

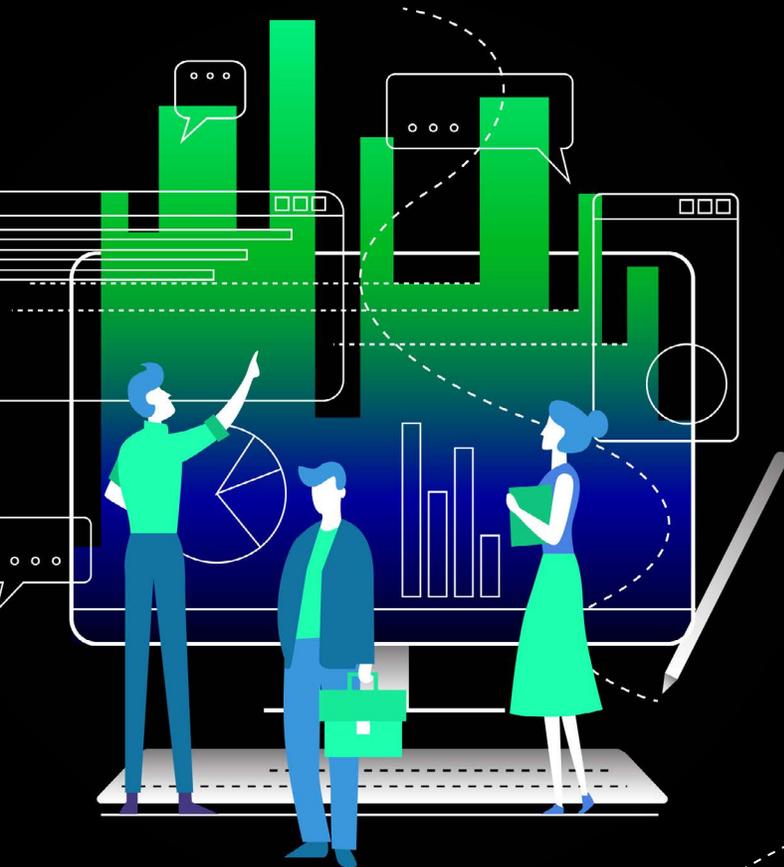


## The State of Compliance Survey

2020 Edition



# Contents



<b>Foreword</b>	<b>3</b>
<b>Compliance at a crossroads</b>	<b>4</b>
What is the role of the Compliance function?	5
Is the Compliance function at capacity?	6
Driving towards greater efficiency	7
What's in the Compliance function's toolkit?	8
<b>Cultural change takes time</b>	<b>9</b>
Striving for a more positive culture	10
Training in a COVID-19 world	11
Climbing the regulatory change mountain	12
<b>What does the future hold?</b>	<b>13</b>
What is keeping Compliance leaders up at night?	14
<b>Contacts</b>	<b>15</b>



# Foreword

As organisations continue to handle the whirlwind of global regulatory change and scrutiny, as well as continuing economic stress, Compliance functions remain under pressure to justify their role within the organisation beyond that of a pure control function and to act as an adviser to the business.

At the same time, the focus on the importance of organisations having the right culture to deliver compliance with regulatory obligations and the right customer outcomes reinforces the principle that compliance is the responsibility of everyone in the organisation. This raises questions about where the role of the Compliance function starts and finishes – if compliance is the responsibility of the whole organisation, then what is the Compliance function for and how does it achieve its purpose?

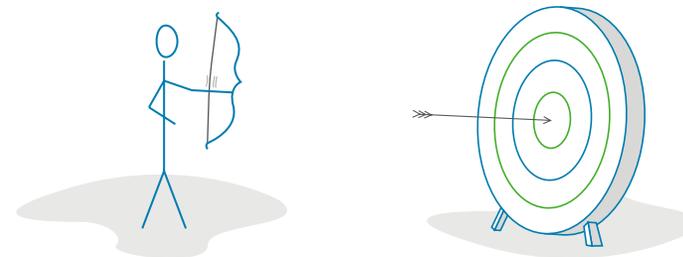
In this, the first of what will be an annual survey, we asked senior Compliance professionals for their views on the challenges facing Compliance functions, with the aim of answering four key questions:

1. What is the role of the Compliance function and do they have the capacity/capability to meet their responsibilities?
2. What is the state of compliance culture in organisations and how much work is left to do?
3. What are the future challenges facing Compliance functions and what can be done to resolve them?
4. How can Compliance functions ensure they are operating in an effective and efficient way that delivers true value to the organisation?

The key messages from the **Compliance Survey 2020** are that the capacity of Compliance functions is stretched, almost to breaking point and to address future challenges, compliance professionals will need to focus on clearly defined compliance activities, invest to address skill gaps and rebalance teams with appropriately skilled staff.

Some positive messages emerged, including more than half of respondents felt the level of investment in Compliance functions is adequate and that there is a good level of cultural alignment across many organisations. However, this needs to be balanced with more than a third of respondents saying greater investment is required and more than half of the respondents describing their organisation's culture as "can we" as opposed to "should we". The Hayne Royal Commission emphasised the importance of culture and that following the law alone can be harmful. However cultural change takes time, so it's not unexpected that many organisations have a way to go to achieve cultural change that will support a "should we" approach to decision making.

Overall, it is clear Compliance, as a second line function, needs to continue to evolve, define its role, and become more proactive in advising and challenging rather than merely reacting to risks and issues.



# Compliance at a crossroads





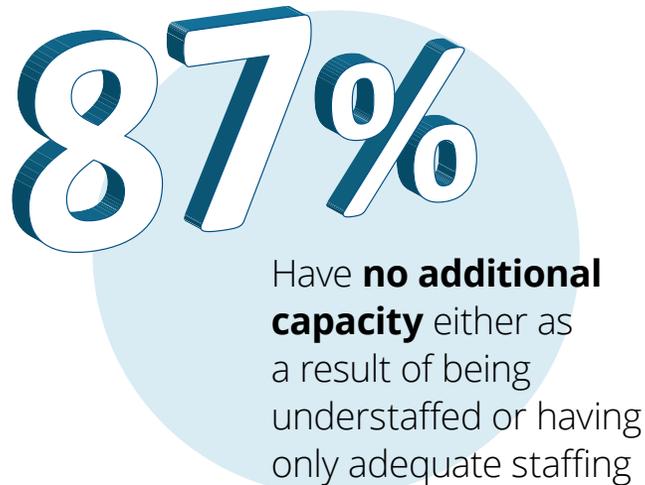
# Is the Compliance function at capacity?

87% of respondents state that the Compliance function has no spare resource capacity and is therefore at a point where it cannot continue to deliver against the continually increasing expectations for the function's role and responsibilities.

*Compliance Survey 2020* also indicated that 55% of Compliance functions will not be increasing headcount over the next 12 months. Where headcount is expected to increase, this is largely driven by broader organisational growth and regulatory developments, suggesting that the Compliance function's responsibilities will also increase in a corresponding way.

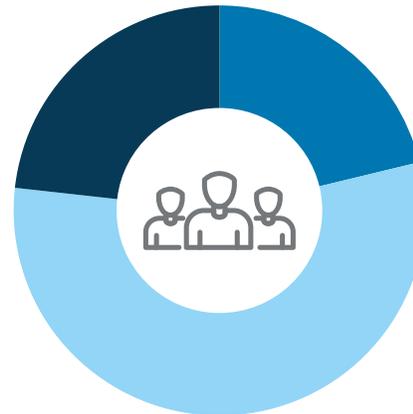
If the Compliance function has no additional capacity and is not expecting to recruit more people, then there appears to be only two ways forward for the function: rationalise the scope of its responsibilities; and/or become more efficient in performing its role. Such rationalisation could be achieved by:

- Increased collaboration with other control functions;
- Efficiency gains from technology solutions; and/or
- Increased quality control monitoring by the first line.



## Will overall Compliance function headcount increase within the next 12 months ?

23% - Not sure



21% - Yes and will be driven by:

- Regulatory and legal change
- Organisational growth/change
- Business requirements (increased reporting, monitoring etc.)



# Driving towards greater efficiency

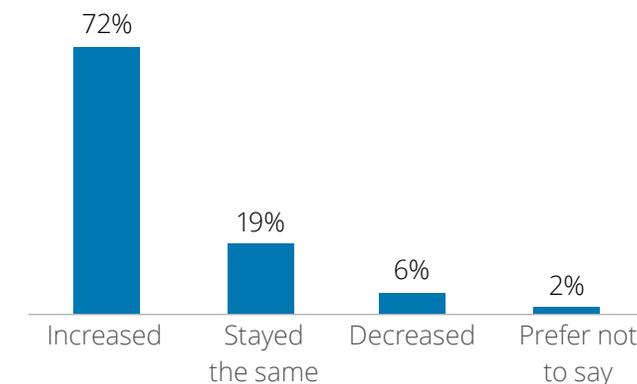
Respondents report an increasing budget for Compliance functions over the last 5 years due to continued focus on regulatory compliance, conduct issues and fair customer outcomes. However, anecdotally, Compliance functions appear to be reaching a tipping point where budgets are unlikely to increase further and the Compliance function must find ways to deliver on its broad remit with comparatively fewer resources. This is supported by 55% of respondents believing that the current level of investment is adequate whilst 36% saying that the level of investment is inadequate.

If Compliance teams do find that they have reached the limit of budget increases then they will need to become more efficient in order to 'do more with no more' and also resist the often default option of using more people to address emerging risks and issues.

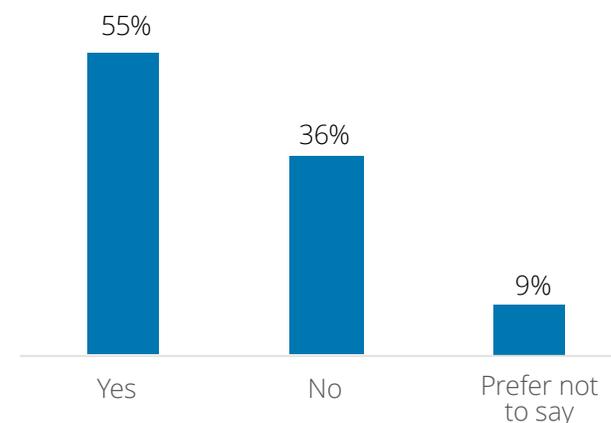
This is likely to lead to increased use of technology, both in terms of newer RegTech solutions such as automation of surveillance and use of aggregators to develop a holistic view of staff conduct as well as better use of existing Compliance tools by both Compliance and the business. For example, we are seeing an increased focus on improving the effectiveness of governance, regulation and compliance (GRC) systems to link regulatory requirements, risks and controls and monitoring activities.

The importance of non-technology solutions should not be underestimated however, particularly given the emphasis on the Compliance function's role and the need to develop relationships across the organisation. These solutions are likely to revolve around an operating model for the Compliance function that emphasises supporting the first line and greater coordination with other control functions as well as reinforcing accountabilities across the three lines of defence. Ideally, the Compliance function will leverage technology to perform routine and repeatable tasks, freeing up time for highly skilled subject matter experts to provide advice, challenge, deliver specialised monitoring and assurance.

**Has the overall budget for the Compliance function increased or decreased over the past 5 years?**



**Is the current level of investment in the Compliance function adequate?**



# What's in the Compliance function's toolkit?

As Compliance functions look to become more effective with a clearly defined role, it is essential that they have the right skills and expert knowledge to match. In developing **Compliance Survey 2020** we were interested to compare the Compliance function's current strengths against the skill sets which were going to be the most important for future success.

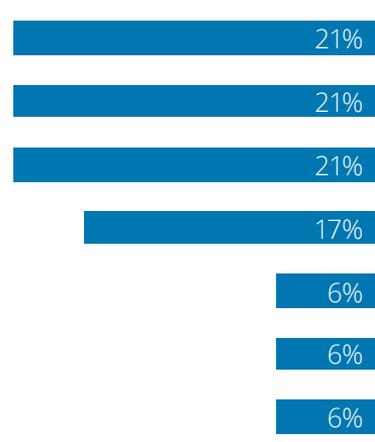
Perhaps predictably, technical regulatory understanding was considered to be the current strongest area of competency. The ongoing stream of regulatory change across sectors has made the ability to understand technical rules a core requirement for Compliance professionals. However, looking to the future, respondents felt strongly that soft skills (influencing, communication, relationship building etc.) would become the most important competencies for Compliance professionals.

This focus on soft skills links strongly to the view that Compliance functions are primarily in place to advise

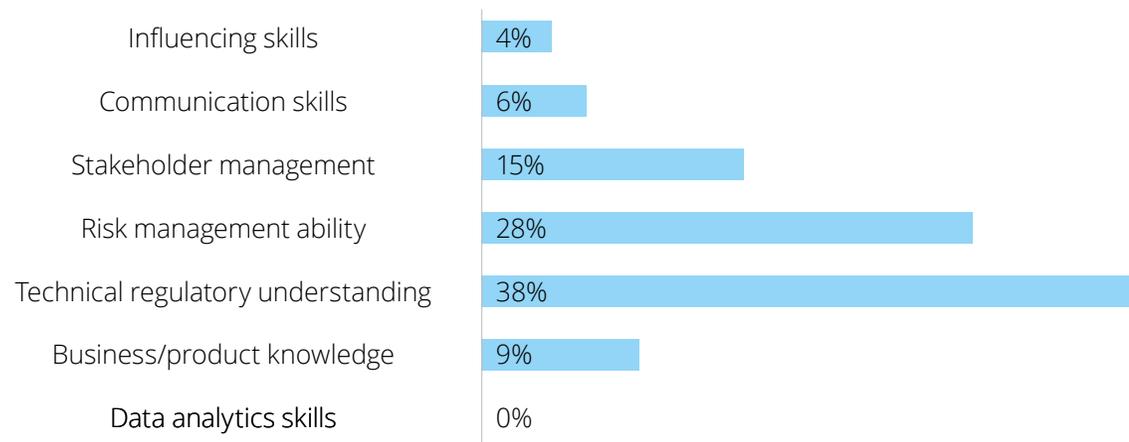
and challenge the first line. Consequently it is vital that Compliance professionals have the capability to not just understand regulatory requirements but also to communicate effectively and in practical terms.

Data analytics was not a popular choice for the most important future skill, however organisations from all sectors are increasingly reliant on data to identify risks and inform decision-making. If the Compliance function is not going to develop its own capability in this area then it will need to source the skills from elsewhere in the organisation or externally.

**What is the most important future skill for Compliance teams?\***



**What is currently their strongest area of competency?**



Note \* - rounding reduces the sum to 98%



# Cultural change takes time



# Striving for a More Positive Culture

It is widely accepted that a positive compliance culture should be the foundation of any organisation operating successfully in a regulated environment. However, a strong culture cannot be achieved through wishful thinking and it is clear that organisations must continue to proactively drive their desired culture.



The majority of respondents rated their compliance culture as either positive or exceptional which is reassuring given the focus on improving culture in recent years and increasing societal expectations of most industries, particularly financial services.

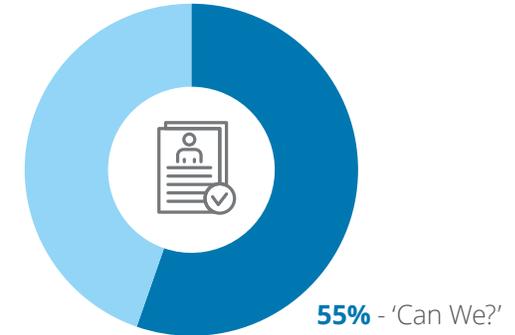
Respondents also felt that there was a good degree of cultural alignment across their organisations which is essential for delivering genuinely positive customer outcomes. However, many respondents also referenced a lack of understanding by the first line of its role in taking accountability for compliance risks. We have seen many organisations grappling with this challenge for at least two decades. Clearly there is still more work for both the Compliance function and the first line to do.

What was surprising is that 55% of respondents rated their cultures as being focused on a 'can we' as opposed to a 'should we' attitude. Given recent scrutiny across different sectors we expected to see a much stronger emphasis on culture and decision-making being focussed on what is the right thing to do.

It also confirms there is still significant work to be done to improve compliance culture and there is no quick fix or overnight solution to embedding a new culture, rather a strategic approach is needed.

## Is compliance culture based around a 'can we' or 'should we' attitude?

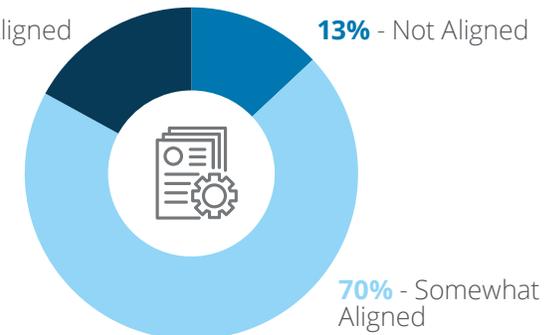
45% - 'Should We?'



## To what extent is compliance culture aligned across the organisation?

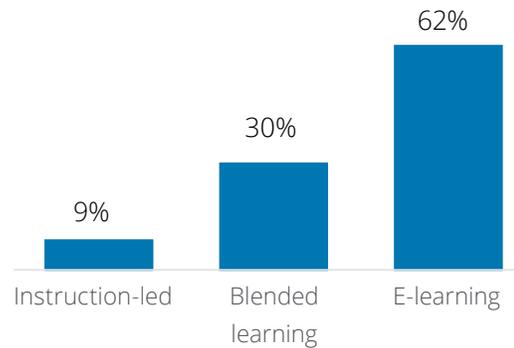
17% - Fully Aligned

13% - Not Aligned

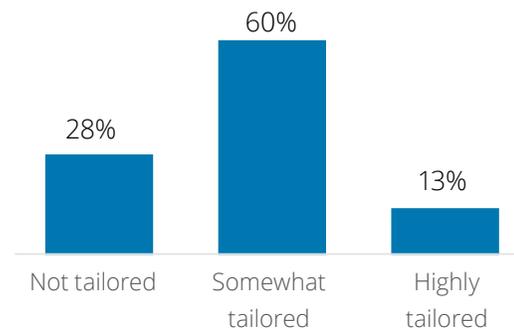


# Training in a COVID-19 world

**How is compliance training delivered in your organisation?**



**To what extent is compliance training tailored to individual business units?**



Compliance training is central to supporting an organisation’s adherence to regulatory requirements but also in fostering a strong compliance culture and meeting community expectations for conduct. The manner in which compliance training is delivered will have a direct impact on success in these areas as well as the willingness for staff to productively engage with the Compliance function itself.

Given the COVID-19 pandemic, the vast majority of training conducted in 2020 had some form of remote delivery element (whether that be completely virtual e-learning or a blend of online courses and webinars). Whilst this approach has undoubted benefits in terms of delivery cost and the ability to provide consistent messages, organisations should be aware of the risk of audience disengagement and continue to look for ways to make virtual training interactive and applicable to individual business lines and roles where relevant.

In order to maximise the value of training, and given the significant development and delivery investment, organisations should focus on role-based training, incorporating learnings from real-life incidents and where possible, aligning compliance training to organisation’s strategic plan and involving senior business leaders.

The level of tailoring of training that organisations offer is likely to depend on the subject matter as well as the size of the organisation and variety of products and services it offers.

*“Training has been modified and expanded to accommodate COVID-induced compliance issues”*

*“COVID-19 has impacted engagement levels”*

*“Strong believer in ‘byte’ sized training (less than 5 mins) rather than traditional click through eLearning”*

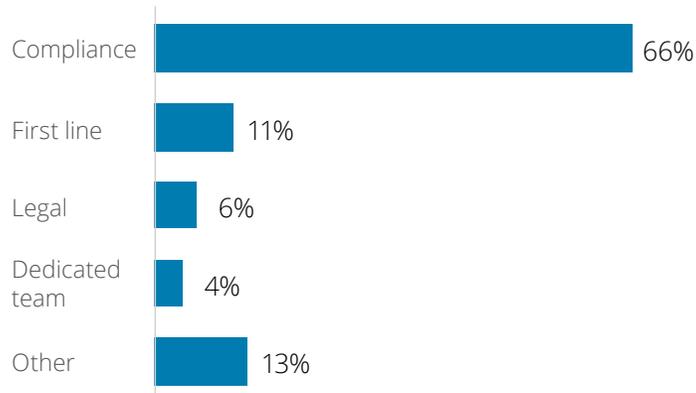
*“Ensuring it’s not just ‘off the shelf’ training”*



# Climbing the regulatory change mountain

Whilst regulatory change aims to prevent poor behaviours and improve customer outcomes, only 43% of respondents felt that recent changes had been beneficial for industry. Over a quarter of survey participants reported being “not sure” of the benefits, as it is probably too early to tell. It is undoubtedly a challenge for organisations to keep up with the pace of regulatory change, with adaptable and nimble business models and strategy. The role that Compliance functions play in this effort is evolving and varied.

## Which function is primarily responsible for managing regulatory change?



Despite regulatory change being broadly beneficial, some **Compliance Survey 2020** respondents felt that it has had an adverse impact on the Compliance function’s ability to perform its role effectively. This is arguably attributable to the volume and broad ranging nature of regulatory change, combined with the often wide ranging remit Compliance functions have managing the adoption of regulatory change. 66% of respondents confirmed they hold primary responsibility for managing regulatory change and consequently will often be in the eye of the storm as organisations strive to effectively achieve the goals of regulatory change whilst fulfilling customer and business outcomes.

A model that we often see work well is for Compliance functions to take responsibility for the tracking and initial assessment of regulatory change (using their technical regulatory expertise) before engaging with the first line, with their superior product and process knowledge, for implementation, allowing Compliance functions to shift to a more advisory role.

The primary risk with this model is ineffective partnering with the first line who may not be equipped to take accountability for the implementation and ongoing management of the obligations. This can be relatively easily overcome through proper governance and good communication. A significant potential benefit is that the Compliance function is able to refocus its workload and skill requirements by not leading implementation activities, and through increased accountability/responsibility of regulatory requirements, the organisation may experience an uplift in compliance culture.

# 49%

Think that regulatory change has had an **adverse impact on the Compliance function’s ability** to perform its role

# 43%

Think that recent **regulatory change has been beneficial** to their industry



# What does the future hold?



# What is keeping Compliance leaders up at night?

Resource capability and the capacity of Compliance functions has been a clear theme emerging from *Compliance Survey 2020*. Given the anticipated budgetary constraints it is clear that these are complex and longer term challenges to overcome. Similarly, the pace of regulatory change is unlikely to slacken and establishing effective coordination between control functions will also take time.

Overall it is clear that there are many challenges for Compliance functions to overcome in order to achieve the efficiency/effectiveness goal and add value to the organisation.

# 53%

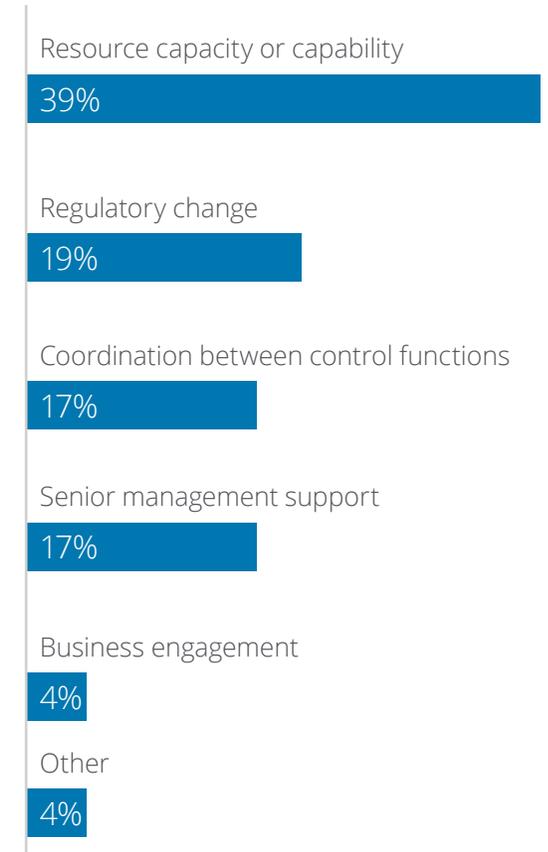
Believe these **challenges would exist regardless of COVID-19**

The real question is what can Compliance functions be doing to address and hopefully overcome these challenges? We believe there are a number of practical actions that Compliance leaders can take today to uplift the efficiency and effectiveness of their teams:

- Compliance functions should **have a clear strategy/plan** that is underpinned by a clear and well understood purpose. This will enable the function to focus on where it can add the most value and also help to align its activities with the broader organisational strategy
- The compliance function's **responsibilities should be reviewed** to ensure clarity on what the function currently does and then assessed for alignment with the Compliance function's stated purpose
- Technology should be used to **reduce effort spent on routine and repeatable tasks**, but only where there is a compelling and proven use case
- Compliance **staff skills should be continually uplifted** in readiness for future challenges, with training programs placing equal emphasis on technical and soft skills development

Finally, the Compliance function must continue to adopt the mindset that its role is to provide the first line with advice, challenge and oversight and that the best way to fulfil that role is to support the first line by identifying what is important and why and allowing the first line to influence the how and become champions of compliance culture.

## What are the biggest challenges facing your compliance function over the next 24 months?



# Contacts

## Authors



**Heather Loewenthal**  
**Partner**

Tel: +61 4 1439 5800  
Email: hloewenthal@delotte.com.au



**Simon Thorpe**  
**Director**

Tel: +61 3 8486 1200  
Email: sithorpe@delotte.com.au



**Steven Luu**  
**Experienced Analyst**

Tel: +61 4 0036 8440  
Email: stluu@delotte.com.au

## Contributors

**Neil Brown**  
**Partner**

**Andy Abeya**  
**Partner**

**Deborah Latimer**  
**Partner**

**Carolyn Morris**  
**Partner**

**Allison Guy**  
**Manager**





This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organisation”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organisation”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organisation”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

The Australian partnership of Deloitte Touche Tohmatsu is a member of Deloitte Asia Pacific Limited and the Deloitte organisation. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, risk advisory, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

© 2021 Deloitte Touche Tohmatsu