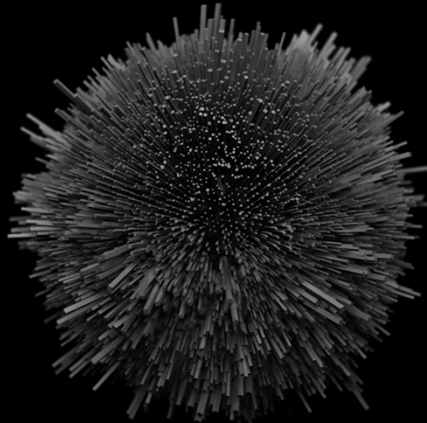


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Data & Analytics: The Future of Compliance

Jay Cohen – Managing Director
Insurance Risk and Financial Advisory

Introduction

Two journeys:

- The evolution of the compliance function in general.
- The evolution of the compliance program at one company.

The confluence: Compliance Office of the Future.

The first journey – the evolution of the compliance function

How are the expectations of the CCO changing?

- By the Board and senior management
- By business leaders & partners
- By other risk and control organizations
- By regulators

How are the responsibilities of the CCO changing?

(i.e., Ethics, Operations, Technology, Third Parties, Risk Management)

Do the authority, resources and insights of the CCO enable success?

- Corporate position and "seat at the table"
- Direct authority vs influence authority
- Advisor role vs other traditional roles
- Information and understanding

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External expectations for the CCO and the compliance program

Regulators are increasingly looking at CCOs as more than functionaries. These questions now are asked when the U.S. Department of Justice assesses compliance programs. Can you meet these expectations without data – **not about what you do but what is happening in the business?**

"Have the compliance and relevant control functions had direct reporting lines to anyone on the board of directors? How often do they meet with the board of directors?"

"How has the compliance function compared with other strategic functions in terms of stature, compensation levels, rank/title, access to key decision-makers"

Regulators today expect the Chief Compliance Officer to have stature, access, influence and impact

"Have there been specific instances where compliance raised concerns or objections? How has the company responded to such concerns? Have there been specific transactions or deals that were stopped, modified, or more closely examined as a result of compliance concerns?"

"What role has compliance played in the company's strategic operating decisions"

"Have the compliance and relevant control functions had direct reporting lines to anyone on the board of directors? How often do they meet with the board of directors?"

Now, with each regulatory problem, organizations will be asked, "Where was the CCO?"

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Source: U.S Department of Justice Evaluation of Compliance Programs

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Changing skills of the compliance team – external perspective

Hui Chen, former Compliance Counsel for the U.S. Department of Justice:



"People often ask me, 'What would be the right disciplines to bring into the compliance department. My response, with the exception of investigations, is, 'I would not hire a single lawyer. I would hire data scientists, auditors, social scientists, journalists, marketers, engineers.'"

"Strong compliance programs must be data driven. When I look at compliance programs, the kind of data that they do and do not monitor tells me a lot about how sophisticated their program is."

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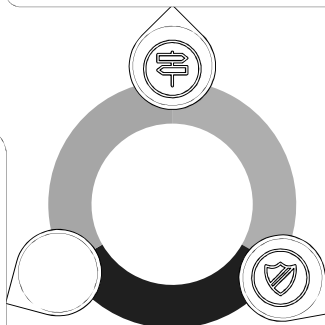
Changing skills of the compliance team – insider's view

Cindy Moehring, Chief U.S. Ethics and Compliance Officer at Walmart:

"You have to be adaptable and flexible. You've got to be able to listen, as well as be able to speak well."



"You need attorneys, auditors, data scientists, folks that understand both HR and the business. It takes a special blend and mix of skills of individuals to all get together and help figure that out."



"At the end of the day, after all that, you've got to have the courage to raise the issues that need to be raised and say what need to be said."

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Are we looking back or looking ahead?

Leslie Caldwell, former U.S. Assistant Attorney General:

"Compliance programs are too often behind the curve, guarding against yesterday's corporate problem but failing to identify and prevent tomorrow's scandals."

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Example: Sales practices analytics - proactive and predictive

The behavior and conduct of employees have shown to be a direct enabler of an organization's strategy. The impact of poor conduct can include reputational damage, loss of customer trust and significant regulatory penalties. **Is there a gap between what leadership says and what employees do?**

Increasing need for analytics

- Challenges in identifying early warning signals
- Challenges in finding risky behaviors
- Increased regulatory need to demonstrate proactive management
- Vast amounts of data
- Difficulties in integrating data from multiple sources – internally and externally

Benefits of proactive & predictive analytics

- Enable the connection of multiple data points to predict risky behaviors
- Identify early warnings to analyze the impact of risky behaviors
- Identify characteristics of high-performing vs toxic individuals
- Discern the key behaviors to measure, and make early predictions/remediation
- Align employee behaviors with business strategic goals
- Shift from focus on bad behavior towards a culture of self-correction/accountability
- Consolidates information

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If you are not using data analytics, your regulators will be

- The U.S. Securities and Exchange Commission (SEC) has touted its “vastly increased use of data and data analytics to detect and investigate misconduct.”
- The National Association of Insurance Commissioners (NAIC):
“Regulators could look at the entire market activity for a particular product type. Real-time monitoring would replace the retroactive nature of current regulation. Sensing technologies, predictive analytics, and other tools could enable rapid regulatory action.”

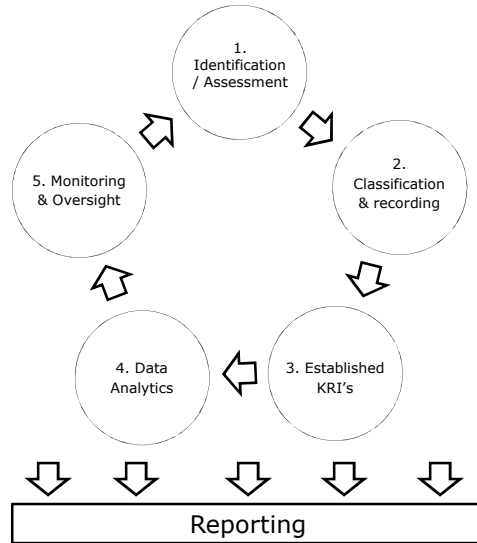
The second journey – one organization’s transformation

This organization viewed Compliance’s job to do the Pre and the Post:

- Pre- What are the laws and regulations that apply to our business: whatever it is, wherever it gets done, and whoever does it?
- Post – Are we complying with those rules?

The business does the work of compliance in-between

Post – provide comfort that we are complying



1. Identification / Assessment of key risks and their mitigating controls
2. Classification and recording of risks and controls in a consistent format
3. Establishment of key risk indicators (KRI's)
4. Use of data analytics to track performance against the KRI's
5. Development of risk based monitoring and oversight

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Compliance risk categories:

Category	Definition
Consumer Conduct	The risk that consumers have not voluntarily elected to purchase the product after full and fair disclosure, and that we have not met their reasonable expectations in product benefits and administration.
Privacy	The risk of consumer or company information failing to be controlled, processed and secured in accordance with rights, legislation or policies.
Corruption	The risk of unethical behaviors and infractions of the FCPA, UK Bribery Act and other applicable bribery and corruption law.
Supply Chain	Failure to meet required Health & Safety, Environmental and Labor standards and applicable Licensing requirements.

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Compliance risk categories (cont.):

Category	Definition
Culture and Ethics	Failure to have an effective compliance program in accordance with the U.S. Federal Sentencing Guidelines and regulator expectations.
Regulatory	Failure to identify and implement laws and regulations. Vulnerability to regulator scrutiny, fines, consent orders or other regulatory actions.
Expansion & Investments	Failure to establish new businesses and new markets within required compliance frameworks, and inadequate due diligence and integration for new acquisitions / investments.
Financial Crime	The risk of being directly or indirectly involved in activities relating to fraud, money laundering or terrorist funding.

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For each risk category:

Consideration 1

How serious is the risk?

Consideration 2

What are the key drivers of the risk – business model, markets, new initiatives, regulations?

Consideration 3

What are “we” doing to address the risks and its drivers – mitigation by us **and** the business?

Consideration 4

What are the key risk indicators – metrics that tell us how we are doing?

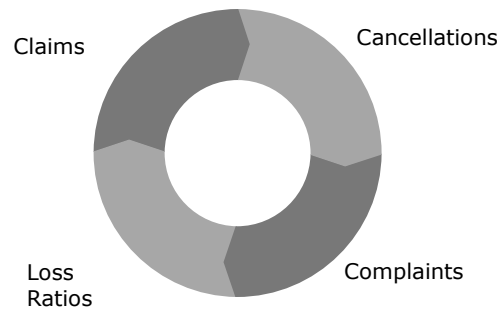
Consideration 5

Is the risk getting bigger or smaller – trend?

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Business data was an overlooked but invaluable resource



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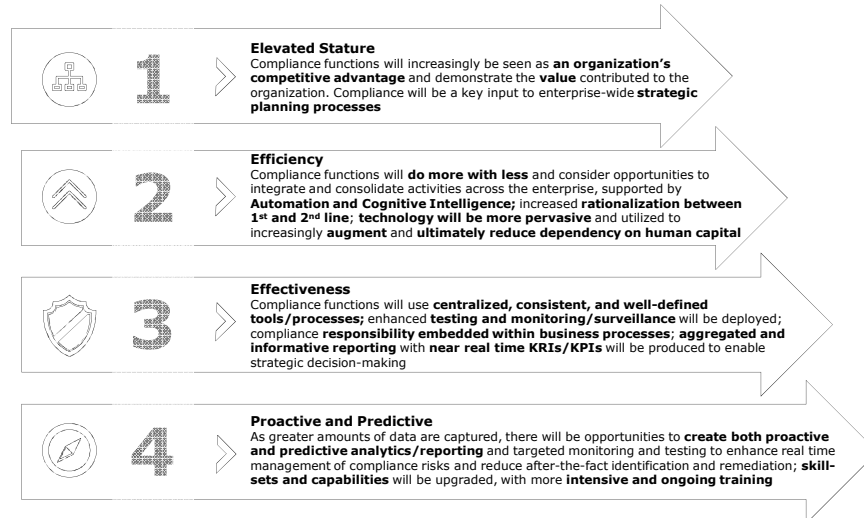
Lessons learned

- Business data is there, waiting to be analyzed.
- Business information is often more telling than compliance metrics.
- We should manage to – and report about – business risks and our impact on them, not just about compliance activities.
- The best measure of the effectiveness of our compliance program is whether it made a difference in how business was conducted every day.
- The best measure of our culture – are we Treating Customers Fairly?

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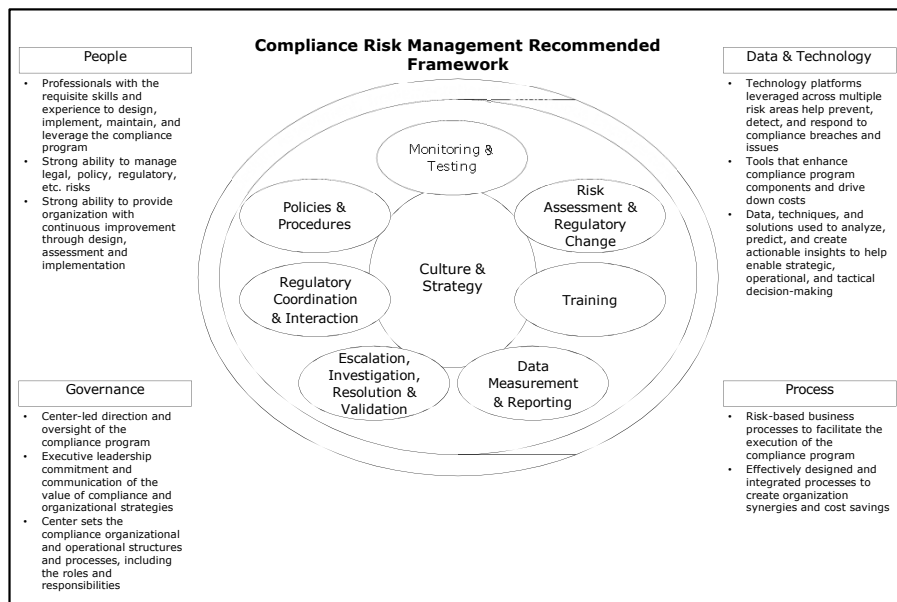
The Confluence – Where Compliance is Heading



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The Compliance Office of the Future



Transform what you do, how you do it and what you know

"RegTech will help firms to automate the more mundane compliance tasks and reduce operational risks associated with meeting compliance and reporting obligations. In the longer term, it will empower compliance functions to make informed risk choices based on data, and provide insight about the compliance risks it faces and how it mitigates and manages those risks."

This transformation cannot wait
What do audit and compliance risk?

Deloitte POV, Digital transformation for the audit and compliance functions

"The short answer is obsolescence...Compliance and internal audit may have a closing window to move from traditional to digital models themselves. In the interim, inadequate digital capabilities could further weaken relationships between compliance, internal audit and the rest of the business."

Conclusion

- Compliance programs in every industry must focus on their impact not just their activities.
- Impact - how well are your biggest compliance risks identified, evaluated and managed, and how do you know?
- The proactive, expert use of data and analytics is an essential component of an “effective” compliance program.

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