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Featured Article

BCI Reveals High Costs are the New Normal for Compliance Spending

By Pam Perdue, EVP, Regulatory Operations, Continuity

SUMMARY: Despite a minor drop in third quarter spending, costs remain stubbornly high and are likely to stay that way unless compliance is better standardized.

According to the Q3 2015 Banking Compliance Index™ (BCI), the average financial institution (FI) spent $29,145 to manage regulatory changes in the third quarter—a substantial sum despite it being 30 percent less than the staggering $41,471 spent in the second quarter. Complying with regulatory changes took 384 hours, or the equivalent of 1.23 full-time employees.

Though costs were lower, page counts were up 30 percent to 2,231 pages—a disappointing change after two consecutive quarters of the lowest page counts since the BCI began tracking them in Q1 2013. High page counts typically indicate greater scope and complexity. In this case there were 70 rule changes compared to 73 last quarter.

Why the discrepancy between more pages and fewer hours? Bankers caught a bit of a break because the changes centered on operational areas where compliance is often well understood and business processes are more likely to be standardized. Examples include NACHA's rule updates, which clarified several definitions and required a disclosure for consumer ACH cards, and Bank Secrecy Act regulations from OFAC and FinCEN dealing with Venezuela, Cuba, Ecuador, Indonesia and Bosnia and Herzegovina. Overall, these were smaller changes to implement that impacted fewer roles than in other quarters.

2015 continues to be a banner year for enforcement. The third quarter saw 170 enforcement actions (EA)—18 percent fewer than last quarter but still close to record highs. With 553 actions in the first three quarters, the industry is on track to surpass last year's total of 620 EAs—even when accounting for the traditional fourth quarter slowdown due to holidays and closing the books for the year. BSA/AML, consumer protection, prohibition orders, and safety and soundness remain focal points.

The New Normal

With almost three years of BCI benchmarks, we can now confirm what bankers have long suspected: the cost of complying with regulatory changes is high and shows no signs of improving. The average financial institution has spent $36,829 per quarter just to address regulatory changes since Q1 2013. It's a full-time job that takes at least one employee—and often more—averaging 1.72 full-time employees per quarter.

That means the average institution is spending almost $150,000 annually to manage regulatory change—on top of hundreds of thousands spent on complying with existing regulations. It's the new normal in compliance and an expensive reality that institutions need to face head on.

In an ideal world, FIs would lobby for less onerous regulations, the regulators would hear them and compliance would become a much simpler issue. The problem is that the pace of regulation isn't slowing.

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Despite the best efforts of the financial services industry and its lobbies, since 1975 most quarters have seen 65 to 80 rule changes. That figure remains constant regardless of which political party is in power and what the economic conditions are.

And the truth is that even if the industry's deregulation wish list were granted, it would still create a huge compliance headache before anyone could enjoy the benefits. Just think of Dodd-Frank. If it were repealed tomorrow, each institution would have to revise policies, procedures, risk assessments and audit programs for all 286 parts—a tremendous task.

Containing Costs

That leaves just one option for institutions that need to insulate themselves from the rising cost of complying with regulatory changes—one that is reinforced by this month's data and strongly advocated by regulators: Institutions need to standardize processes by adopting a compliance management system (CMS).

A CMS gives institutions a standardized, mechanized, repeatable way of identifying and implementing compliance changes. With a good CMS model, it doesn't matter if an institution faces 2,000 or 6,000 pages of changes. An overarching system with policies, procedures and processes in place makes the rollout of regulatory changes a nonevent.

Bankers received a lucky break with lower costs this month despite a higher page count because the changes affected operational areas most likely to be understood and standardized. Just imagine the savings if every area of compliance were that well standardized.

In a hot regulatory climate, everyone clambers to know the areas regulators are focusing on, but these topics can distract from the one thing that all EAs have in common—a breakdown in the CMS. When an EA occurs, either there wasn't a CMS, it wasn't efficiently standardized or it didn't identify weaknesses in a timely manner. When there isn't a reliable, predictable, verifiable system to prevent weaknesses, an institution is asking for a surprise during exam time.

The regulators are spelling it out. Consider the October 2 FDIC TRID guidance which says "examiners will consider the institution's implementation plan, including actions taken to update policies, procedures, and processes, its training of appropriate staff, and its handling of early technical problems or other implementation challenges."

Heading into 2016, it will be more important than ever for institutions to operationalize compliance using a uniform CMS model. Not only will it help control the costs of implementing new rules, it will satisfy growing regulator expectations that changes are pushed through all layers of each organization in a timely and accurate manner.

If you're not already using Continuity's Compliance Core™, don't let growing compliance headaches and costs get out of hand. Now is the time to evaluate your institution's compliance management system to make sure processes and procedures are standardized and optimized to save your organization time and money and better meet regulatory expectations.

About Continuity

Continuity provides technology solutions that automate compliance management for financial institutions of all sizes. By combining regulatory expertise and cloud technology, Continuity provides a proven way to reduce regulatory burden and mitigate compliance risk. Our Compliance Core™ is an ecosystem of solutions designed to automate all aspects of compliance management, from interpretation of regulatory issuances through to intuitive task delegation, vendor management, business continuity planning and executive board reporting. We are a team of former compliance officers, bankers,

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examiners and technologists that have made it our mission to reduce the regulatory and operational burden of compliance management, so that financial institutions can get back to the business of banking. Continuity is headquartered in New Haven, Connecticut, and serves hundreds of institutions across 40 states. For more information about Continuity, visit www.continuity.net.