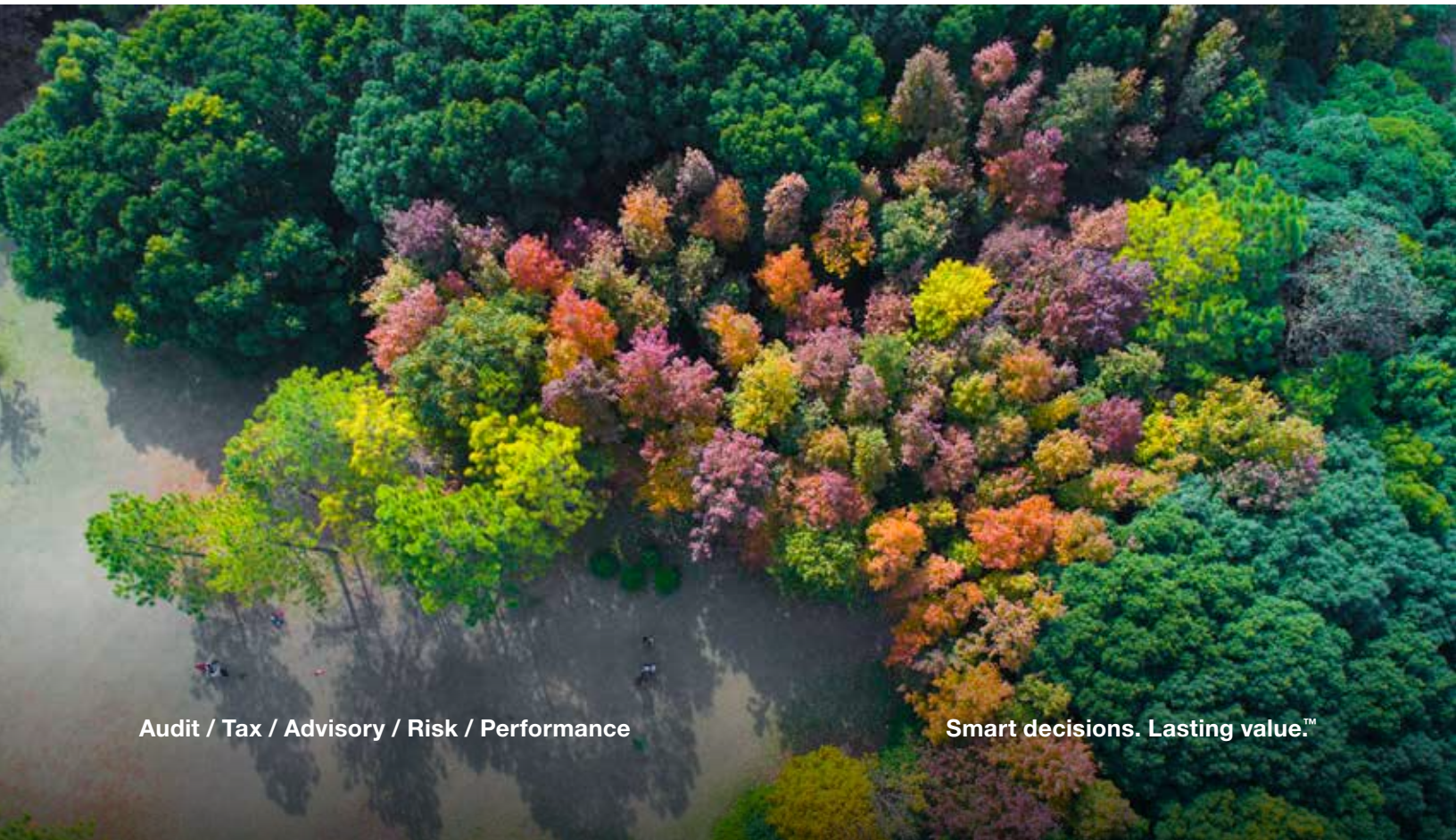Crowe

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Compliance Management in Times of Constant Change

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Compliance management professionals currently contend with a dynamic and ever-changing suite of challenges that includes demanding regulatory requirements and the increasing role of technology in all aspects of business. Proactively implementing institutionwide compliance adjustments and enabling advanced data analytics can turn these challenges into opportunities.

A compliance landscape in flux

In a time when businesses are ramping up their use of technology to refine processes and develop new revenue streams, compliance management has become increasingly complex. The introduction of new regulatory legislation, intensification of existing regulations, and inconsistent supervision have further complicated the landscape. In the past, compliance professionals have traditionally been extremely conservative in their approach – and rightly so – but today's new terrain requires a more agile mindset. Rather than being the "office of no" and erecting barriers to productive change, compliance management must now work proactively with all other aspects of a business to meet both external regulatory demands and internal ethical and client service expectations while simultaneously balancing the risk appetite and risk tolerance set by company leadership.

Historically siloed and thus divorced from early decision-making processes, compliance must now be embedded in all decision-making. Many companies have already begun to make this shift, motivated in part by legislative enterprise risk management (ERM) mandates and

also by the opportunity to offer newly developed products and services that leverage technology without compromising risk tolerance. And while legislative mandates remain important, a temporary lull in enforcement has created opportunities to take on additional risks such as pursuing new, riskier customer bases and product offerings.

Governance, risk, and compliance (GRC) software platforms can assist in implementing ERM in a sustainable fashion. Sustainable risk management (SRM) entails establishing a framework for how the company wishes to approach the issue, the identification of risks, the creation of a risk profile, and the development of an iterative, repeatable process for putting the plan into action.[1] By inputting this information into a GRC software system, historical data can be used to hone best practices for a given organization and establish reasonable parameters for the analysis of new data. Squaring desired results with previous outcomes can help to make goals more realistic, attainable, and transparent organizationwide. Formalizing the relationships between historical data and future goals can also assist in more accurately assigning responsibility for particular aspects of a risk management strategy.

Thinking ahead

With change comes opportunity. The competing factors that now influence the day-to-day activities of compliance officers might seem intimidating, but a little foresight and a proactive attitude can turn these obstacles into opportunities. Compliance can become a true business partner by creating opportunity and engineering risk out of products and services rather than being seen as purely a cost center. Close scrutiny of regulatory trends can position companies to respond quickly to new reporting demands. This quicker response time makes it less likely that mistakes and misconduct that could result in costly fines will evade detection.

For example, the significant expansion of the number of data fields to the *Home Mortgage Disclosure Act* (HMDA)[2] would not have put nearly as much stress on compliance teams if they had anticipated those changes and begun recording that information for fair lending and business analysis purposes before the legislation became effective. Presidential and congressional transitions might herald even further changes, so monitoring these possibilities becomes crucial to compliance managers. Because banks have been fined $243 billion since 2008,[3,4] attention to these issues should not be an afterthought.

Elimination versus mitigation of risk

In the past, compliance officers have been positioned as the final arbiters of risk. As such, they have often taken overly conservative approaches to risk management and have steered companies into avoiding activities that might be perceived as even slightly risky. With the use of technology and robust compliance management software, companies that have traditionally taken a very conservative approach to compliance may find that activities once considered too risky might now be considered viable. Communication and culture within an organization are significant factors in appropriately implementing such decisions.

Encouraging the board of directors and senior management to clearly communicate the risks that they are willing to tolerate is essential. Rather than setting the agenda themselves, risk managers must instead focus on implementing what the company leadership has specified. By embedding compliance in each stage of development and organizational change management, company priorities can be brought into closer alignment and inefficiencies can be eliminated. The elimination of these inefficiencies creates space for greater risk acceptance in line with risk appetites and tolerances set by the board and senior management. This additional bandwidth allows for the refinement of products and services and corresponding procedures so that they comply with regulations without being so conservative as to impede possible profit-making opportunities. At the same time, these efficiencies allow for the devotion of more time and resources to eliminating unfair or unlawful treatment of consumers.

An integrated strategy

A principles-based approach to corporate governance and compliance management is imperative. When a company's principles are established from the top down, it becomes much easier for compliance officials to do their jobs. Effectively communicating those principles requires an integrated approach.

Decision-making structures should be as diverse as possible and be composed of representatives from departments across the organization. If compliance officers and risk managers are included at early stages, they can more easily modulate their recommendations to align with risk appetite and tolerance in a regulatory sense as well as with internal expectations for the ethical and fair treatment of customers. Conversely, management might not encounter as many unpleasant surprises on the compliance side later in the process because their concerns might already have been addressed. For example, potential third-party relationships can be evaluated for data privacy and consumer harm risks before time is wasted pursuing unsound partnerships.

A common risk language and taxonomy are essential in implementing such an integrated approach. Different departments using different terminology to assess and document risk can result in inefficient redundancies in reporting and confusion. Establishing consistent expectations and metrics across the entire organization can eliminate or mitigate many of these inefficiencies. Tightening up communication about risk allows for greater specificity in reporting. Compliance does not just report noncompliant procedures and activities. By isolating and identifying causal factors, compliance can assist the business in developing an appropriate risk response. A willingness to accept and even encourage the reporting of bad news by compliance officers is crucial in leveraging current risk management activities to shape future decision-making.

Salvation in technology

Some compliance officers might be hesitant to embrace technological innovations due to an inherent skepticism. Skepticism is a good characteristic in a compliance officer; however, the opportunities provided by technological advancement can cut down on manual processes and contain costs, which means that they must be considered. Automation, particularly in the form of robotic process automation, machine learning, and other advanced data analytics, can quickly turn a mass of data into an actionable plan for mitigating risk across an entire organization. This is preferable to simply identifying and correcting issues in one area while allowing them to persist in another because data sets and reports exist in isolated silos.

GRC software can aid in identifying and visualizing trends in a holistic sense, cutting down on redundancy of labor.[5] Information can be disseminated organizationwide, alerting all relevant parties. Everyone can see the information, which increases transparency and isolates possible communication gaps that need to be addressed. Such software also facilitates the establishment of a common lexicon for referring to compliance issues.

Opportunities embraced

Compliance management professionals have to balance risk and security with every decision they make. But a new approach can embolden them to embrace the opportunities that compliance management presents, which can reduce friction in the customer experience, improve customer satisfaction, and elevate the overall reputation of their organization.

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