Compliance Optimization

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Agenda

- Business Reasons for an Effective Compliance Program
- Elements of an Effective Compliance Program
- Effective Monitoring and Review
- Compliance Communication
- Periodic Risk Assessments
- Compliance Optimization Vision – Resources & Technology
- Automating Regulatory Reporting
- Questions
Business Reasons for an Effective Compliance Program

There are multiple reasons for companies to maintain an effective compliance program. The following are examples to justify the need to establish a compliance program or for those that already have a compliance function the rational to re-evaluate and potentially enhance the effectiveness the program:

- **Building a Positive Reputation** - A strong compliance program is an indication of the overall health of a company, and makes any company much more attractive to customers, investors, and partners.
- **Improved Productivity** – Working for a company with an effective compliance program can contribute to a positive moral within the organization.
- **The absence of or an ineffective compliance function** can lead to regulatory reviews and actions, fines and potentially damage a company’s reputation.
- **Establishing an effective compliance program** has become a necessity to protect any highly regulated organization. At its core, an effective program protects an organization by identifying specific rules and regulations that a company needs to adhere and abide by.

**Issues Impacting our Clients**

Some challenges we are seeing with our clients include:

- Data retention is a part of compliance that is proving to be a challenge in many instances
- Responsiveness to regulatory demands – Banks (Enterprise Stress Testing), Insurance (Solvency testing and reporting), Healthcare and other Organizations (Data Privacy)
- Remediation demands (actual process change, not just policy enactment)
- Optimizing the allocation of resources in fulfilling the compliance mission
- Meeting regulatory and reporting deadlines
Elements of an effective compliance program will vary in nature from company to company, however, the following is a representative list of some of the more common areas we have seen in optimizing the compliance function:

- Alliance with Corporate mission and strategic objectives
- Compliance risk identification throughout all areas within a company and external (HR, IT, Privacy, Consumer, Environmental, Regulatory, etc.)
- Designating a Compliance Officer and setting a departmental organizational structure in line with the mission, objectives and results of the risk analysis
- Implementing compliance and practice standards
- Conducting appropriate training and education
- Conducting internal monitoring and auditing
- Responding appropriately to detected offenses and developing corrective actions
- Developing open lines of communication
- Enforcing disciplinary standards through well-publicized guidelines
Effective Monitoring and Review

An organization’s Program should include monitoring and auditing systems that are designed to detect compliance issues, help ensure compliance risks are being addressed and requirements are being met.

Monitoring and review are essential components of a compliance program as it allows the organization to evaluate whether it is effective and is being followed. It is important to provide a sustainability Model for Long-Term Compliance Optimization.

- Testing compliance versus promoting compliance
  - Code of Conduct – Ensure employees have signed but also evaluate the policies and procedures to promote adherence with laws and regulations
  - Appropriate licenses and insurance coverages across all companies, entities and promote consistency

- Monitoring and Review should be done by someone independent of the area being reviewed
  - Cross departmental reviews – Make sure the departments are not headed up by the same individual

- Frequency and extent of monitoring activities
  - Some set by regulatory bodies and some are determined by the organization
    - Fraud training is required by certain states for insurance companies
There are several approaches companies can take to help optimize their compliance monitoring and review. Listed below are just a few examples:

**Approaches:**
- Performance management & benchmark reporting (internal and external standards)
- Data analytics & visualization
- Automated exception reporting
- Routine Audits
- Executive workshop delivery and visioning
Compliance Communication

In rolling out a compliance optimization project it is essential to have effective communication channels both within your organization and as well as for external reporting.

- **Internal Communication**
  - Downward communication of compliance program to applicable parties within your organization
  - Upward ability for department heads and managers to communicate
  - Effective lines of communication with all employees regarding compliance concerns, questions, or complaints
  - Employees must be comfortable speaking with a compliance officer or management regarding compliance concerns that may arise
    - Open door policy
    - Hotline or helpline
    - Non-retaliation policy
    - False reporting

- **External reporting**
  - Know who all of the oversight bodies, regulators and other organizations are, which require reporting
    - Engage and cooperate vs. providing the minimum
  - Poll department heads and managers on a quarterly basis for changes/updates
  - One-to-many approach—gather information once and comply to multiple mandates
In order for a compliance function to be optimized periodic risk assessments need to be performed and they need to be multi-tiered.

**High Level Company Wide**
- Assessments should be performed to determine if new compliance issues or risks have arose
  - Strategic objectives have changed
  - Changes to the legal entity structure or company type (Private, Public, Partnership, Corporation, etc.)
  - Growth or expansion into new territories/countries
  - M&A activity or run-off
  - Financial pressures/Negative Results
  - New regulations or changes to existing rules
- Inquiry and effective communication is essential during the risk assessment process
  - If employees perceive they will be punished in some way for reporting problems or asking for guidance then the compliance function will not be optimized

**Specific Assessment for Identified Areas**
- Once an area has been identified as a risk area for Compliance then that function should continue to be evaluated on a periodic basis
  - Scope and magnitude of compliance
  - Personnel changes or outsourcing
  - Proper allocation of resources needed for compliance and monitoring/auditing
  - Application to additional entities or divisions
Compliance teams must reskill in order to meet the demands of ever changing risk, business and regulatory environments. When it comes to regulatory compliance, resources to close gaps reliably and efficiently are scarce, which means companies must focus on:

1. Redirecting resources from data management to increasing compliance remediation and reporting
2. Leveraging best-in-class technology and processes that are available
3. Achieving a balance between streamlining processes and being flexible to address evolving challenges and requirements.

Although compliance is not a direct revenue-generating activity, it is commonly accepted that effective regulatory compliance benefits businesses across a wide range of performance metrics in the long term.
Aligning resources appropriately and leveraging technology during a compliance optimization effort can help companies remediate regulatory gaps, design and implement sustainable models that streamline operations, and address upstream / downstream impacts in order to meet regulator requirements and other business needs.

Benefits to the Companies

- Responsiveness to regulatory remediation demands (actual process change, not just policy enactment)
- Improving visibility into optimizing the allocation of resources in fulfilling the compliance mission
- Improving the speed of reporting cycles
- Integrating financial and operational data into a regulatory reporting framework

One critical element to fully optimizing your compliance function would be to implement or fine tune automated processes surrounding regulatory reporting.
Grant Thornton proposes a bespoke approach to identify gaps and support a pragmatic way to efficiently address regulatory reporting requirements and accelerate convergence with a roadmap and milestones.
Grant Thornton’s approach to Data sourcing and Repository

Grant Thornton's approach is designed to be flexible around information gathering and analysis, leveraging current / available workstreams, content, knowledge and including our own experiences with automation.

• Data Sourcing:
  • Identify if there's a strategic data repository in place to centralize all granular financial information required for Regulatory Reporting
  • Require granular data attributes from the business lines which may not exist within said data repository
  • The next step would require sourcing of information from upstream systems through both existing pipes and new pipes and identify the full suite of products and data to be sourced and reported

• Process and Controls:
  • Financial reporting process (e.g., for top-side adjustments) needs to be analyzed to determine if it is performed at a detailed transaction level or an aggregate level. Typically, it is done at an aggregate level which can cause some regulatory reporting challenges

• Workflow:
  • Determine if there is a Regulatory Risks/Controls system that maintains a comprehensive listing of the regulatory reports and provides a vehicle for assigning ownership, identification and sign-off
  • This system should also serve as a means of entering and tracking issues and control risks related to the reports. All reports should be tracked with respect to filing deadlines/timeliness

• Governance:
  • Program governance, including organizational structure, roles and responsibilities, issue management process, and data standards setting process, would be reviewed to ensure proper documentation. Determine if a centralized issue management process is established
Grant Thornton’s approach to Process and Report Enhancement

**Process Enhancement**

- Enhance in operations by streamlining data flow and data quality within existing reporting architecture to automated regulatory reporting platform
- Gap remediation programs by business owners ensures appropriate coverage and efficient resource allocation and execution aligned with business initiatives
- Business process analysis and requirements definition efforts for remediating gaps in operational performance against regulatory requirements
- Establish ownership of data elements required for regulatory reporting
- Ensure all process enhancements adhere to internal control frameworks
- Ongoing monitoring program consists of planning, inventory and risk identification, risk rating, analysis and action plans, and reporting

**Report Enhancement**

To ensure that the enterprise-wide and business-line compliance programs are efficient, GT focuses its efforts around:

- Providing regulatory reporting guidance surrounding data governance and controls
- Developing a framework to enhance the accuracy of regulatory reporting
- Enhancing operations by streamlining data flow and data quality within existing reporting architecture
- Validation and traceability - Define data flows and architectures which allow for data traceability from reports back to source
- Providing significant review and analysis by fully vetting system analysis that pertains to specific products, activities, and systems relevant to Regulatory requirements
- Providing solutions on how to quantify the accuracy and effectiveness of the underlying data
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