

Future of Compliance:

Not sleeping at night?

Then get ready for
Compliance 2.0.



March 2019



How advanced are your efforts to comply?

Be prepared for the future.

Compliance is in a revolution. Forced to do more work and provide even greater assurance with fewer resources, the function's shifting from traditional practices of monitoring, surveillance and testing to new methods and operating models enabled by technological innovation.

If your organisation's more tempted to spend on front-office systems to boost top-line growth, resist. With the costs of non-compliance rising all the time, neglecting the function isn't an option.

What you can do is make your investment go further by focusing on the interplay of people, technology and processes in compliance.

* 2018 State of Compliance - Getting ahead of the watchdogs: Real-time compliance management © 2018 PwC
Future of Compliance
PwC

28%

of leaders cite skills shortage as a challenge to using tech to manage compliance risk*

46%

of leaders use data-warehousing and extraction tools to assist real-time monitoring efforts*

37%

say insufficient budget to meet additional needs associated with technology is a top challenge*

Compliance is increasingly driven by digital transformation. How will you evolve your existing framework to take you further?

Operating Model

- ✓ How can you do more work with less budget?
- ✓ Is your risk framework consistent and aligned within your organisation?
- ✓ Can you make the most of compliance services?



People

- ✓ Do you have the right people?
- ✓ Does your team have an agile mindset?
- ✓ Does your culture help or hinder compliance?

Compliance Framework

Technology

- ✓ Is the quality of your data holding you back?
- ✓ When will you achieve fully intelligent automation?
- ✓ How will you keep automation under control?



Operating Model



Still doing it the old way?

You need to rethink the way you deliver compliance services.

Your goal has to be to transform your operating model to squeeze strategic advantage out of compliance.



If you want to control costs while achieving growth and adapting to the new world, you need to understand and plan for the compliance organisation of the future.



You have the choice between multiple options:

- Compliance as a service
- Centralised vs decentralised compliance units
- Hub and spoke models



To make this choice, you need to understand the pros and cons of each option and how it might fit into your operation.



Meeting increased expectations will be a challenge.

How can you fulfil new demands while keeping your budget in balance?

Your mandate will grow:

- You'll be co-building a corporate culture to prevent non-compliant behaviour
- You'll be developing compliance into a strategic advantage
- You'll be transforming from an inspector into a business advisor
- You'll be expected to ensure a higher level of compliance with a more limited budget
- And so on



Intense regulatory pressure



Growing mandate



Limited or lower compliance budget

What's your way out?

"What do we do?"

- Portfolio rationalisation
- Zero-basing capabilities

- Single point of truth
- One taxonomy

- Decide what business you should be in
- Justify what to keep, not what to kill

"Where do we do it?"

- Business operating model
- Footprint optimisation

- Centralisation (shared services)
- Outsourcing
- Nearshore/offshore

- Redefine where critical work gets done
- Let external providers generate value for you
- Rethink your operations and office locations

"How do we do it?"

- Process excellence
- Spans and layers

- Agile workforce
- Digitalisation

- Simplify work and minimise bureaucracy
- Flatten and empower the organisation
- Make technology a game changer

Aligning risk views enhances process quality and efficiency.

What do you have to do to achieve CRA/RCSA convergence?

What are the benefits of aligning?

CRA (Compliance Risk Assessment)

- ✓ **CRA includes** the evaluation of 1st line of defence (1LoD) compliance controls to capture a comprehensive view of risk exposure
- ✓ Promotes **consistency of ratings of compliance risks and controls** across assessments
- ✓ Breaks down silos and **enriches CRA results with 1LoD input**



RCSA (Risk and Control Self-Assessment)

- ✓ Improved quality and coverage by **leveraging compliance SME**
- ✓ **Reduced time and effort** in fact-finding and data gathering

- ✓ Allows **alignment of testing and action plans** to both RCSA and CRA for more **efficient allocation of resources**
- ✓ Allows more **consolidated risk reporting**

Steps for designing a next generation integrated risk assessment



- align taxonomies
- align rating scales
- align execution calendars
- converge risk and control libraries

Organisations that successfully integrate non-financial risk assessments benefit from **enhanced process quality and efficiency**

What are the key elements to consider?



Foundational elements

- Single, comprehensive risk taxonomy
- Common view of organisation and congruous risk assessment units
- Consistent scoring methodology across risk types
- Coordinated calendar and sequencing



Governance & processes

- Clear and differentiated roles and responsibilities across three lines of defence
- Central coordinating function of CoE for risk assessments



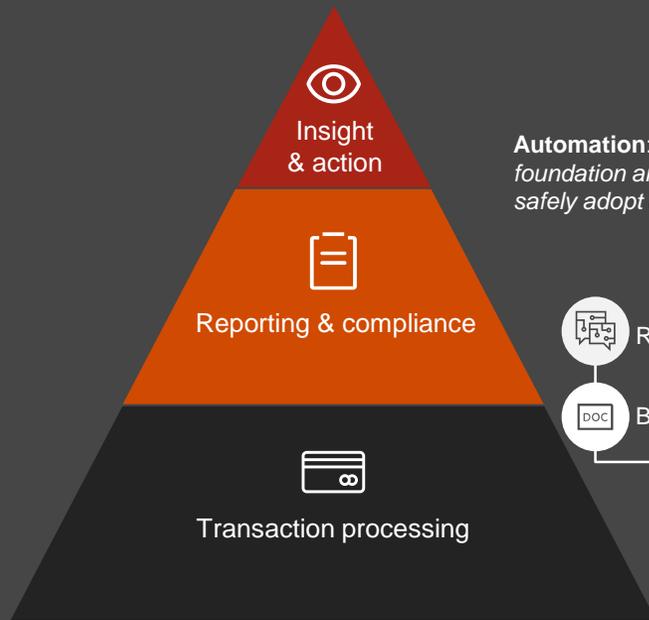
Data & technology

- Single integrated GRC platform
- Rationalised data model to facilitate collection and aggregation of data
- Process automation

Compliance will be enhanced by real-time insight from technology. What can you do to focus more on the customer?

Current state

Siloed and cumbersome business with a greater focus on manual interactions and transaction processing



Automation: the catalyst to set the foundation and create capacity to safely adopt advanced technologies



Optimised state

Automation and BPR driving productivity, efficiency and establishing the foundation to support future intelligent technology adoption

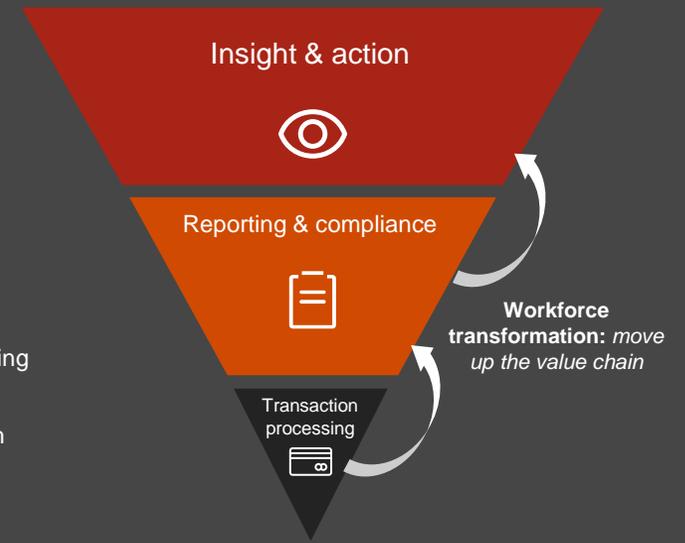


Artificial intelligence

- + Deep learning
- + NLP/NPG
- + Machine learning
- + Emerging tech
- + Analytics

Future state

'Data-driven intelligent enterprise'
B2B/B2C focus: demand for real-time services throughout the value chain



Technology



Are you embracing digital change?

You need to understand your data to get real value out of it.

One of the big challenges companies are facing will be data collection and interpretation. Financial institutions tend to generate huge volumes of data, but much of it is still not explored. They need to leverage their data as a strategic advantage and create value out of it as other industries have done.



Migrating to new systems will make a significant difference when it comes to remaining compliant and being efficient.



The way forward is to harness advanced technologies without losing sight of cybersecurity and privacy, data ownership and integrity.



The new compliance ecosystem needs a single source of truth. Do you have the capabilities to exploit the full potential of your data?

Centralised data can help resolve the nagging problem of accessibility and data integration

Users throughout the enterprise can see across all disciplines, not limited by organisational silos

Data sources



Data taxonomies
Data governance
Data quality
And so on

Raw data



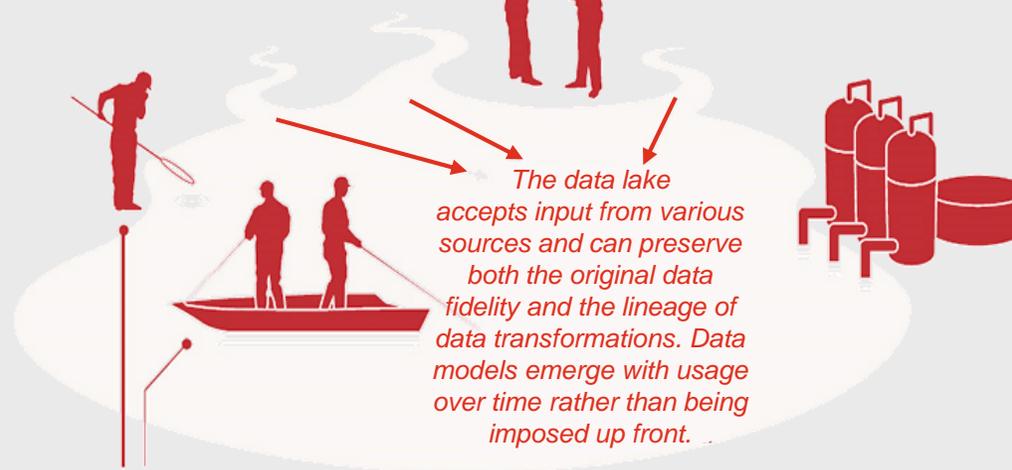
Raw data



Raw data



Data generalists/
programmers can
tap the stream data
for real-time
analytics



*The data lake
accepts input from various
sources and can preserve
both the original data
fidelity and the lineage of
data transformations. Data
models emerge with usage
over time rather than being
imposed up front. . .*

Data scientists use
the lake for discovery
and ideation

“A major Hong Kong-based bank is building its biggest data lake, breaking down silos and preparing for the AI revolution”
Source: FORBES, Dec 19, 2018

Single source of truth

The lake can serve as a staging area for the data warehouse, the location of more carefully ‘treated’ data for reporting and analysis in batch mode.

Compliance automation is moving way beyond robotics. Do you know what's coming next, and are you prepared to make it work for you?

Intelligent automation (IA) is the **layering of automation and intelligent technologies** that deliver the 'digital workforce'. It has profound transformational benefits and organisational implications that require **robust operational excellence and organisational change** to be successful.

” On a broader scale, the technology price tag is no longer a limitation to invest in future capabilities.
Automation is not about decreasing headcount; it's about moving up the value chain.
There is no way to talk about a financial institution without considering technology. “

Traditional enterprise

Location strategy, outsourcing & lean
Migration of manual tasks to offshore locations: effective strategy for decades, expanding to more sophisticated tasks

Macros and scripts

Enable business users to automate rule-based activities within a single application

Visualisations

Allow business users to gain tangible insights

Robotic process automation

Automates labour-intensive activities across multiple systems by training or programming software robots to replicate a user's workflow

AKA: RPA, digital labour, bots

Process orchestration

Reengineers existing business processes by using software, integrating systems, and restructuring labour to optimise workflows

AKA: intelligent business process management

Intelligent automation

Optimises business processes by using RPA and AI to identify patterns, learn over time and make predictions

AKA: cognitive computing, smart workflows

Autonomous intelligence

Automates decisionmaking processes without human intervention while putting controls into place

Intelligent enterprise

Selected use cases:

- Cognitive Process Automation
- AI-based hedge funds*
- Automated marketing & customer service
- Robo-advisor/personalised financial planning *

Selected use cases:

- Compliance Monitoring*
- AI in IT transformation

Data analytics journey



Finance professionals spend **50%** of their time gathering data, rather than analysing it.

Finance Effectiveness Benchmark Report 2017



A quick example: A global financial institution implemented automation within compliance, automating **72%** of the end-to-end process for generating surveillance reporting and reducing the time required for data aggregation and report generation by **92%**.

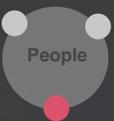
A digital workforce changes the traditional operating paradigm. How will your human staff function alongside robot co-workers?

A digital workforce will fundamentally change the nature of an organisation's operations. **This means that governance and change management are essential to success over the long term.**



Digitalisation programs often fail because they don't address specific operating, governance and change management requirements.

People



Are you working smart?

It's crucial to have the right team.

Automation can help streamline processes, but compliance will still be the responsibility of people – **people with different skills.**



To succeed in the future you'll need **staff able to keep up with rapid technological development.**



But that's not all. Compliance is no longer just an operational matter. Your people will also be **included in strategic discussions.**



Working under intense regulatory pressure with a limited compliance budget means **that your people will have to ensure every single task they perform adds real value. They also need to be empowered to contribute to the business.** No more silos: they'll be working with the regulator, RegTech firms, and even other financial institutions.



Compliance teams need new mindsets. Do your people have compliance superpowers?

How prepared is your team?

Do you have a clear strategy for developing new skills?

Who and where will you recruit?

Should data scientists sit in compliance?

How are you planning the change?

PAST

- Compliance **expert**
 - **Legal** background
 - **Narrow** focus
 - **Inspector**
-
- **Unstructured** and **inefficient** processes
 - **Reactive** to incidents
 - Lacking formal **framework**
-
- Unclear **mandates**
 - Perceived as **cost/business preventer**
 - Less intense **regulatory environment**
 - **Small team**

Where are your people?

Expertise



Method



Power



FUTURE

- **Advisor & partner**
 - **Influencing culture**
 - **Technologist**
-
- Aligned to **strategy**
 - **Autonomous processes**
 - **Proactive** prevention & prediction
 - **Defined framework**
-
- **High profile, clear mandate**
 - **Increasing expectations** of regulators
 - **More compliance with less funding**
 - **Bigger footprint**

Agility means transforming processes, structures and behaviours. Is your compliance function ready to adopt an agile mindset?

Why be agile?

Successful compliance organisations in the future will be those that can adapt quickly, move fast, learn and embrace change.

Being agile means shifting to:

-  a spirit of team ownership where everyone's held accountable
-  a collaborative and accountable environment where business and IT work together
-  decisions that are made confidently and on the spot by the right people at the right time
-  real-time and transparent communication across the entire compliance team
-  job responsibility that is cross-functional and involves co-ownership
-  a team-centred mindset where job satisfaction comes from delighting the customer

Agile mindset

- ✓ People are awesome
- ✓ Deliver value continuously
- ✓ Experiment and learn rapidly
- ✓ Emphasise security

Agile values

- ✓ Trust
- ✓ Ownership and accountability
- ✓ Transparency and truth
- ✓ Respect

Compliance has to play a greater role in shaping people's attitudes. Can you influence the culture of compliance within your organisation?

“I’ve seen people diluting their responsibility for compliance risk because they don’t want to be blamed later on.”*



Measuring the compliance performance of employees is a challenge for most institutions.



If you want sustained improvements in compliant behaviour, you need to link it directly to incentives and career progression to make sure there are real consequences for both negative and positive performers.



Incentives and rewards have to increasingly focus on the balance of contribution, conduct and ethical behaviour, and compliance performance.



Do your employees trust the integrity of your organisation? Is there evidence of this trust, for example in the form of whistleblowing?



* Anonymous comment from a head of compliance at a major Swiss bank

Contact us

Our experts will be glad to help.



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See you in
the future

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