A New Generation of Compliance Officer

In 2010, mobile banking guru and best-selling author Brett King coined the term “Bank 2.0.” Much like the Web 2.0 paradigm shift, where the Internet evolves from an informational repository to a forum of interactivity, the banking industry charted a similar course. Banking has rapidly changed from a static, branch-centered business to a data-driven, interactive experience.

Today the shift continues as the banking industry approaches a “3.0” environment where banks are no longer defined by place and capital but by customer accessibility. Yet, one conversation – a very critical one – has yet to happen. The evolution of compliance management. Whether institutions are shifting to a 2.0 or 3.0 paradigm, the role of the compliance officer is quickly changing.

Regulatory compliance has escalated beyond our expectations. And, financial institutions – especially community institutions – have been dealt a triple-whammy as they’ve struggled to adapt to a technology-centric business model, escalating regulatory costs and risks, and added scrutiny from regulators.

Since 1995, regulatory changes have happened at rapid fire pace, with 150 to nearly 300 changes issued each year, and approximately 12,000 items contained within the Code of Federal Regulations. More alarming, however, is the growing volume of enforcement actions. The average number issued per quarter in recent years is three times the amount at the peak of the Savings & Loan Crisis. Currently, more than 10 percent of the banking industry is under action from various regulatory agencies.

Meanwhile, financial institutions aren’t the only ones feeling the pressure. Examiners are drowning in inconsistency. As they try to examine compliance in a structured, systematic fashion, they find that no two institutions handle compliance alike and most compliance programs are disjointed and painfully outdated. In an effort to clarify what examiners are looking for, regulators issue an overwhelming amount of updates and changes – more than 10,000 pages worth in 2013.
The compounded effect of all of this is that the workload and cost of compliance is skyrocketing. The Banking Compliance Index (BCI), published by Continuity Control, indicates the incremental cost over the trailing twelve months was over $150,000. It’s important to note that this is the additional cost a typical financial institution must expend to comply with only the changes issued in the last four quarters.

It’s safe to say that compliance as we know it has changed just as quickly and radically as the banking industry itself. But, what about the way compliance is managed?

There is a clear need for a new type of compliance officer – one that does much more than prepare the organization for audits, exams and regulator scrutiny. This next generation compliance officer must be a vital part of the institution’s executive leadership, a critical advisor to the CEO and an enabler of innovation.

Compliance Officer 2.0 – What’s Different?

Interestingly, the biggest changes in the role of the compliance officer aren’t summed up in the thousands of pages issued by regulators each year. To understand them requires a change in altitude of thinking.

The evolution of the role – from compliance officer 1.0 to 2.0 is centered on four fundamental areas – mindset, focus, job and management.
Mindset – From Policing to Enablement.

For years, the mindset of compliance management has been framed by a single question: how do we keep the institution out of trouble? As such, the culture of compliance within most community banks and credit unions has been largely one of policing and control. It’s also been an impediment to change.

Today’s compliance officers must embrace change and enable innovation. Instead of saying “we can’t launch this new product or expand into a new market because…” they must be able to quickly identify the regulatory challenges and determine the best way to navigate around them.

Compliance Officer 2.0 is an agent of change, working closely with the CEO to take a more holistic view of how to simplify compliance as much as possible. The major objective is to eliminate any hurdles to doing business in a highly competitive environment. What objectives do we need to meet, and how can we implement these changes quickly and easily? Furthermore, how do we minimize disruption of change across the organization?

“The #1 job of compliance is keeping it simple and removing the hurdles to doing business.”

Andy Greenwalt, CEO Continuity Control

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**Mindset**

<table>
<thead>
<tr>
<th>How you think about change</th>
<th>Compliance Officer 1.0</th>
<th>Compliance Officer 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has resisted change to avoid potential risk</td>
<td>Embraces change as an opportunity to improve the business</td>
<td></td>
</tr>
<tr>
<td>We can’t do this because...</td>
<td>Here are the challenges we’ll need to work around</td>
<td></td>
</tr>
<tr>
<td>What must we do?</td>
<td>What objectives must we meet and what are the business implications?</td>
<td></td>
</tr>
<tr>
<td>This is what we have to do and by when</td>
<td>We can integrate this into our existing operations most simply by doing</td>
<td></td>
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</table>
Focus – From Task List to Compliance Management System.

The volume and pace of regulatory updates has made it easy for compliance professionals to get bogged down in a never-ending task list. With no finish line in sight, compliance has become a treadmill without a stop button. In Compliance 2.0, compliance professionals and executives pull the plug.

Rather than focusing on complying with each regulation, the focus is on creating a system that will enable compliance with all regulations – both current and future – no matter what the volume is. This means putting strategy before tactics and shifting away from daily, weekly, monthly and annual task lists (most of which are performed manually) to systematic processes that undergo continuous improvement. It’s important to note that regulators are putting more emphasis on the systems and processes in place as they realize that the implementation of such is the only way institutions can keep pace and effectively monitor risk vulnerabilities.

While there is no single industry definition, FDIC Compliance Management System Guidelines point community financial institutions in the right direction. Instead of worrying about the next task or exam, compliance officers must take the lead in establishing a compliance management system which supports the entire regulatory lifecycle. An effective system simplifies compliance management and makes it much more efficient by standardizing the review, implementation and enforcement of new regulations, updates and changes.

FDIC Guidelines

For a Compliance Management System

- Assesses its consumer protection, fair lending and CRA responsibilities;
- Ensures that employees understand these responsibilities;
- Ensures that requirements are incorporated into business processes;
- Reviews operations to ensure responsibilities are carried out and requirements are met;
- Takes prompt corrective action and updates materials (i.e. disclosures, training, etc.) as necessary.

Source: 2012 FDIC Directors College

<table>
<thead>
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<th>Focus</th>
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<th>Compliance Officer 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Focus</td>
<td>What’s my next task?</td>
<td>Let me review my alerts</td>
</tr>
<tr>
<td>Weekly Focus</td>
<td>What needs reviewed/monitored? What needs to be retrained?</td>
<td>How are my process updates progressing?</td>
</tr>
<tr>
<td>Monthly/Quarterly Focus</td>
<td>What policies/procedures need updated?</td>
<td>Project scoping for process update for regulatory changes</td>
</tr>
<tr>
<td>Annual Focus</td>
<td>Are we ready for our next exam? How can I be sure everyone has done their job properly?</td>
<td>Broad scope review to determine potential efficiency improvements</td>
</tr>
</tbody>
</table>
Job – From Reactionary to Proactive.

The function of the compliance officer has long been research-oriented and administrative-centric. Traditionally, the bulk of energy has been spent on understanding the regulatory changes and then scrambling to implement them piece-by-piece, regulation-by-regulation to meet a deadline.

But, with a compliance management system in place, the compliance officer role changes significantly from reactionary task management to proactive risk management. Instead of being buried in just the understanding and communication of regulatory requirements across the organization, today’s compliance officer now has the systems in place to allow them to spend more time implementing changes and improvements, assessing risk, and – ultimately – expediting innovation across the business. This has a drastic impact on time allocation as evidenced in Figure 1.

![Time Allocation Chart]

*Figure 1. Compliance Officer 2.0 spends more time on the job implementing changes and proactive risk management.*

<table>
<thead>
<tr>
<th>Job</th>
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<th>Compliance Officer 2.0</th>
</tr>
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<tbody>
<tr>
<td>Primary Objective of your role</td>
<td>Understand, communicate requirements, monitor compliance</td>
<td>Oversee the compliance management system and assess potential risk vulnerabilities</td>
</tr>
<tr>
<td>How you spend the majority of your time</td>
<td>Researching, understanding requirements, and educating others</td>
<td>Working with various departments to understand their operational processes to ensure effective integration of new requirements</td>
</tr>
<tr>
<td>Key skill for success</td>
<td>Detailed orientation and research</td>
<td>Executive thinking and communication</td>
</tr>
<tr>
<td>How you attack the problem</td>
<td>Evangelize belief</td>
<td>Encourage behavior</td>
</tr>
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</table>
Management – From Administrative to Leadership.

In compliance, the actions and outcomes have traditionally been black or white, right or wrong. If we don’t do X, Y will happen. But, as the role of compliance has been elevated to a strategic function, the role of the compliance officer has become one of a trusted advisor to the board and the CEO – one that keeps them informed as they make decisions about the future the organization. It’s their responsibility to do more than just educate the C-suite on the require regulatory changes. They must advise the management team on how to embrace compliance to achieve a competitive advantage.

Compliance Officer 2.0 now owns Profit and Loss (P&L) responsibility. This role must oversee implementation across different areas of the business and be a leader that works outside of the strict realm of compliance – because compliance is no longer a bucketed activity. Having earned a seat at the executive table, they are expected to:

• Understand where regulatory vulnerabilities exist and how to overcome them
• Create and execute strategies that will reduce and control compliance costs
• Gain buy-in across the organization and engineer behaviors that align with compliance objectives
• Demonstrate proven systems and processes are in place to actively reduce the regulatory burden
• Identify and mitigate compliance-related roadblocks on the path to innovation and competitive differentiation

Examiners assign the CEO and executive team ultimate accountability for regulatory compliance. Amidst the most competitive banking environment in history, CEOs are being forced to spend entirely too much time and energy on compliance. It’s important for compliance officers to understand that it isn’t just their day-to-day job that has evolved. Compliance officer 2.0 alleviates the pressure on the C-suite by playing an integral role in building a culture of compliance – one that’s a fundamental part of the business.
The role of the compliance officer has evolved just as radically and rapidly as other areas of the community banking business. With costs, complexity and scrutiny at all-time highs, today’s compliance officers are having a watershed moment. They have earned a seat at the executive table, and are expected to be an active participant in leadership. Those that rise to the occasion will be rewarded, but those that don’t may fail to meet new expectations.

The transformation from Compliance Officer 1.0 to Compliance Officer 2.0 is a process which requires some fundamental changes – from mindset and focus to the actual job responsibilities and management approach. But, these changes are feasible for any compliance officer that’s up for the challenge. A compliance management system provides the required framework for enabling those changes and ensuring efficient, consistent enforcement of a culture of compliance.

Continuity Control advises compliance officers and banking executives to consider the following as they transform their compliance operations and assess where they are on the continuum of evolving to Compliance Officer 2.0.
About Continuity Control

Continuity Control is an award-winning regulatory compliance management platform that combines advanced software with personalized service to help community financial institutions effectively manage their regulatory burden. Founded in 2008 by distinguished technology, banking, and compliance specialists, Continuity Control's platform reduces the resources and costs a bank or credit union must spend on compliance while ensuring that it passes regulatory muster. Built just for community institutions, Continuity Control is the most comprehensive compliance management platform on the market today. For more information, visit www.continuity.net.