

Risk Based Compliance Monitoring & Compliance Function Effectiveness - A new approach to managing compliance in the financial services industry



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How effective is your compliance department?

The Compliance Function is coming under ever increasing pressure - recent regulatory developments such as the Consumer Protection Code, Minimum Competency Requirements and the Markets in Financial Instruments Directive have only resulted in imposing additional requirements to the already heavily burdened compliance professional. Compliance Departments are adding more and more resources and taking on further responsibilities in an attempt to stay on top of the ever changing regulatory landscape.

The Financial Regulator has repeatedly stated its position in terms of being a 'principles led' regulator thus placing the onus on the regulated entity to demonstrate compliance with the vast array of rules, codes & laws. Moreover, the Financial Regulator's Strategic Plan 2008 - 2010 outlines the key elements of its 'Risk-Based Supervision' approach confirming that it evaluates financial service providers under a number of general and specific risk headings which include, but are not limited to:

- supervisory complexity;
- structure;
- corporate governance;
- capital;
- contagion;
- specific risk categories including regulatory, reputational, credit, funding, liquidity, operational and market risk

Furthermore, the Financial Regulator has continued to increase its supervisory and enforcement powers (e.g. on-site inspections, and the Administrative Sanctions regime) and we are beginning to see an increase in the use of its powers of sanction albeit at a measured level.

In short, the regulatory burden on financial services firms is increasing and at the same time, the level of supervisory scrutiny accompanying the regulatory framework is also increasing, thereby intensifying the compliance effort that must be made by firms. Meanwhile, shareholders and customers expect nothing less than exemplary compliance with all regulation.

How can PricewaterhouseCoopers help?

In this environment of increased stakeholder examination and expectations it is vital that the Compliance Department operates in the most efficient and effective manner possible. PricewaterhouseCoopers believes that a risk based

approach to compliance is the best response to risk based supervision.

PricewaterhouseCoopers has a team of risk-based compliance specialists within our Regulatory and Compliance Services Team providing a range of services to banking, investment management and insurance clients.

Our Services:

The range and type of services we provide are varied and include:

- **Development of a Risk-Based Compliance Monitoring Programme**

A risk-based compliance monitoring programme involves identifying the areas of high risk within your organisation's compliance universe and building and prioritising your compliance monitoring programme around these risks. This type of approach will focus your organisation, and your compliance resources, on the areas which are most likely to cause concern. In turn, this approach highlights the importance of compliance not as a function executed in a vacuum, but as one that provides real value, reaches into each part of the business and requires analysis, understanding and documentation.

A risk-based compliance monitoring programme will assist you in identifying, managing, monitoring and reducing the compliance risks key to your business, while being cognisant of the risk-based supervisory approach undertaken by the Financial Regulator.

We can assist you in designing an appropriate and proportionate risk-based compliance monitoring programme including the development of a process to define your risk appetite leading to the identification of key risks from a compliance perspective, the development of a compliance universe and a process to rate your risk, the development of key performance indicators (KPI's), and the design of monitoring and reporting documentation.

- **Compliance Framework & Compliance Health Check**

We can assist you in reviewing the current framework of compliance within your organisation and in identifying areas of weakness and control deficiency. This type of project would typically involve a review of the overall governance structure within your organisation, an assessment of the role of the compliance function within this structure, and recommendations on how this framework can be revised to enhance the performance and effectiveness of compliance within the organisation.

The review can be adapted to include an independent assessment or 'health check' on the level of compliance within your organisation with its regulatory obligations.

- **Compliance Function Effectiveness review**

In conjunction with the widespread recognition of risk based compliance monitoring as being at the forefront of best practice in compliance management, is a move to develop methodologies and processes for actually assessing the effectiveness of the compliance function i.e. the extent to which the compliance function is performing against its objectives and discharging its duties. In general, this consists of performing a review of the Compliance Function under some or all of the following headings:

- Strategy & policy
- Structure, roles & responsibilities
- Understanding of obligations
- Measurement (KPI's) & improvement
- Documentation
- Communication & interaction
- Monitoring & response
- Reporting

This type of review can be completely tailored to your requirements, incorporating 'deep dive' reviews of areas of particular concern or providing a high level analysis of the overall effectiveness of your compliance function.

For further information on these services or to learn about other services PwC's dedicated Financial Services Regulatory and Compliance Services Team provides, please contact:

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