

Deloitte.

The State of Compliance Survey

2022 Edition



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About the Survey

In October 2022, Deloitte issued its annual State of Compliance Survey to a range of organisations in different sectors including:



Banking and Payments



Insurance



Superannuation/
Wealth Management/
Diversified Financial



Education



Energy/Utility



Public Sector

The purpose of the survey was to gather contemporary insights on how organisations manage compliance risk within five themes:



The Role of Compliance



Compliance Capacity & Skills



Compliance Culture



Emerging Themes



Technology & Analytics

The online questionnaire was supplemented by qualitative interviews with a number of respondents. Results are therefore presented using both qualitative interview responses and survey data.

This report presents the findings of each of the themes including how survey respondents are looking to address some of the most common challenges that their Compliance teams are grappling with.

Executive Summary

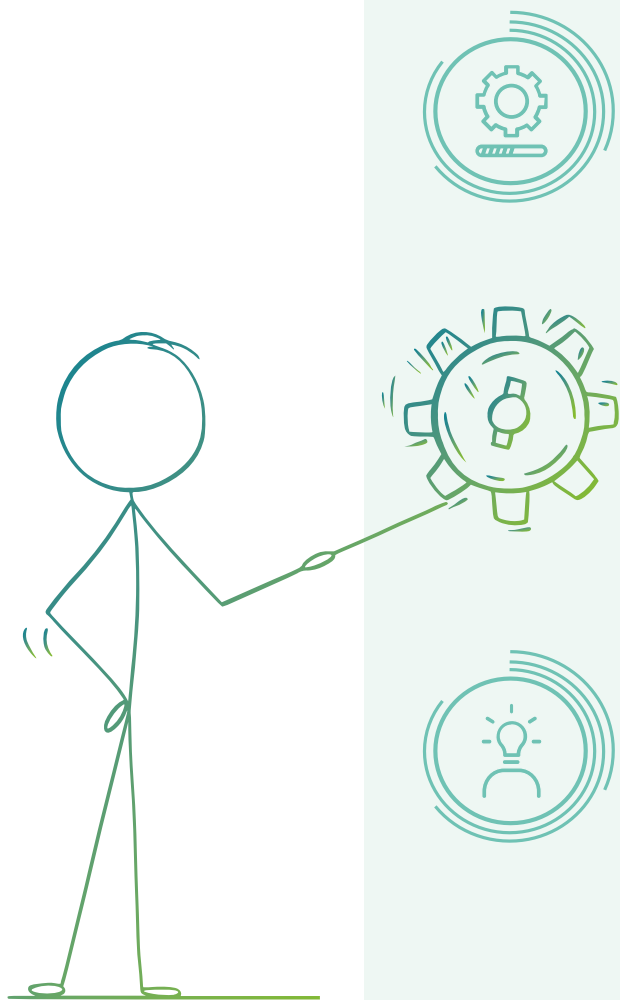


In a fast, complex and uncertain world organisations face a number of challenges in managing compliance risks. The increase in financial cost and reputational risk resulting from compliance breaches and heightened stakeholder expectations has placed a significant burden on organisations.

Changes in regulation have also been observed to impact organisations in various ways, including operationally through to customer engagement. In the last two years alone, organisations have gone through a significant change to business practices due to the large number of regulatory changes, leading to further integration of compliance into strategy.

Additionally, many organisations have continued to expand their geographical reach and product and service offerings, and accordingly, their exposure to multiple, and in some cases, conflicting, regulations has increased. This report seeks to explain the current role of Compliance teams and their ability to respond to ongoing regulatory developments and emerging compliance themes including managing day-to-day compliance with the use of technology and data insights.

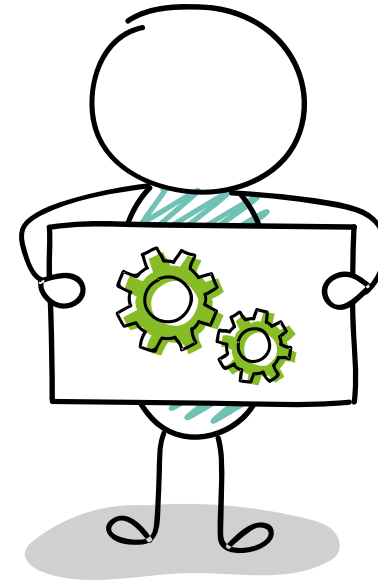
This is the third time that we have run this survey and with the strong cohort of responses received, we are able to draw several interesting conclusions on emerging themes from this year's survey when compared to previous years.



What we've heard since our last survey

- The majority of organisations indicated that their Compliance teams focus is predominately on advising and partnering with the business and managing obligations.
- The integration of a Compliance Risk Management framework within the business (1st line) is ongoing, but there remains more to do.
- The respondents called out that the volume of regulatory change and the subsequent change management continues to be challenging.
- The top three drivers to influence a positive compliance culture were identified as organisational values, leadership role modelling and addressing acts of non-compliance.
- For a majority of organisations compliance staffing levels are adequate, but there are entities that have no spare capacity or are currently inadequately staffed. This requires Compliance leaders to priorities how to efficiently meet competing compliance demands.
- Industry knowledge has emerged as a new core competency skill for Compliance professionals who aspire to be effective business partners. In a tight recruitment market, the ability to develop those skills in-house is increasingly important.
- The rise in technology related transformation programs, evolving regulatory changes and cyber resilience are the current priority compliance challenges that respondents need to face.
- Inconsistent use across the sector, data quality issues associated with AI and voice analytics, and unclear benefits are preventing Compliance leaders from further implementing and investing in Reg-Tech.

The Role Of Compliance



The Role of Compliance

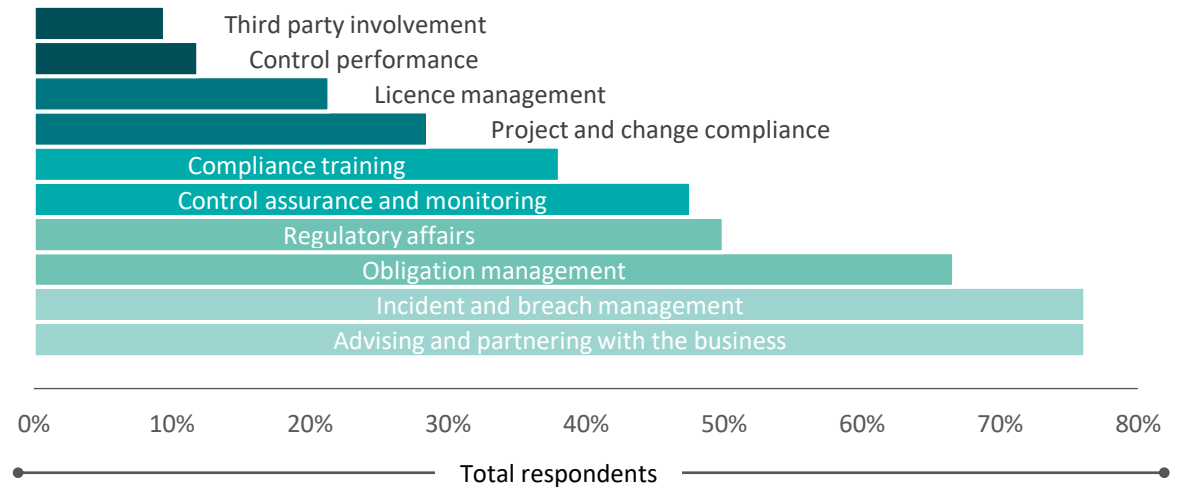


Respondents identified three key drivers to streamlining and enhancing the Compliance function: putting compliance into practice, clarity of compliance management responsibilities between the first line & the second line and the use of technology in regulatory change management.

Successful compliance management requires a highly collaborative and integrated approach with clearly defined roles and responsibilities across the organisation. However, in practice, many resort to tactical fixes to implement regulatory changes as opposed to taking a strategic approach. There are several critical questions organisations should consider to effectively establish strong compliance management:

- Are there compliance failures which could cause the organisation to lose its ability to sell or deliver products/services for a period (e.g., considering whether Design & Distribution Obligations have been implemented successfully)?
- What kind of compliance failures (breaches) would create significant brand risk or reputational damage?
- What makes up compliance costs and how are costs aligned with the most significant compliance risks that could impact the brand or result in significant fines, penalties, and/or litigation?
- What are the personal and professional exposures of executive management and the board of directors with respect to compliance (e.g., is there a regular review of BEAR (Banking Executive Accountability Regime) and future FAR (Financial Accountability Regime) obligations)?

Where does your Compliance function focus most of its time and attention?



Compliance Survey 2022 indicated the following as the key focus areas for the Compliance function:



Advising and partnering with the businesses



Incident and Breach Management



Obligations Management

As indicated in previous years, the role of compliance is becoming increasingly valuable in supporting the overall strategy of the organisation. Progressively, the Compliance function is becoming a partner, an adviser and an enabler of the business

The Role of Compliance (cont.)

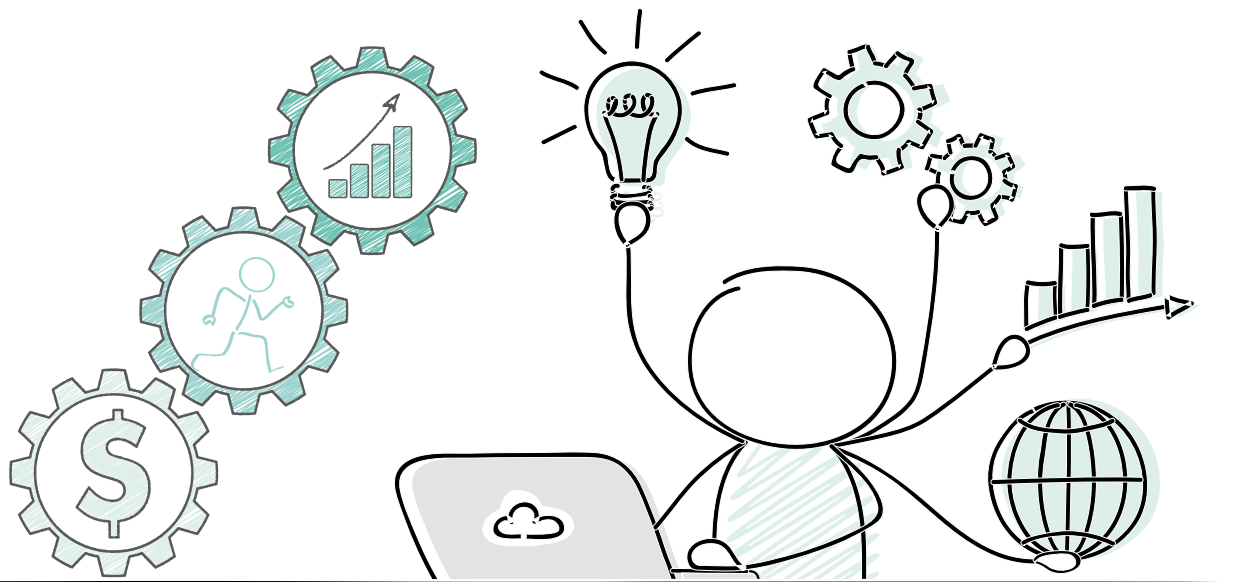


For increased efficiency, the responsibilities of 1st line should be reimagined especially when it comes to managing regulatory compliance. Industries across the board are moving towards automation and digitisation of processes and controls, along with investments in cognitive technologies and analytics to enhance data analytics capabilities and reporting. However, a successful move to automation requires strong foundations to be laid, which include a clear outline of roles and responsibilities, the right understanding of obligations and the linkage of risks (obligations) to controls. Therefore, efficiency can be achieved by designing a new and integrated operating model that uses digital solutions to create a holistic approach to obligation management rather than tactical fixes.

The respondents called out that the volume of regulatory change and the subsequent work that follows can be challenging. An appropriate strategy that sets an integrated, collaborative, and sustainable approach to managing regulatory change may mitigate risks and enhance an organisation's ability to adapt to change optimally. Four key steps that any organisation should take to manage regulatory changes are:

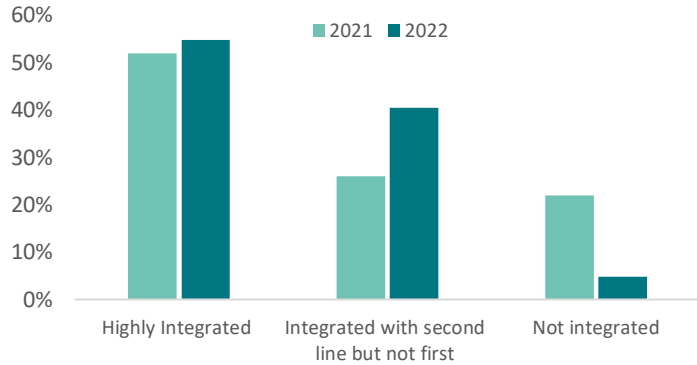
- Continuously scanning for emerging changes in regulation and trends in compliance management
- Assessing the impact of regulatory changes against strategy, operating model, business product and service offerings
- Respond to regulatory changes through structured and disciplined programs of work that meet regulatory expectations on a systemic basis
- Ongoing governance and monitoring of regulatory change programs to ensure alignment with regulatory intent and organisation strategy

If utilised correctly, technology adoption can place a Compliance function in an efficient future state. Real-time regulatory horizon scanning can build a culture that embraces regulatory change, allowing the organisation to adapt and integrate the change into the overall business strategy.



The Role of Compliance (cont.)

To what extent is the compliance risk management framework aligned to and integrated with the business/first line risk frameworks?

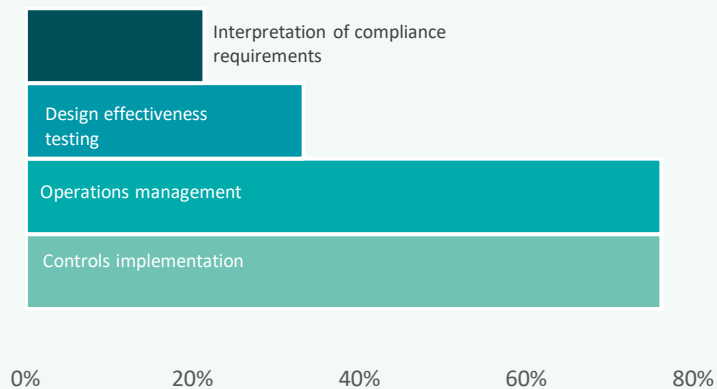


Comparing the 2022 results to 2021 results shows that there has been a slight improvement in the integration of the compliance risk management framework with the business and 1st line. The ongoing investment in clear responsibilities across the 3 lines of accountability provides value and support in achieving improved compliance outcomes, and reinforces the advisory and partnering role compliance is now playing within the businesses in addition to its traditional oversight role.

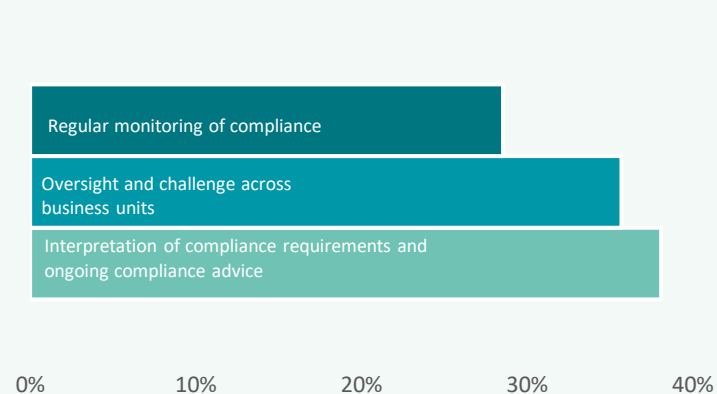
On the same positive trend, there has been a decline in the number of organisations whose compliance risk management frameworks are **not** integrated with the business/1st line risk frameworks. In the **2021 Compliance Survey**, 22% of responders were yet to integrate their framework, whilst in 2022 only 5% remain in this camp. Whilst this is an improvement, there is still a long way to go as over 50% are yet to integrate with 2nd line.

64% of respondents state that they systematically identify compliance obligations and their impact. In our interviews with Compliance leader's, one stated: 'our 1st line identify obligations in line with business activities and manage non-compliance through end-to-end breach reporting, releasing 2nd line to play the role of monitoring and oversight instead of trying to do both thereby expanding the coverage within the Compliance function'.

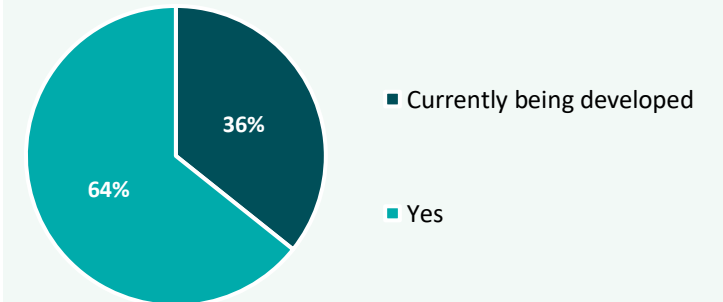
What compliance activities are performed by the 1st line functions?



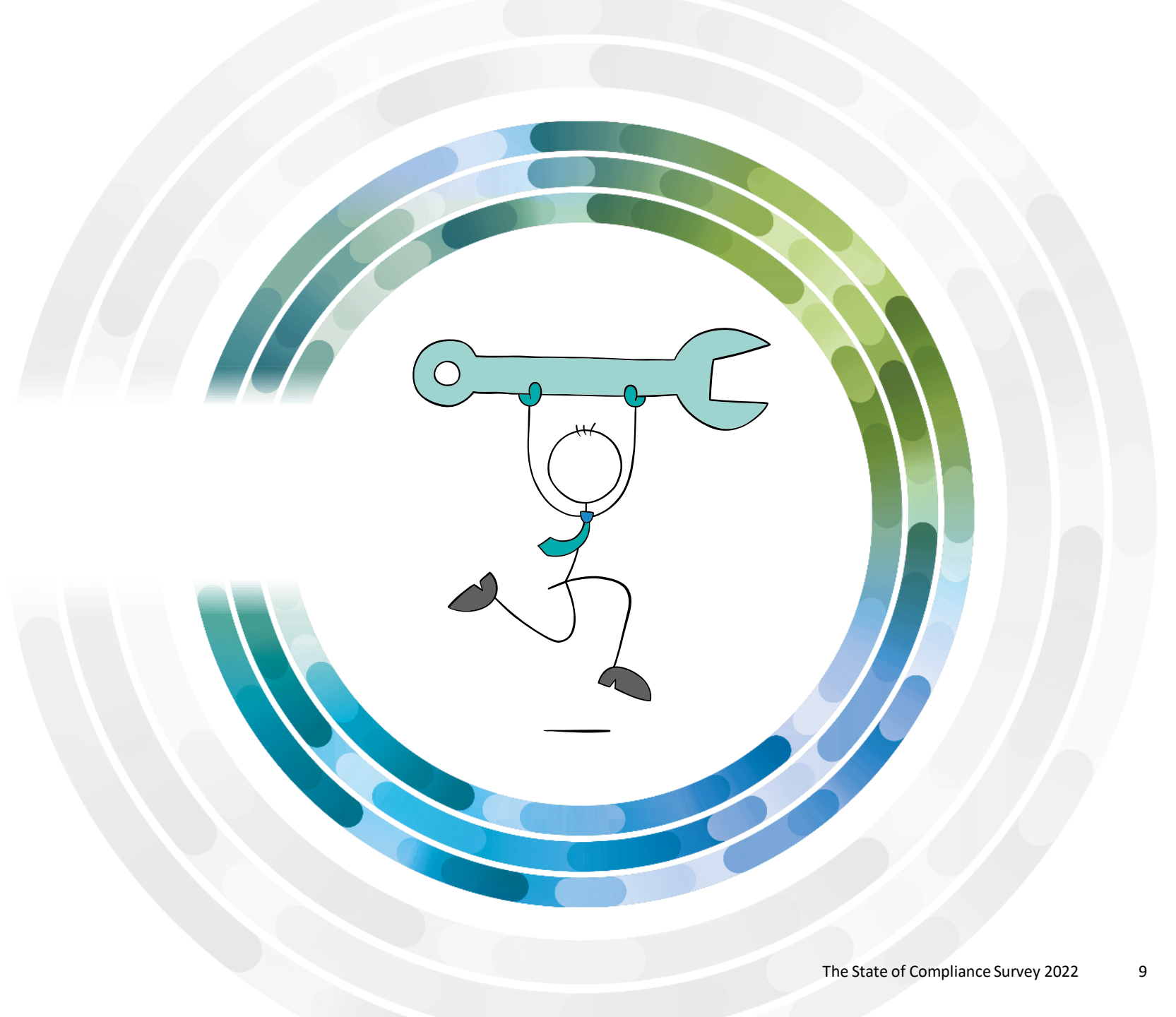
What compliance activities are performed by the 2nd line functions?



Does the organisation systematically identify its compliance obligations, and their impact, resulting from organisational activities, products and services?



Capacity and Skills



Capacity and Skills

Whilst the majority of respondents of the 2022 compliance survey indicated that their staffing levels were adequate to meet the compliance demands of their organisations, 57% of respondents indicated that their Compliance function has no spare resource capacity and therefore could be challenged to deliver unforeseen work and additional expectations. Alarming a further 36% of respondents stated that their Compliance function is currently inadequately staffed to meet its responsibilities.

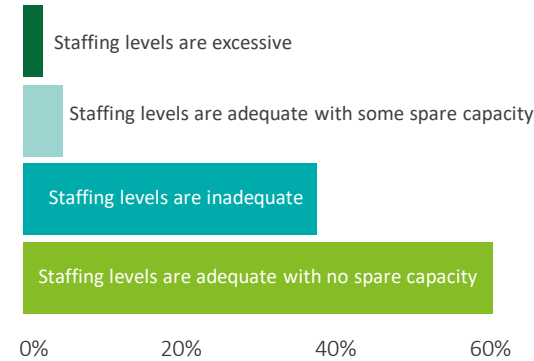
48% of respondents indicated they will not be increasing their overall compliance headcount within the next 12 months. This stance has been maintained over the last few years by the majority of organisations across all sectors.

Conversely, where headcount is expected to increase within the next 12 months as indicated by 38% of respondents, it was observed that this was largely driven by the need for additional resources required: to advise and partner with the business, provide control assurance and monitoring and compliance training.

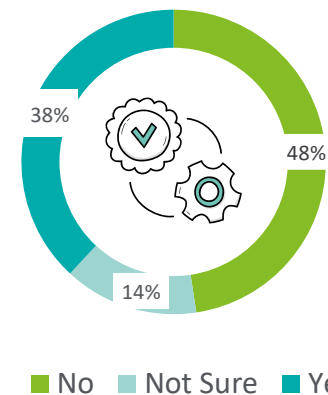
For organisations that are at risk of not being adequately staffed, consideration should be given as to how to optimise the available resources to effectively meet their responsibilities. For instance, those who took onboard the proposed solutions from Deloitte's 2021 survey could evaluate:

1. What benefits have been realised from splitting the responsibilities between the 1st line and the 2nd line? Is there clarity between roles and responsibilities between the 3 lines of accountability and are there further opportunities to remove duplicate tasks?
2. The efficiency of execution of compliance activities over the last 12 months after the implementation of technological solutions and what value has been realised from developing specific skills (such as business or product knowledge or technical skills) within the Compliance function?

Is your Compliance function currently adequately staffed to meet its responsibilities?



Do you expect an increase in the overall Compliance function within the next 12 months?



As Compliance teams continue to be stretched or are currently understaffed, prioritisation has become critical. When asked about the prospect of increasing their Compliance headcount, one Compliance leader stated:



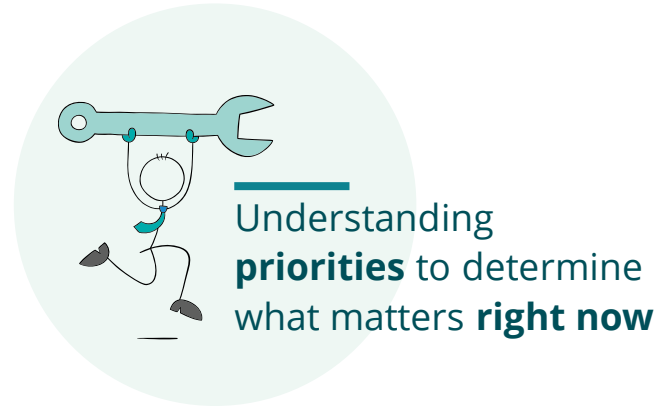
We work with what we have by balancing between working on things that matter and working on things that are perceived to matter. Understanding the priorities to determine what matters right now is the key and that all comes with understanding what we do and doing the things we have to do presently [as a priority].

Enterprise Compliance, Financial Services

Capacity and Skills (cont.)

The majority of Compliance functions feel that they are adequately staffed to meet their compliance responsibilities, however for those that are inadequately staffed or have limited capacity, having strong capability will be a priority.

According to this year’s survey, the **top three skills currently in high demand** to support compliance activities include critical thinking; the ability to interpret regulations; and industry knowledge. Industry knowledge has emerged as a new core competency skill for Compliance professionals. This coincides with the evolution of the Compliance function into an effective business partner and therefore organisations should begin to weigh up their options on how to develop this. As a starting point, Compliance leaders can assess whether internal resources alone are sufficient to develop these skills or whether third-party engagement is required to support its development.



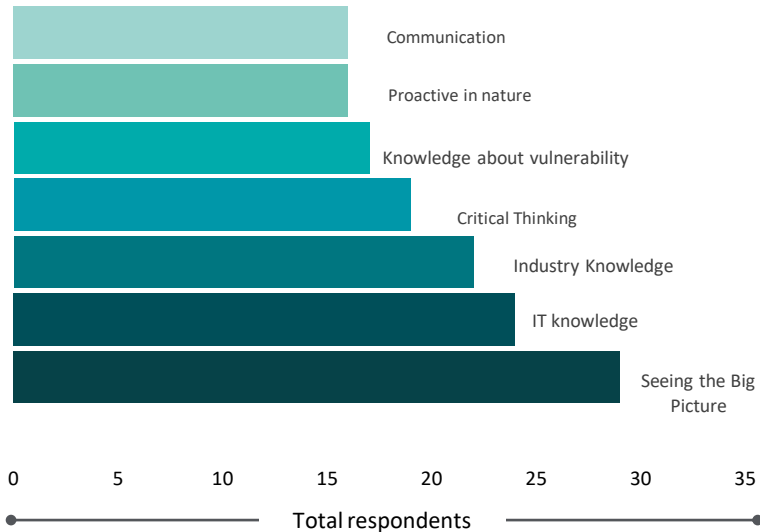
One Compliance leader explained it this way:



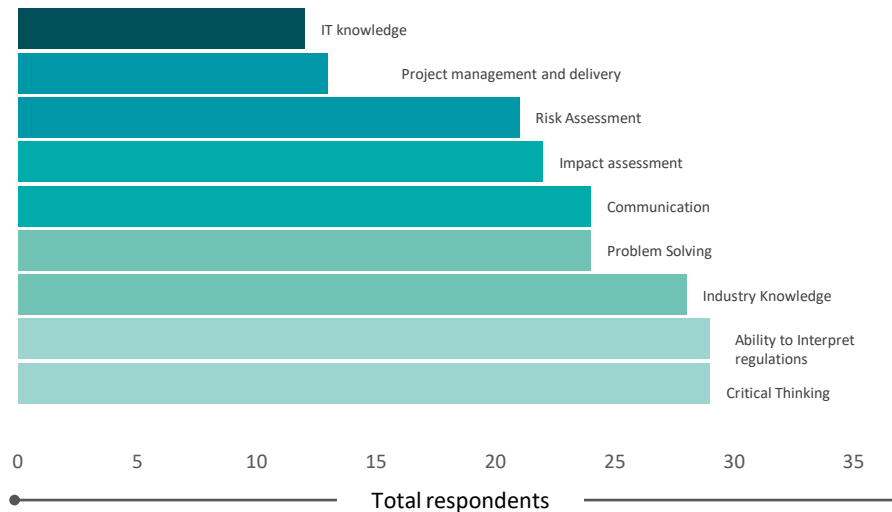
What is required in compliance and risk are people who can connect the dots, those who can think differently, those who are able to anticipate the change to come before the regulators, those with adequate knowledge and experience to be able to provide the information for business rules for the automation of processes.

Head of Group Risk and Compliance, Financial Services

What are the top skills currently in short supply?



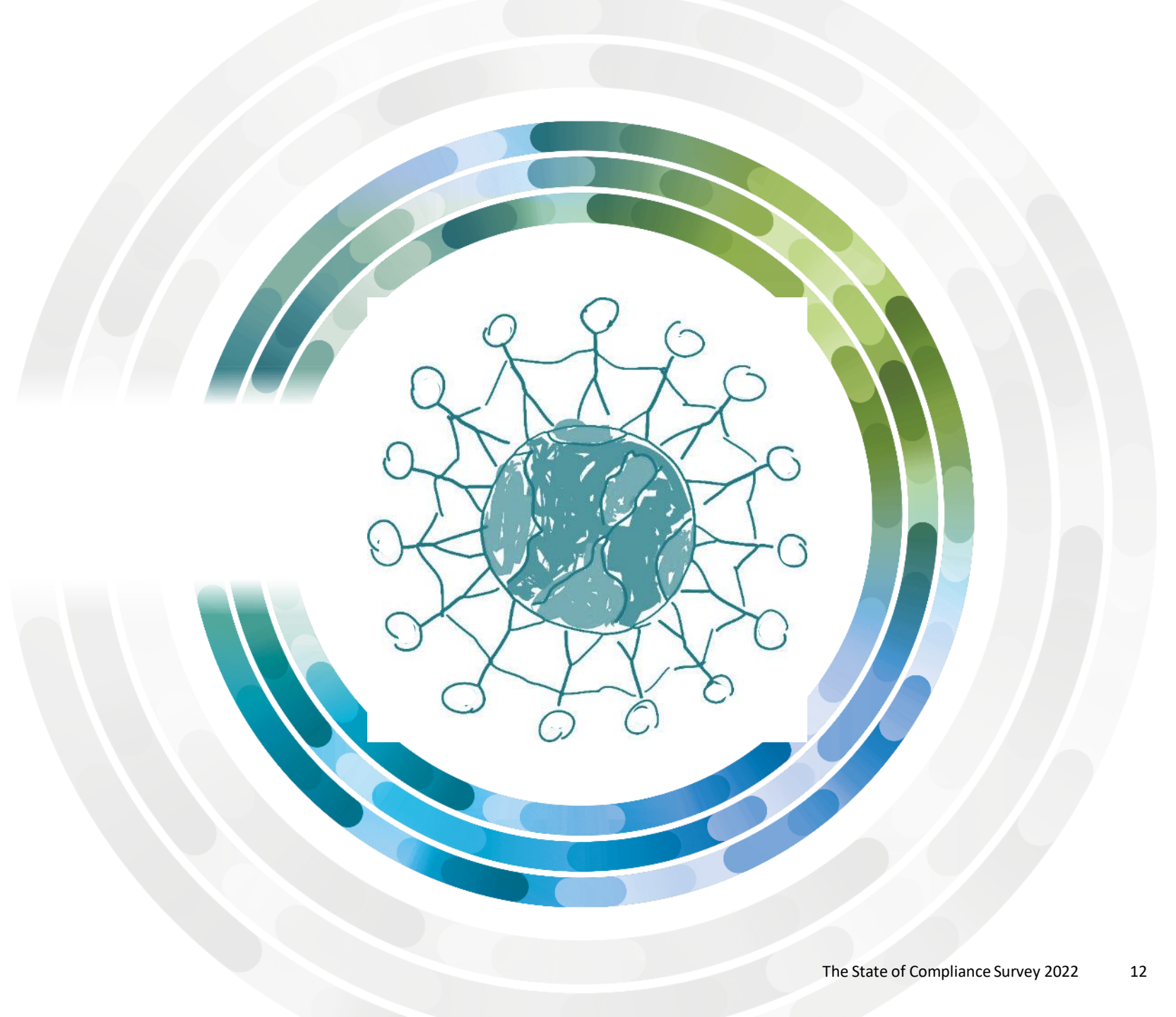
What are the top skills currently in high demand to support compliance activities?



As stated earlier, the Compliance function is expected to do more with less and therefore the ‘less’ must be sufficient to meet the responsibilities of the function. One way that efficiency can be achieved is by organisations leveraging data and technology to enhance and equip Compliance professionals with the right resources and insights to anticipate and challenge issues.

Additionally, technology can assist with the dissemination of information, the improvement of risk assessments, the digitisation of administrative tasks and with the automation of data distribution and reporting to regulators.

Compliance Culture



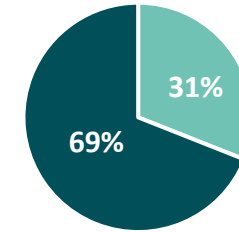
Compliance Culture

Regulators and society expect that organisations have a positive compliance culture. However, to achieve a strong culture, organisations must take proactive steps to drive it. In the 2022 survey, the majority of respondents rated their compliance culture as either adequate (40%) or good (50%) which is reassuring given the focus on improving culture in recent years. The top three drivers influencing this positive shift in culture were organisational values, leadership role modelling and addressing acts of non-compliance.

The positive change seen among organisations is further emphasised by many Compliance leaders describing their compliance culture as “should we” rather than “can we”. As per the **2021 Survey**, 70% of respondents indicated that their organisation make decisions based on doing the right thing rather than questioning what they can do. This manner of decision-making further indicates the changing tide in compliance culture across the sector, not a quick-fix or overnight solution, but rather a strategic approach by organisations to focus on what the right thing is to do, particularly for customers.

Moreover, a healthy compliance culture can have an impact beyond the organisation. While it can protect businesses, it also contributes to better customer outcomes. An organisation that is identified as a trustworthy brand can leverage this to attract and retain customers. A strong compliance culture can also create greater transparency, allowing a safe space for people to voice any issues, leading to improved processes and operations.

Would you describe the compliance culture in your organisation as “should we” or “can we”?



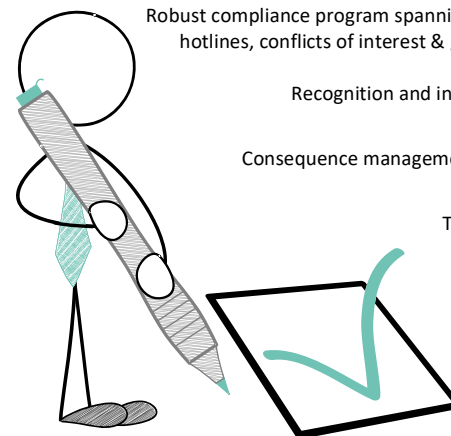
- Can we (31%)** – referring to the organisation’s ability to focus its decision-making and culture on what it can do (or capable of doing)
- Should we (69%)** – referring to the organisation’s ability to focus its decision-making and culture on doing the right thing



The royal commission highlighted a lot of behaviour that the society has no appetite for, and organisations have adhered to the demand placed on them by changing their culture and most of that shift has been modelled from the top

– Head of Group Risk and Compliance, Financial Services

What are the attributes that influence your organisation’s compliance culture? (1 being low and 5 being high)



Emerging Themes



Emerging Themes

From our interviews with Compliance industry leaders and the analysis of survey results, the key emerging themes identified were:



Regulatory change

A majority of our survey respondents indicated that regulatory change is still one of the key compliance challenges facing organisations. Only 7% of respondents who indicated that regulatory change is their key challenge, are prepared to meet this challenge. For many organisations, the rate at which regulatory change is taking place is currently too fast and frequent for traditional Compliance departments to keep up with. The challenge is in having adequate capacity and capability within the Compliance function to meet ongoing regulatory requirements. As a result, the need for digital solutions such as regulatory technology (RegTech) has increased coupled with the need for highly skilled and experienced Compliance professionals.



Technology impact

The challenges arising from an increased number of technology-related transformation programs. Organisations are to consider how to integrate Compliance with the overall strategy and assess its impact in minimizing regulatory risk.



Cost cutting

A tight budget that does not allow for an increase in resources to meet the sheer volume of new controls that are associated with a change in regulation. Whilst organisations are mostly aware of the consequences of non-compliance, external pressures can make this challenging due to a downturn in the market, rising inflation rates and a growing demand for an increase in remuneration. All organisations are aiming to do more with less. The biggest challenge facing organisations is how to do Compliance efficiently whilst cost cutting.



Cyber resilience

Following recent issues faced by major organisations like Optus and Medibank, a fundamental shift is occurring in the management of cyber risk. There is now an acceptance among executives and boards that cyberattacks are increasingly more likely to occur and somewhat inevitable. Compliance functions must work with Cyber Security professionals to ensure regulatory requirements are understood and can be prevented or at least minimised in the future.



Security isn't something you buy, it's something you do, and it takes talented people to do it right

– Deloitte Cyber Security Solutions Blog

The top Compliance challenges organisations face are:



Regulatory Change
57%



Cyber Resilience
50%



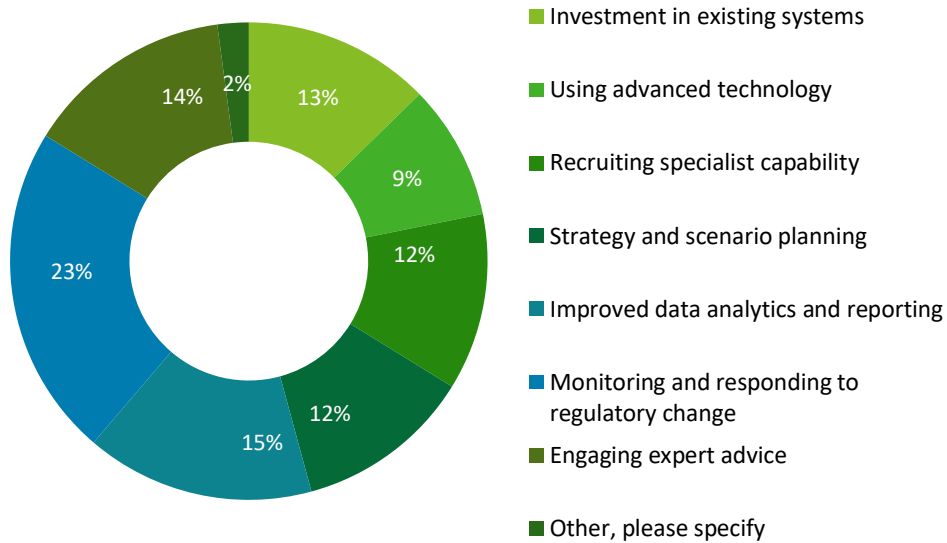
Skilled Resources
48%



Budget & Resources
38%

Emerging Themes (cont.)

How is the compliance function planning to meet these emerging challenges?



Approaches utilised by respondents to meet emerging challenges are varied, with the most common being:

- Monitoring and responding to regulatory change
- Improved data analytics and reporting
- Engaging expert advice

To tackle the fast-paced and complex regulatory environment, more consideration should be given to the use of advanced technology to manage compliance risks effectively. However, only 9% of survey respondents indicate that they are planning to invest in advanced technology.

As the graph to the left indicates, 13% of respondents expect to meet emerging challenges with further investment in existing systems while 14% expect to address them through engaging expert advice. Given budget constraints, it's no surprise that investment is limited in Compliance. However, it is also recognised that regulatory change needs to be identified and monitored with expertise recruited or engaged to enhance capability within the team.

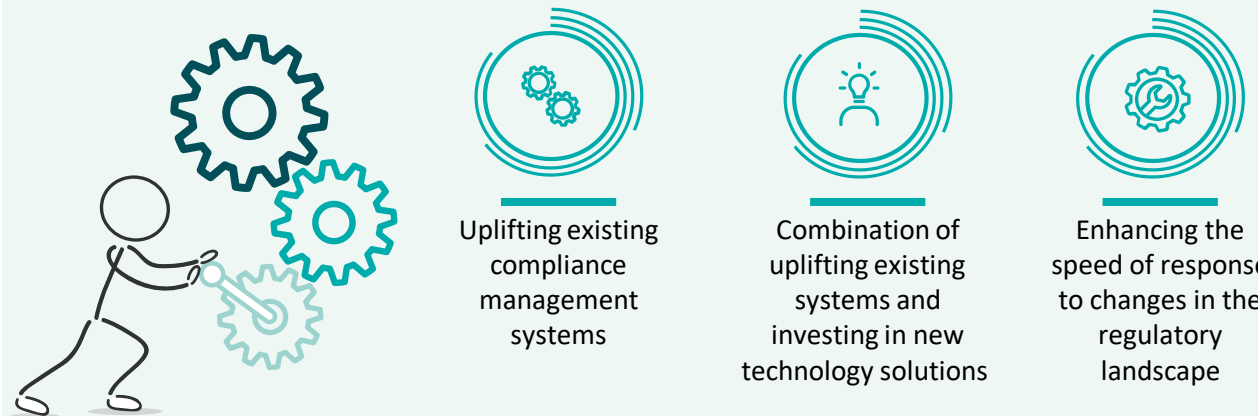
Data analytics and reporting are being adopted more and more, but the right tools require investment. Leveraging data analytics to tackle compliance activities could be far more cost-effective than performing manual processes or at worst, dealing with the consequences of non-compliance.



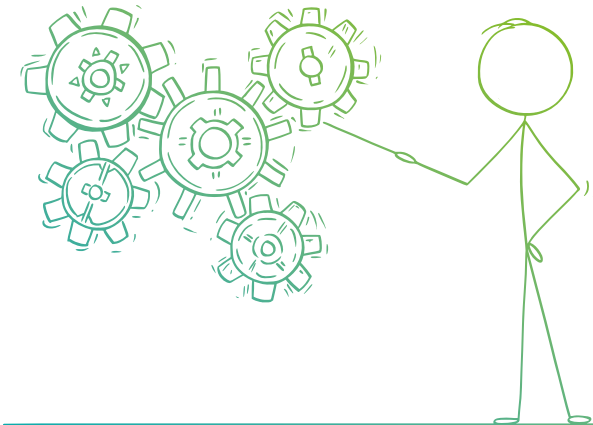
I anticipate that many leaders will be in breach of their accountability statements due to aggressive cost-cutting without further investment

– Head of Group Risk and Compliance, Financial Services

Some key priorities under consideration to address emerging themes include:



Technology and Analytics

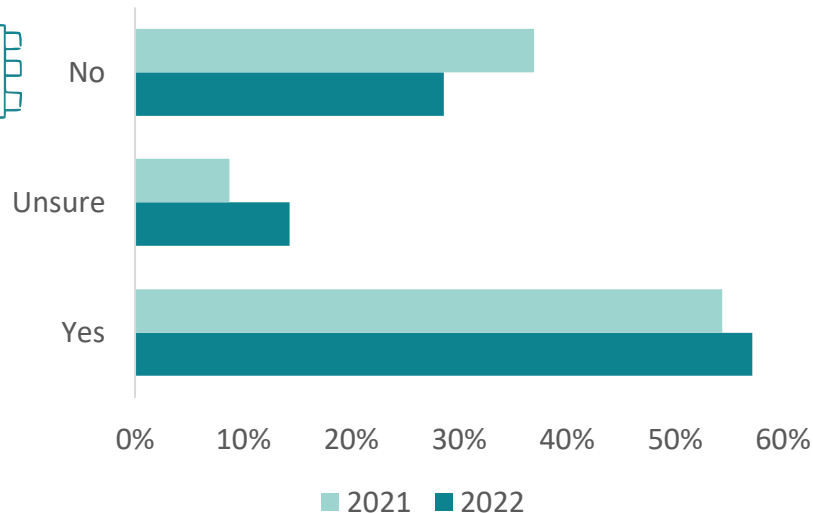
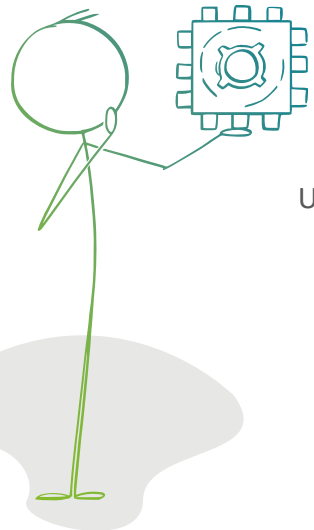


Technology and Analytics

Australia is firmly placed as a leader in Reg-Tech regionally, with a share of more than 65% of the Asia-Pacific Reg-Tech market and almost 80 established Reg-Tech organisations nationally representing over 10% of the global market, according to the recent AFR report (Krishan Sharma, AFR).

A push from regulators and policymakers in the wake of the Hayne Royal Commission as well as AUSTRAC cases against Westpac and CommBank have been critical drivers for the Australian RegTech sector and the adoption of and demand for these services. This is readily observed within the Compliance Survey 2022 where over 57% of respondents confirmed that RegTech is currently in use to automate and enhance compliance management capabilities, a slight increase from 2021.

Does the organisation currently have RegTech solutions to support automating and enhancing compliance management capabilities?



It is clear from the survey responses however that there is still some more progress to be made. Interviews with Compliance leaders identified the following obstacles regarding Regulatory Technology (RegTech) implementation:

- Inconsistent use – RegTech use varies across organisations. The most common use being in high-risk functions such as Financial Crime, the automation of controls and the management of regulatory change.
- Exploration – Interest in exploring RegTech using AI and voice analytics is high but there is still uncertainty given data quality issues which may impact analytics and reporting.
- Compliance uplift – Many organisations are yet to understand the benefits that can be realised from the use of RegTech and therefore fail to invest in it.

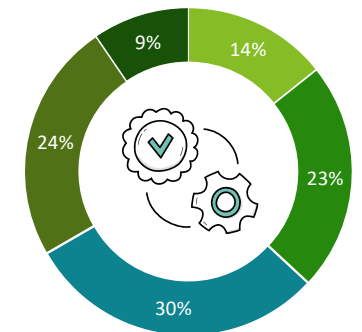
Survey respondents identified the following as the top four barriers to RegTech implementation:

- Budget (30%)
- Resourcing (24%)
- Expertise knowledge (23%)
- Data Capability (14%)

This mirrors the barriers identified within the 2021 survey for budget (35%), data capability (28%), resources (21%) and expertise knowledge (16%). Changes in proportion to each identified barrier are congruent with other results in the current year survey and serve to highlight the acute shortage of expert knowledge/skilled staff as well as resourcing constraints. However, it is noted that data capability and budget have improved and are considered less of a barrier as compared to 2021.

To overcome resourcing and knowledge limitations, Compliance teams may consider outsourcing to third parties whilst also enhancing the teams' technical capabilities. This includes appointing external expertise to implement solutions rather than building in house given the already stretched resources. External resources could also be utilised to implement and offer training on how to use the technology.

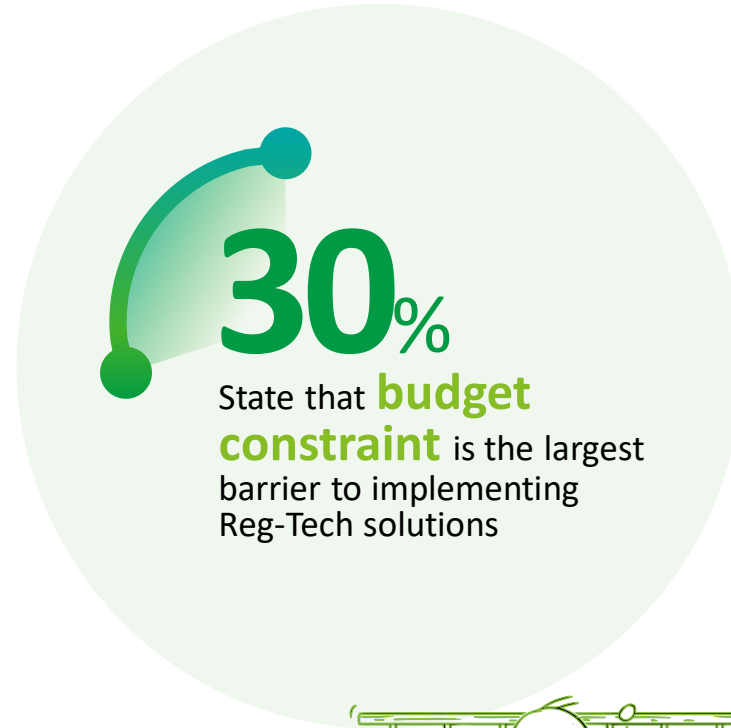
What are the barriers your organisation faces to further investment and implementation of RegTech solutions to better enable compliance activities?



- Data capabilities
- Expertise and knowledge
- Budgeting
- Resourcing
- Sponsorship

Technology and Analytics (cont.)

30% of our survey respondents reported that budgeting is their biggest barrier when implementing RegTech. Most organisations must go through complicated approval processes to secure funding to implement these solutions. Competing investment priorities often mean that there is little budget remaining to be allocated to RegTech after other investments have been allocated. Therefore, Compliance leaders need to seek opportunities with decision leaders to articulate the business benefits that can be realised from the use of RegTech, which range from meeting compliance obligations efficiently to improving customer outcomes through the use of data-capturing mechanisms that collect holistic information about the customer at each critical engagement point, starting with the onboarding process.

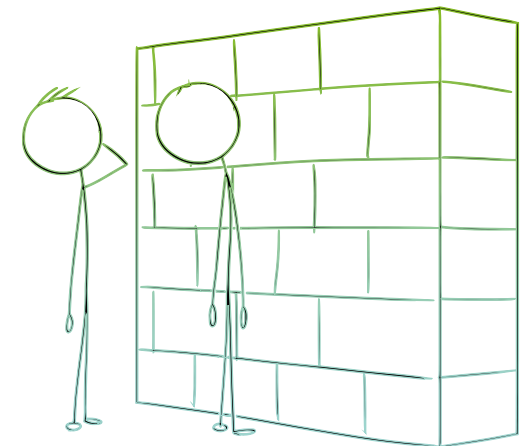
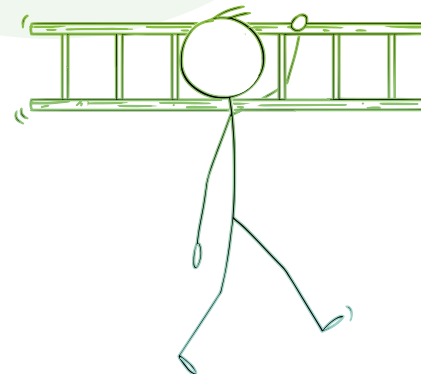


Notwithstanding the barriers to adoption identified by survey respondents, the use of AI and predictive technology across the industry is also rapidly increasing – especially in the realm of compliance. AI has proven to have significant capabilities for helping in the management and monitoring of regulatory change. Examples of AI solutions include monitoring changes, backing up data and providing valuable insights for increasingly large data sets.



We are doing more with less and therefore we need to automate – making use of AI and data/voice analytics

– Head of Group Risk and Compliance, Financial Services



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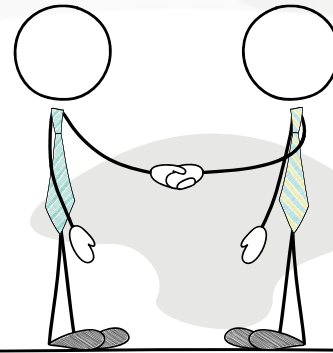
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