



## The business of platforms

Success factors for compliance in an ecosystem driven economy

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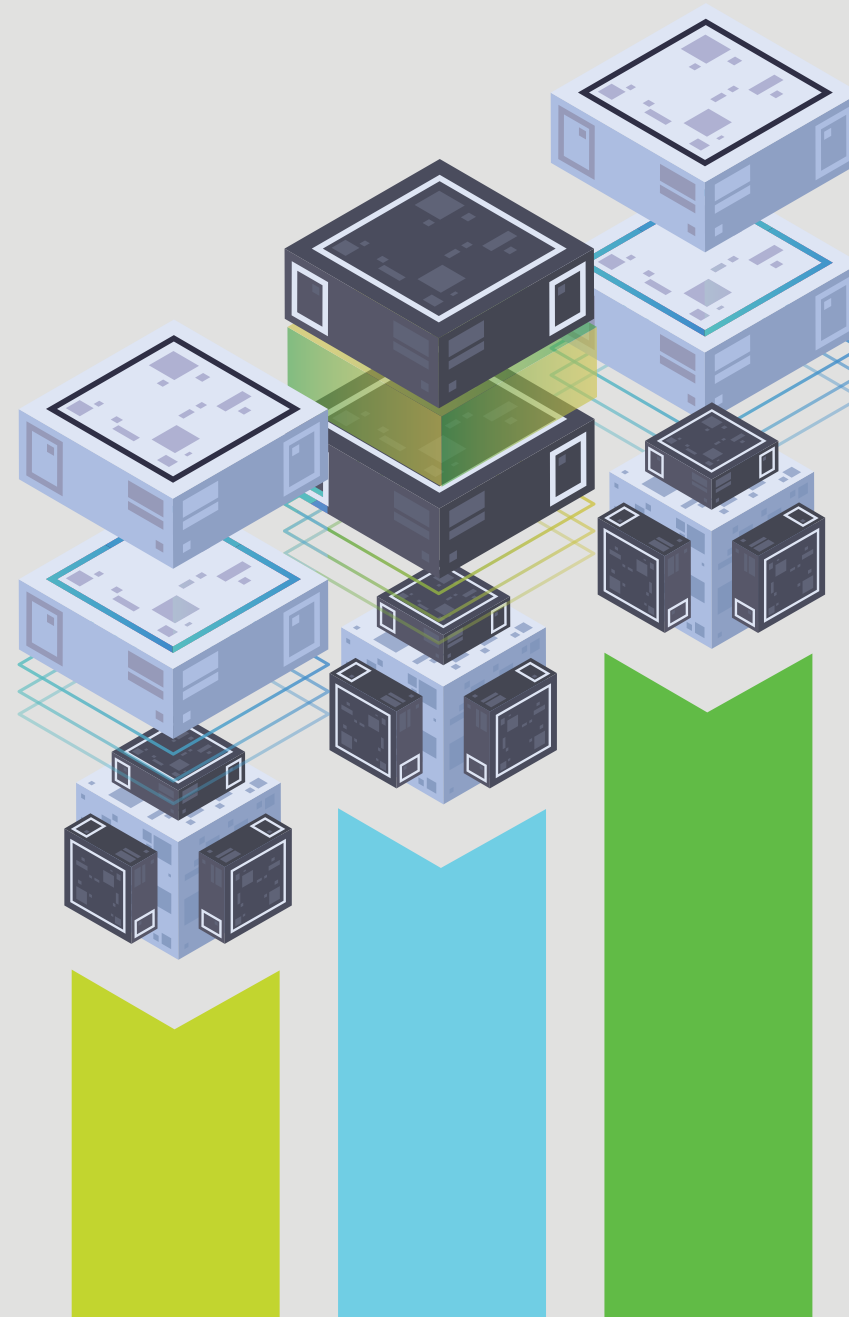
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# Foreword

In the previous articles of this series we looked at the business, people and delivery operating models for platform businesses. In this iteration we look at the development and integration of the compliance function as a critical component of a platform business' success.

The contributions of the compliance function for regulatory, ethics and legal risk management are invaluable in a platform business as they seek to embed, by design, necessary regulatory requirements in a manner which supports good customer outcomes in the face of automated process, decisioning and delivery.



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# Introduction

The motivations for the advancement of compliance functions have differed over time: In some instances, regulators have taken the initiative for advancing regulatory approaches owing to supervisory requirements, their own identification of gaps and the need for additional controls from these interventions. In other instances, poor treatment and poor outcomes for customers have motivated the advancement in both regulatory frameworks and the supervisory approaches firms have been subject to.

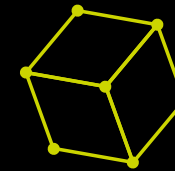
Compliance functions have had to adapt to highly disrupted business environments, platform transformations being one such disruptor, compounded with the accompanying technologies of artificial intelligence/machine learning (AI/ML); and big data to name a few. In a business environment where “operating well is a necessity to compete”, efficiencies over the right processes and those which produce the best results customers are no longer hallmarks of excellence but minimum standards for retaining customers. No sustainable organisation cannot deviate from this minimum standard and compliance functions must assist them adhere to it.

From the perspective of the compliance function, the ease of interactions on and within a platform is insufficient justification for not disclosing the right information, selling the right products and services, or failing to ensure that the customer’s needs and expectations are met. This is especially true in the case of platform and platform-transforming organisation where customer interactions tell the stories of their satisfaction or harm and do so only in the form of data footprints. The interpretation of these interactions data is critical to the assessment of compliance<sup>2</sup> but how best can a compliance function access, understand and utilise data-based insights for their programmes? Are regulatory frameworks sufficiently empowering to guide and inform how this can be achieved?

The increasing importance of design, controls and outcomes testing has necessitated that the compliance function support a platform and platform-transforming organisation from conception of a product or service, to its utilisation within and to the end of the customer lifecycle. As a result, the trajectory of the function has moved from being teams of “observer-noters” to “trusted advisors” and most importantly, “independent co-creators”. Let’s consider the reasons that these shifts are critical to the success of the compliance function in platform and platform-transforming organisations.

<sup>1</sup> The Amazon way, raise your “Change IQ”

<sup>2</sup> Currently limited to the FSI as an enforceable framework, the foundational principles are capable of application across industries and product offerings



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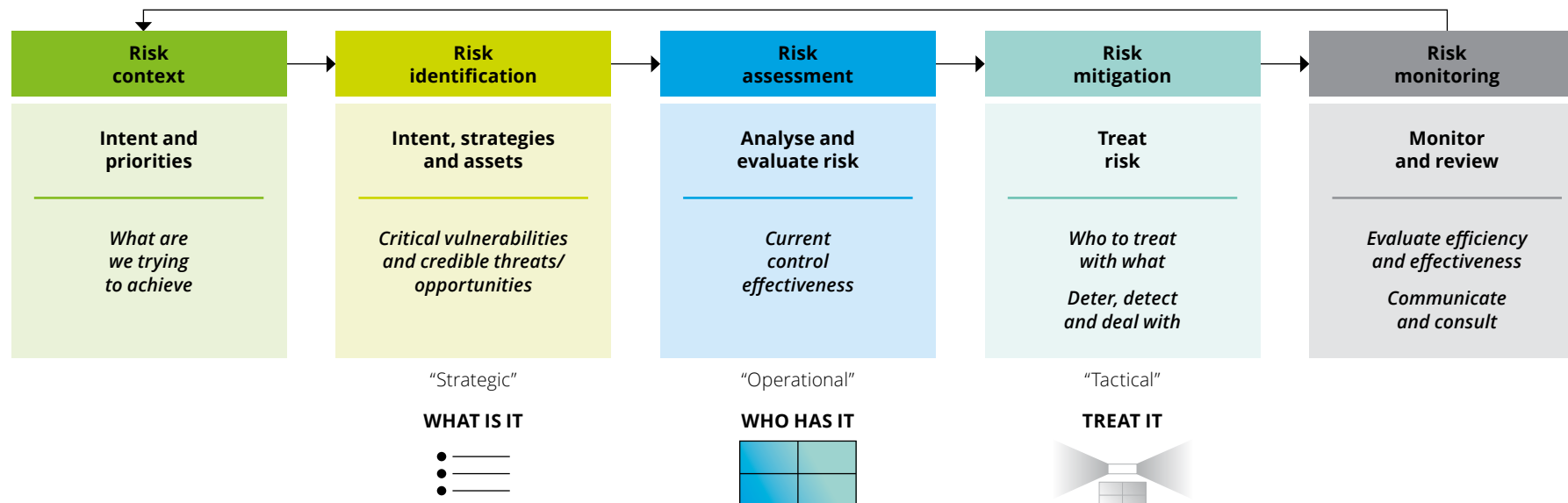
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# Understanding the role of compliance

Compliance refers to: “conformity” with, “adherence” to and “observance” of external and internal laws, policy requirements and regulations<sup>3</sup>. Compliance is not in and of itself an activity, it is not a verb or a thing to be performed. It is better understood as an outcome of certain practices, and in the main, the practices and sound management of regulatory, legal and ethics risks (“R.L.E risk”).

Organisations must comply – i.e., have the outcome of adherence, conformance, and observance of the stipulations from sources of requirements. The approaches they take in managing these risks to achieve that compliance are primarily influenced by their own business model. So, what approach to R.L.E risk management is best applied within a platform business model?



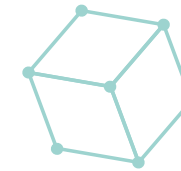
<sup>3</sup> Institute of Internal Auditors, Norge. Guidance for the Compliance Function. 2017

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The purpose and requirement of a compliance function are often prescribed by regulation – consider industries such as Banking and Insurance where the core functions, requirements and assessment criteria for a compliance function are entrenched in the foundational legislation for those industries. Even in industries where the foundational requirements for a compliance function are not regulated, the same critical criteria can be applied. The successful application of financial services, payments, market and business conduct principles requirements can be of immense benefit to a platform and platform transforming organisation.

The compliance function should have a preventive, advisory and supervisory role, with particular emphasis on:

- 1 Facilitating the effective identification of risk of violation of relevant external requirements, such as compliance with laws and regulations, as well as providing advice on risk reduction measures.
- 2 Developing and facilitating the implementation of internal controls that will provide the organisation with protection from compliance risk.
- 3 Monitoring and reporting on the effectiveness of control measures.
- 4 Providing the business with advice about acceptable behaviour and practices in relation to the requirements stated in regulation and customer expectations.
- 5 Interpretation of external and internal rules or policies.
- 6 Monitoring relevant regulatory developments within the compliance function's areas of responsibility.
- 7 Ensuring awareness and training is performed regarding compliance requirements, the application of policies and ethical business practices<sup>4</sup>.



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<sup>4</sup> Institute of Internal Auditors, Norge. Guidance for the Compliance Function. 2017

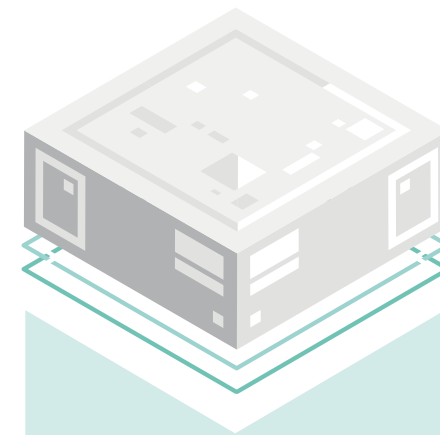
# Compliance in a changing business environment

The compliance function has predominantly been developed to align and support the traditional product and service company.

Looking at the banking sector as an example, some of the drivers for the development strategies were considered in a piece of thought leadership indicated that some of the drivers for this development include regulatory frameworks and expectations<sup>5</sup>. While this examination was specific to the banking sector, the market conduct regulatory framework discussed there is a principle-based one that can be applied to organisations outside of the financial services industry. New and existing regulatory bodies strictly examine banks against compliance risk management guidance and obligations, and increasingly bring enforced actions for underlying weaknesses and in response to unsafe or unsound conditions, practices and/or a violation of regulatory requirements. In addition to these heightened regulatory expectations from banks, both clients and authorities have driven high standards of banks, particularly in response to the 2008 financial crisis and the resultant state-led bail outs of financial services providers<sup>6</sup>.

The drivers of regulator and client expectations have been powerful drivers for banks, particularly given the disruption in the financial services industry. Banks, payment providers and other financial services providers compete for the same clients, their finances, and interactions. The platform business model has enabled the high rate of disruption by giving newcomers to that industry speed of establishment and importantly, the ability to meet clients on their interfaces of preference such as the mobile and web apps. In this context, the same questions and needs exist for the compliance programmes in technology intensive, start-up and platform-transforming organisations as well as the non-platform-transforming organisations.

How should compliance obligations be managed in a context where global technology services such as cloud computing and the operation of third-party owned technologies be managed? The underlying regulatory obligations for organisations have not changed and the level of supervisory scrutiny will only increase, so how do organisations develop the right compliance response? We explore these questions in the context of a platform business and explore the approaches to R.L.E risk management needed for organisations to remain compliant and avoid regulatory fines and other adverse impacts of regulatory enforcement. We'll explore some of the dependencies for the success for compliance programmes on the following pages.



Some of the key requirements to building a successful compliance programme will not change such as the outcomes they need to produce; however, others must transform such as the place and point in time of engagement of the compliance function.

<sup>5</sup> Deloitte US Practice Thought Leadership. [Compliance Program Management – Banking Methodology \(deloitteresources.com\)](https://www.deloitte.com/us/insights/articlespublications/compliance-program-management-banking-methodology)

<sup>6</sup> [deloitte-cn-fm-regulatory-outlook-en-2019.pdf](https://www.deloitte.com/au/insights/articlespublications/deloitte-cn-fm-regulatory-outlook-en-2019.pdf)



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**Success dependency 1: Does the compliance function understand the business model?**

For the compliance function to effectively support their business, understanding the strategy, direction, operations and inner workings of the business is of critical importance. Compliance functions will need a deep understanding of their organisation’s business model and particularly, any platform model, that is being followed by the organisation. Thereafter, they will need to obtain a detailed understanding of the platform model itself and any nuances related thereto in order to develop a regulatory impact profile for that model, and thereafter a regulatory risk management profile for the model – developing what we at Deloitte’s Regulatory Risk team call the “Platform Universe”. The platform universe should be specific to the type of platform model as it will reflect priority regulatory themes for your organisation and in-turn, the control types and compliance support model required.

We’ll use the four fundamental platform models described by our prior thought leadership to set the framework for the most prominent regulatory considerations. In this illustration only a customer lens has been taken whereas a similar assessment would need to be done for all types of users, participants and contributors to the platform.

**Platform Universe model**

*Illustrative Platform Universe assessment*

	<b>The Omni-channel Model</b> 1	<b>The Ecosystem Driver Model</b> 2	<b>The Modular Producer Model</b> 3	<b>The Supplier Model</b> 4
<b>Definition</b>	Provision of products across multiple channels.	Network for participants can acquire complimentary or competing products or services. In some eco-system, the platform access is the main attraction point as information or non-commercial services are provided.	Plug-and-play products or services are provided to eligible users.	Platforms which sell products from multiple producers. These platforms act as a provision point for these suppliers and manage the client interactions regarding sale and delivery.
<b>Regulatory profile</b>	<ul style="list-style-type: none"> <li>Market conduct</li> <li>Product/Service disclosures</li> <li>Product/Service fulfilment</li> </ul>	<ul style="list-style-type: none"> <li>Competition/Anti-competition regulation</li> <li>Information Management and Privacy</li> </ul>	<ul style="list-style-type: none"> <li>Product specific regulation</li> <li>Competition/Anti-competition regulation</li> </ul>	<ul style="list-style-type: none"> <li>Product specific regulation</li> <li>Competition/Anti-competition regulation</li> <li>Market conduct</li> </ul>
<b>Risk profile</b>	<ul style="list-style-type: none"> <li>Customer contracting</li> <li>Customer experience</li> <li>Contractual disclosures</li> <li>Customer outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Customer access and eligibility</li> <li>Information management</li> <li>Privacy</li> <li>Customer outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Product compliance</li> <li>Sales compliance</li> <li>Customer outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Customer contracting</li> <li>Product compliance</li> <li>Sales compliance</li> <li>Customer outcomes</li> </ul>
<b>Control characteristics</b>	<ul style="list-style-type: none"> <li>Automated</li> <li>Technical</li> <li>Pro-active</li> </ul>	<ul style="list-style-type: none"> <li>Automated</li> <li>Technical</li> <li>Reactive</li> </ul>	<ul style="list-style-type: none"> <li>Automated</li> <li>Technical</li> <li>Hybrid</li> </ul>	<ul style="list-style-type: none"> <li>Automated</li> <li>Technical</li> <li>Hybrid</li> </ul>

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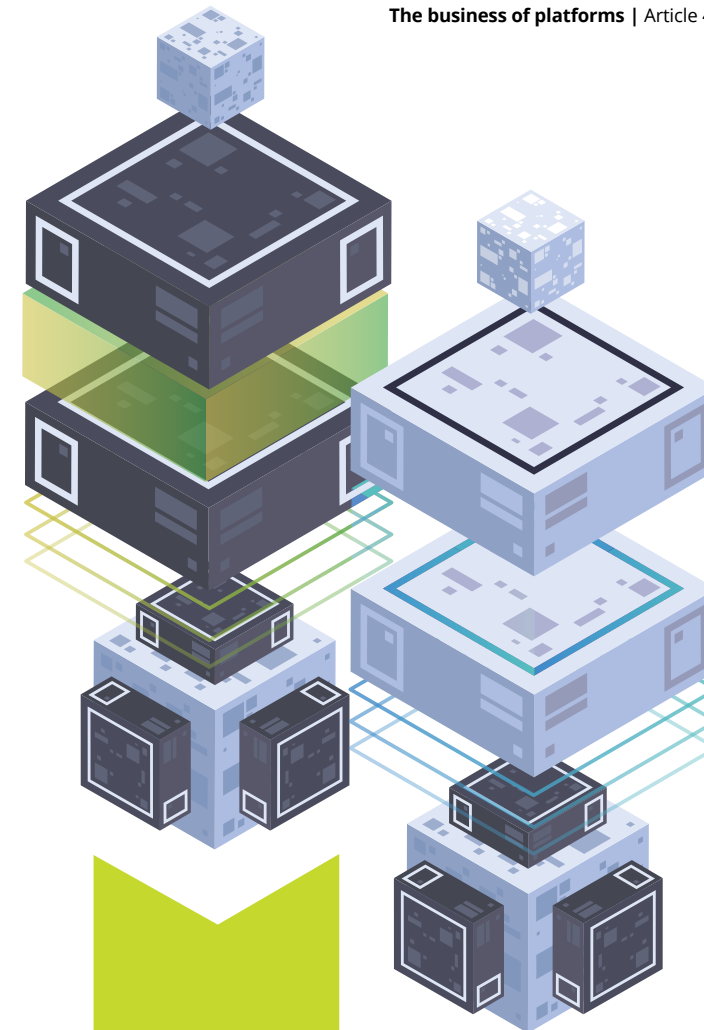
## Success dependency 2: Is the compliance function appropriately structured and resourced to support the platform business model?

An important debate in the execution by a compliance function relates to the requirement of independence. How is it best applied and evidenced? In too many instances, the structure of the compliance function is considered the primary determinant of its independence. In these cases, the functional, governance and reporting lines are used as the sole gauge of independence for these functions. Platform builds and technology-heavy implementations require a very close model of advisory.

The compliance function needs to be sufficiently close to the design process to advise in the moment while applying a strict independence of mind to ensure that the specifications of regulation are intricately met through the control, process, product and service design.

The importance of this advisory timeliness cannot be understated, it is essential to avoid wasteful costs associated with compliance requirements such as remediation, product/service pull back and re-deployment/s. Previous Deloitte Global research indicated an increase of over sixty percent (60%) in operating costs related to compliance and compliance risk mitigation, exclusive of fines<sup>7</sup>. A similar report indicated that for the industry reviewed, an increase in automation was expected to reduce the cost of compliance<sup>8</sup>. In a platform context the increasing digitisation of products, services as well as sale and delivery methods similarly present opportunities for cost efficiencies but are realisable only if the compliance and R.L.E requirements are designed into technology solutions and not considered as an after thought.

Factual realisation of compliance cost efficiencies therefore necessitate that the compliance function collaborates, as independent regulatory experts, with the Chief Information Officer (CIO), Chief User Experience Officer (CUXO), Chief Sales Officer (CSO) and other relevant stakeholder in the determination, design and then testing of technological processes and controls. A critical advantage of changing the proximity and proactivity of the compliance function's engagement with business, is in the ability to reduce and avoid the instances of technical requirement rework and rather consider regulatory requirements in the first instance.



<sup>7</sup> Deloitte US Future of regulatory productivity

<sup>8</sup> Deloitte India Cost of Compliance in Manufacturing



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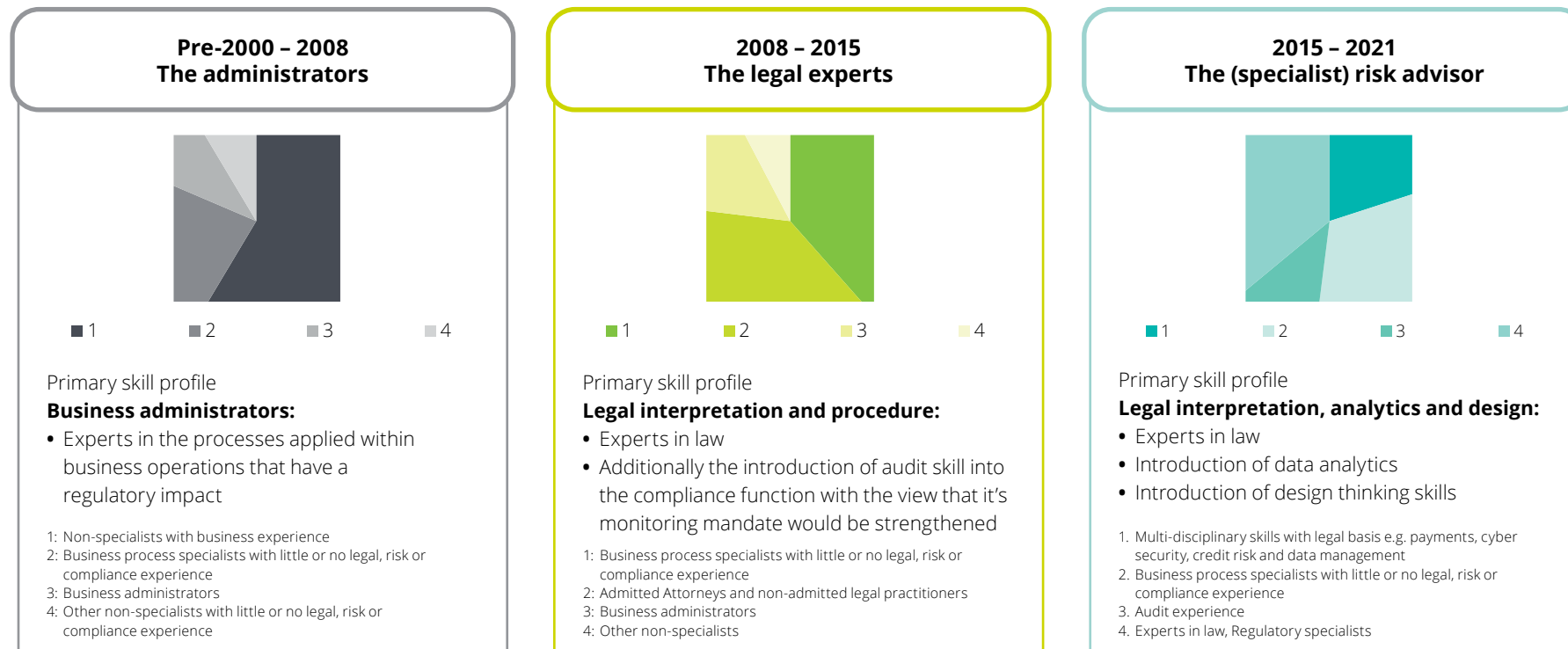
**Success dependency 3: Is the compliance function appropriately skilled and able to apply skills other than regulatory interpretive skills, such as data analytics, design thinking and risk sensing?**

The question of the correct compliance skill profile is an ongoing debate and the thinking has evolved over time. The observations of Deloitte’s Risk Advisory function has been that three iterations can largely be described. The first iteration of the compliance function had a high bias for business administration where people who had the experience in working within a particular process or product. Unlike the compliance officers of the next iterations, these were not experts in the law or how to interpret it; they were doers of known processes that could simply replicate the steps required by the process.

The second iteration saw a heavy bias towards legally and regulatory qualified experts, enabling a strong practice of interpretation of regulation. This came with its own challenges as the skill set was limited to those areas of regulation which the team specialised in and the need for further diversification became apparent.

The third iteration (what we are currently seeing in the market) has included the biggest degree of diversification – showing the need for more nuanced skills that would better enable the legally biased skill compliment to better *understand and service* data intensive and design-intensive processes such as conceptualising controls, processes, products, and services in a platform model. The “specialist” risk advisor is expected to mirror the understanding of his/her front-line stakeholders and use that nuanced understanding to advise practically, operationally and efficiently on control, process, and methodology design in as close to real time as possible.

**Anecdotal illustrations of the skills profile of the compliance function**



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#### Success dependency 4: Is the compliance governance framework sufficiently integrated with the business's governance processes.

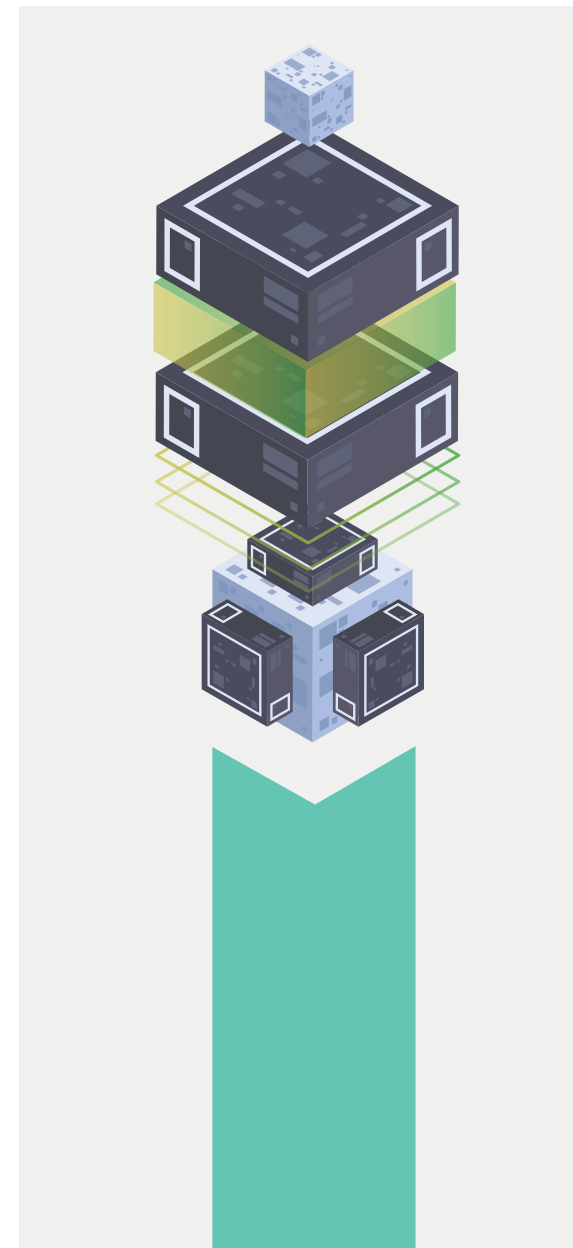
Given the diverse products and services that the compliance specialist advisor would need to provide guidance on, the governance of the compliance function needs to be suitably embedded into the business's governance framework. Platform business models represent integrated webs of interactions between controls, processes and stakeholders from various disciplines however, the responsibilities, accountabilities and mandates of each remain separate. Despite this segregation, there needs to be clear understanding of compliance and R.L.E risks, the controls/processes within which they arise and their mitigants. Compliance and R.L.E governance should therefore be as much a priority for the platform owners from business management and the Head of Compliance alike. The traditional model saw compliance governance within R.L.E risk management running as a segregated stream to the business's first-line governance processes – that separation cannot exist in the integrated design, delivery and distribution model created by platform business models.

The technology specialists need to be equally able to understand the regulatory requirements and how the platform solutions and technology are impacted by them, as well as be able to defend the design decisions agreed to address them.

In this way, the decisions made and approval processes utilised cannot reflect the interpretations of a single discipline, rather the applied understandings of the most prominent discipline building and deploying the underlying technology (such as AI, big data etc.), together with the applied assessments of the compliance/R.L.E experts.

#### Success dependency 5: Is the compliance function adequately equipped to utilise the technology tools underpinning the platform business?

The capacity of a compliance function to utilise and understand the myriad of technologies underpinning the platform business and platform-transforming business is a critical success factor for its ability to support the organisation. Compliance functions therefore need to understand and leverage technologies commonly underpinning the platform business model such as AI, big data, and other automated processes for fulfilling R.L.E risk use cases. Some priority use cases could include being able to assess business big data and interpret the outcomes of platform business processes and client platform interactions and importantly, being able to ensure that fair and ethical outcomes are being produced by automated intelligence processes – understanding the risks and interpreting these in a regulatory context to provide appropriate control advice is essential. A critical dependency to achieving this is for compliance/R.L.E functions to identify the data sets and data sources that they can use for compliance/R.L.E programme services such as technologies for automated monitoring and proactive risk identification on the one hand; and the data sets that inform their ability to interpret the outcomes of those automated processes on the other hand. Neither aspect is achievable in the absence of sufficient business partnering; collaboration and cross-skilling of the compliance/R.L.E function practitioners.



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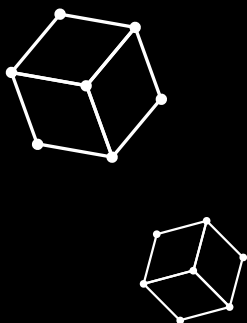
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# Conclusion

The traditional tenants and mandate of the compliance function do not change in the context of a platform business model. However, the independent assurance required of R.L.E practitioners becomes of heightened importance in the context of highly complex technologies, automated processes, and network interactions that, if left unchecked, can impact a greater number of consumers and with broader consequences should those network interactions fail or be found wanting.

In addition, the ability of the compliance function to understand the platform business model; developing an adaptability to be applied and evidenced by better, continued business partnering is necessary. The products, services and processes affected through that platform model and importantly must be identified, fully understood and advised on while the compliance function must still retain its independence and apply strong governance. It is this balance which most organisations are grappling with, often necessitating a review of the target operating model of the compliance function across the dimensions of strategy, structure, people, process, technology and data. These are all critical considerations to ensure the success of the compliance function within an evolved operating environment, particularly with the advent and recent ubiquity of platform business models.



Ultimately, the compliance function is a custodian and guardian of regulatory outcomes in the context of platform businesses and the platform's users and consumers. The ability of the compliance function and R.L.E practitioners to remain relevant in businesses adopting a platform model or on a platform-transforming model will be key to the necessary regulatory risk mitigation by the organisation.



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# Contacts

To learn more about developing and transforming your compliance function to align to your platform business transformation, contact:

**Candice Holland**

**Director: Risk Advisory Regulatory**

**Deloitte Africa**

canholland@deloitte.co.za

**Nompumelelo Dube**

**Senior Manager: Risk Advisory Regulatory**

**Deloitte Africa**

nodube@deloitte.co.za

**Thys Bruwer**

**Digital Financial Services Leader**

**Deloitte Africa**

tbruwer@deloitte.co.za



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