host platform or through continuous collaboration with the service provider on upgrading the service bundle.

There is no emerging best formula among these build, buy and subscribe strategies. Compliance leaders need to weigh enterprise strategy, as well as firm-wide risk appetite, as Compliance assumes a more prominent position within a more integrated second line of defense. However, what does seem broadly understood is that a blend of approaches within one integrated strategy can position Compliance functions to deliver the sustainability of desired outcomes as well as maintain strategic agility.



LESS ROADMAP, MORE RESILIENCE

In a volatile risk ecosystem, the idea of phasing development across a multi-year roadmap is challenged by the need for continuous improvement in Compliance's ability to withstand industry shocks that continually test whether the function has the right foundational capabilities.

Industry leaders should configure their operating model, technology and talent strategies and apply the best combination of solution sourcing approaches to build and maintain resilience as a mainstay of control within the institution and as a relevant advisory function.

As the industry continues its rapid evolution, the ever-decreasing time between major change events demands a new mindset to modernize the Compliance function. Annual plans, driven by once-a-year risk assessments and supported by logical transition states that help the function and the organization navigate a better approach to managing risk and improving control, are no longer effective.

Open banking, cryptocurrency and quantum computing are just examples of exogenous shocks to the industry that create uncertainty and test the resilience of Compliance. In this environment,

Compliance should be working to develop a new, forward-thinking and stress-tested approach, and to continuously monitor its situation, evaluating and improving its ability to remain resilient in a financial services landscape that is subject to disruption and overnight change.

The rules of the road have changed, and leading Compliance organizations are embracing a new, innovation-driven mindset. As Accenture's 2018 Compliance Risk Study demonstrates, industry players able to retain focus amid increasing volatility and complexity can identify needed changes in their operating model, their technology and their talent. Organizations able to implement these changes while remaining keenly aware of shifts in the risk ecosystem create a Compliance function that is fit for the future of financial services.

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