



Modernising Compliance Management

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1. Avoiding the headlines in a complex regulatory landscape

The importance of managing compliance risk in Australia has never been so evident. High-profile compliance risk failures continue to generate headlines as organisations pay record fines, navigate Board and Executive Management departures, and suffer reputational damage. The consequences include customer harm, diminished customer trust and heightened regulatory scrutiny.

Regrettably, the catalyst for compliance risk uplift in some organisations has been at the point of failure. Failures are often triggered where a compliance obligation was not understood at the time, or where the compliance obligation was understood, but arrangements to operationalise compliance within the business were not in place.

Shortly after the Royal Commission, APRA reviewed the compliance registers of various financial institutions. While financial services organisations had invested heavily in the successful implementation of what felt like a tsunami of incoming regulation at that time, across the board very few entities had in place arrangements that effectively managed the enterprise-wide and expanding universe of obligations. This presented a significant challenge for organisations in understanding their true compliance risk profile to support strategic decision making around investment, remedial activity, and prioritisation.

The introduction of the Financial Accountability Regime (FAR) has been central for executives in driving their understanding of obligations and how these relate to their areas of responsibility. As an extension of the previous Banking Executive Accountability Regime, the FAR now mandates executives to take reasonable steps in preventing issues that could impact the organisation's prudential standing and places greater onus on the Board and senior management to deliver and maintain effective compliance outcomes for the organisation.

The uplift that has been driven through the industry in recent times is unsurprising. Almost all voluntary and regulatory directed risk uplift programs across the banking sector have included specific workstreams of activity to solve for compliance uplift, with insurance and superannuation sectors following close behind.

No two organisations are the same. It follows that the end-to-end operating model for compliance management and the journey of uplift necessarily looks different in every organisation. However, the lessons learned and innovations to forge the way for scaled compliance uplift present significant opportunity for those looking to modernise compliance management.

2. What good looks like

Consistent expectation across the regulatory ecosystem is that an organisation understands the laws and obligations that apply to the business it operates and has demonstrable mechanisms in place to comply with those laws and obligations on an ongoing basis.

A strong compliance management framework is anchored around three core elements:

1. A **clearly defined approach** to identify the firm's complete view of applicable obligations and future developments and additions. The compliance function, risk function and business units need to work together to have a detailed understanding of processes and be able to coordinate, plan and manage any changes to the business and/or obligations, and the associated compliance risk and business impacts.
2. **Established processes** for understanding and documenting end-to-end processes and controls associated with product and service offerings so that gaps in compliance can be easily identified and addressed. Ongoing monitoring should establish the current level of compliance and maintain processes to adjust according to changes in the regulatory landscape. Integration with risk management activities will allow for the leveraging of common controls and overlapping frameworks to maximise the engagement of business stakeholders.
3. **Clear accountability** for compliance risk management to ensure processes are in place for the three lines of defence. Accountabilities should also be established in line with the operating model to ensure that compliance obligations are met. Improved accountability by fostering a compliance culture led by senior leadership and board discussions to treat compliance risk with due importance and to set the tone for all staff.

Deloitte's roadmap to modernising compliance management

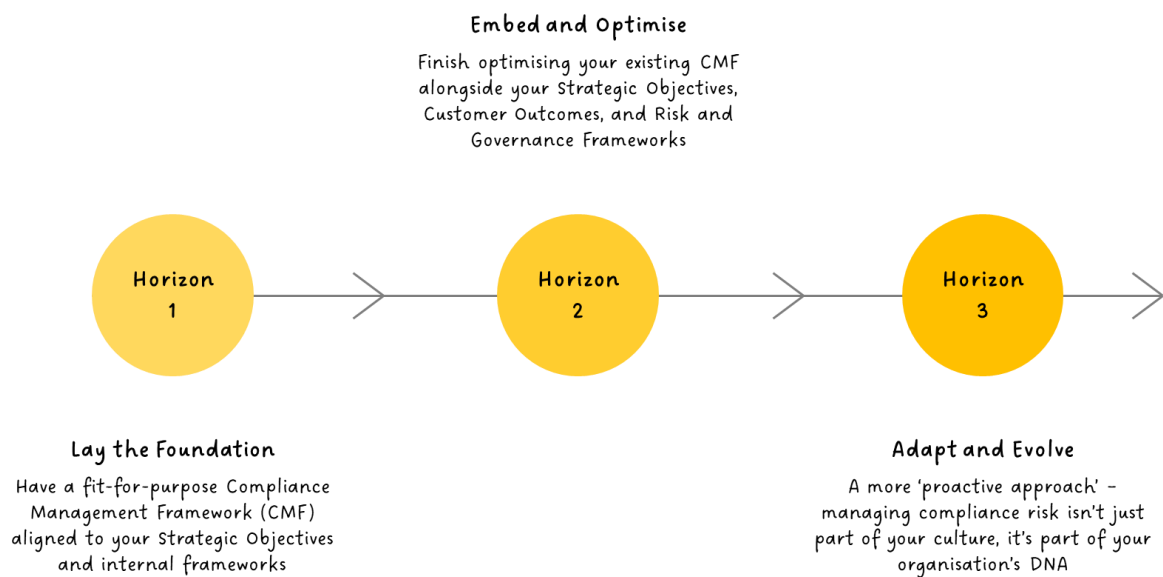
Deloitte proposes a roadmap to consolidate and modernise compliance management across three horizons. Each horizon contains a set of key activities that help organisations address deficiencies in their compliance management and mature practices over time.

Horizon 1 lays the foundations for modern compliance management and 'what good looks like'. This includes designing and establishing the organisation's Compliance Management Framework and initialising a strategic remediation program to help address gaps and reduce compliance risk.

Horizon 2 continues the work from Horizon 1 by embedding and optimising the Compliance Management Framework, continuing to remediate where needed, and recalibrating elements such as governance structures and monitoring systems when required to enhance the clarity and efficiency of compliance management.

Horizon 3 adapts and evolves the Compliance Management Framework, based on the basic premise that managing compliance risk is not just 'something that needs to get done', but is instead a part of every financial services institution's DNA. It is about shaping the Compliance Management Framework to be proactive, rather than reactive, and integrated into everyday business practices – supporting the firm to prevent breaches and drive its strategic initiatives.

Organisations, and sectors across Australian financial services may be at different levels of maturity as guided by our roadmap and may tailor their compliance strategy to meet their immediate and long-term goals.



Modern opportunities in RegTech, Data and AI

The future of compliance management presents significant opportunities for innovation through regulatory technology (RegTech) solutions. Numerous tools that support various compliance tasks offer options for organisations looking to innovate and modernise human intensive activities. A fit-for-purpose operating model looks different for every organisation, allowing for tailored and proportionate approaches to meet compliance obligations.

Organisations can benefit from integrating sensible technologies across the value chain, including regulatory horizon scanning, obligation registers, control automation, and the centralisation of compliance reporting. It is critical to ensure that each improvement ties in with the organisation's existing workflow and that end-to-end processes continue to function as intended. Organisations must make informed strategic decisions about where operational transformation is required and ensure new technologies are compliant by design.

RegTech solutions can also be utilised to accelerate scaled compliance transformation programs. Such programs will often start with a discovery and scoping stage to consume large amounts of obligations for prioritising and allocating – thoughtful use of AI can expedite the analysis of obligation and internal documentation to form an initial view for subject matter experts to form a final decision. Mapping of obligations to an organisation's arrangements can also be fast-tracked with data analysis techniques and AI to find logical matches and suggest indicative levels of compliance – quickly highlighting potential gaps to remediate.

RegTech solutions must effectively integrate data from multiple systems, and organisations should review and optimise their existing data governance framework to warrant that any information reported to the Board and Executive level is accurate, consistent, and readily accessible. Automating compliance management also requires modernising people management and the broader risk culture of the business, as new systems require adequate training and communication to users of the technology.

3. What organisations can do today

Review how your organisation views compliance and regulatory risk

Management should critically assess their organisation's current approach to compliance risk and ensure that compliance is viewed not merely as a box-ticking exercise but as a strategic imperative to business operations. Senior management must first prioritise having a comprehensive view of their obligations library to assess their compliance and to facilitate effective conversations with the Board. Organisations that encourage a culture that prioritises compliance excellence from the top down, foster a mindset where adherence to regulation is seen as fundamental to maintaining trust with stakeholders and safeguarding the organisation's brand and reputation.

Facilitate adequate communication between key stakeholders

Effective communication between the Board and Management is essential for compliance and governance measures to be robust in their purpose. Organisations should establish clear channels for dialogue, ensuring that regulatory issues are promptly escalated and directives from the Board are effectively communicated throughout the business. These discussions must be supported by appropriate data governance arrangements to ensure objective and timely reporting. Adopt an environment of transparency and collaboration, where insights from all levels of the organisation are leveraged to drive informed decision-making and mitigate compliance risk.

Continuous review and refresh of compliance strategy and arrangements

Recognition that compliance is not a one-time endeavour but an ongoing journey that requires constant vigilance and adaption. Regularly review and refresh your compliance processes to ensure that any technology investments are aligned with your current operating model, strategic priorities, and regulatory requirements. Conduct comprehensive assessments of compliance frameworks, policies, procedures and registers, identifying areas for improvement and implement any necessary enhancements. Embrace a culture of continuous learning and improvement, where feedback loops are used to iteratively strengthen the organisation's compliance positioning.

Automate the workflow and controls, and develop key compliance indicators

Where possible, financial services firms should place focus on technology to streamline compliance processes and enhance efficiency. Once organisations have a clear understanding of their overall compliance journey, they can begin making targeted investments in automated systems for monitoring, reporting, and analysing compliance data. Developing key compliance indicators tailored to the firm's specific risk profile is also beneficial as it enables proactive identification of emerging compliance issues and timely intervention. Leveraging data analytics and machine learning capabilities can provide deeper insights into compliance trends and patterns, encouraging proactive risk mitigation strategies.

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