Is There an ROI on Compliance Investment?

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DOW JONES RISK AND COMPLIANCE

In recent years, corporate compliance budgets have increased to keep pace with new laws and regulations. As the compliance function takes on more responsibility and resources, it also becomes a more visible cost center, requiring CCOs to more effectively measure and defend the value they create for the organization.

That isn't always an easy task, since outcomes in compliance are often measured by avoiding problems. Defining and reporting on metrics for success can make compliance budgets less vulnerable to cost cutting and can also help justify additional investment. Firms can create metrics that measure the effectiveness of their program and benchmark their results against competitors, helping to transform what is often seen as a burden into a source of competitive advantage.

In a recent RANE Insight webinar, presented in partnership with Dow Jones Risk and Compliance, an esteemed panel of experts discussed ways to ensure effective, scalable, and cost-efficient processes for managing today's complex risk, while ensuring and demonstrating a return on compliance investment.

Speakers

Daniel Forrester, Founder & CEO, Thruue
Daniel Forrester is an author, speaker, and strategist with more than twenty years of top-level management consulting experience. He has helped dozens of for-profit and not-for-profit organizations reimagine their mission, reshape their company culture, and become high performing. In 2012, Forrester founded THRUUE to help clients link clear-minded strategies with high-performing cultures. Today, THRUUE's core values directly reflect the ideas of Forrester's book, Consider: Harnessing the Power of Reflective Thinking in Your Organization. Remaining dedicated to helping leaders and entrepreneurs, Daniel is a contributing writer for Monster.com, FastCompany.com, BusinessWeek.com, WashingtonPost.com and Entrepreneur.com.

Jonny Frank, Partner, StoneTurn
Jonny Frank brings more than 30 years of public, private, and education sector experience in preventing, investigating, and remediating fraud and misconduct. He joined StoneTurn in 2011 from PricewaterhouseCoopers (PwC), where he was a partner, and founded and led the firm's global Fraud Risks & Controls practice. When it was established in 2003 in the aftermath of Enron, PwC's Fraud Risks & Controls was the only "Big Four" practice devoted wholly to prevention, detection and remediation of fraud, corruption, waste, and abuse. Frank pioneered the "scheme and scenario" antifraud risk assessment framework, subsequently embraced or endorsed by the SEC, COSO, AICPA and IIA. He began his professional career as a Federal prosecutor in the U.S. Department of Justice, where he rose to Executive Assistant United States Attorney for the Eastern District of New York.

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Jonny Frank

Court Golumbic, Global Head of Financial Crime Compliance, Goldman Sachs
Court Golumbic is responsible for administering Goldman Sachs' anti-money laundering, anti-bribery, and government sanctions compliance programs. He oversaw Compliance for the global Prime Brokerage and Clearing businesses from 2005 to

2007, and served as co-head of Compliance for Operations, Technology, Finance, Human Capital Management, and Services from 2010 to 2012. Golumbic joined Goldman Sachs in 2005 as a managing director and was named partner in 2016. Prior to joining the firm, Golumbic was a senior managing director and global anti-money laundering compliance officer for Bear Stearns & Co. Before that, he served as an assistant US attorney in the US Attorney's Office for the Southern District of New York, where he prosecuted securities fraud, money laundering, and white-collar crimes. Earlier in his career, Court was senior advisor to the undersecretary for enforcement at the US Treasury Department, where he specialized in financial crime policy, and served as deputy secretary to the Financial Action Task Force on Money Laundering.

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Serina Vash

Serina Vash, Executive Director, Program on Corporate Compliance and Enforcement, NYU School of Law
A seasoned former federal prosecutor and litigator, Serina Vash brings with her two decades of practical experience and a passion for tackling the issue of deterring crime. Before joining NYU, Vash served for twelve years in the United States Attorney's Office for the District of New Jersey. There, Vash supervised and prosecuted a wide range of federal crimes, including cases involving securities fraud, money laundering, structuring, organized crime and racketeering, cybercrime, national security, and other financial frauds. In 2010, she was named the first-ever Chief of the Office's General Crimes Unit. Vash also served as Acting Deputy Chief of the Criminal Division, Senior Litigation Counsel in both the Organized Crime/Gang Unit and the National Security Unit, and a member of the Office's Trial Mentorship Program.

Moderator

David Lawrence, Founder and Chief Collaborative Officer, RANE

Quantifying ROI on Compliance

- "Compliance needs to sit inside a measured, managed, high-performing culture, in which leaders are clear about the mission and purpose of the institution, the vision, and the values," Daniel Forrester said. He also noted that, "It is the high performing cultures that bring additional benefits to the compliance conversation: retaining great people, attracting great people, having customers believe intuitively in your value proposition, and recognize the genuineness of the value that you lead."

- "Compliance professionals need to be able to demonstrate a compelling value proposition," Jonny Frank argued, "and involve business leaders, who are the 'first line of defense', to numerically quantify that which we think is intuitive: the financial benefit of having a strong culture." With respect to demonstrating a clear ROI, he stated, "sometimes the return on compliance is tangible, but sometimes it is intangible."

- Court Golumbic suggested "framing the risks" by looking at enforcement events befalling others in the industry and comparing this to how the institution has fared in its inspection and audit history. He recommended using metrics for legal and regulatory risk, such as the number of investigations, the number of relationships declined or terminated for legal or regulatory purposes, and the number of Suspicious Activity Reports (SARs), and providing examples of events the team unearthed to add dimension to the program. This helps demonstrate to senior management the benefits of a strong defense.

- With compliance as a cost center, Golumbic is mindful about explaining how his division's efforts are translated into becoming more efficient, evolving surveillance to reduce the problem of false positives, and becoming more cost-effective.

- Serina Vash asserted that "For the ROI equation for each company, there is no one-size-fits-all answer." She presented metrics for measuring gains as: "potential savings of crises averted, reputational gains, goodwill with government agencies and regulators, and increased morale." Costs, she noted, are not always monetary; they also include "the effect on risk appetite, diverted dollars from other research and investments, the effect on the ability to compete in the global economy, and the rising costs of senior compliance professionals in the face of increasing criminal liabilities."

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>
> *Daniel Forrester*

Developing an Effective Compliance Program

- In developing an effective compliance program, Vash advised that the program be industry- and company-specific. Compliance investments will be much different for tech companies than for financial firms.

- Frank said he uses a litmus test to measure compliance. He asks, "If the government were to eliminate a regulation, how would that impact my program?" He also stressed the importance of putting a monetary value on the risks.

- "Compliance should be a blended approach," according to Golumbic. "Certain areas are an enforcement priority, and an institution's control environment needs to be refined to address those particular priorities." At the same time, he said that compliance cannot exclude the risks endemic to the company and industry.

A Culture of Compliance

- Forrester warned that regulators may lay out guidelines but "cannot dictate to an institution what its culture is going to be." Institutions should be willing to spend money, time, and management attention to developing a culture centered around "who we are, our ethos, what we believe, and what we stand for."

- As an example, Forrester cited Alcoa, which built its entire strategy around the core value of employee safety. Though Wall Street initially shorted the stock, by focusing on the value and making the entire culture aware of the focus on safety, the company saw increased innovation, greater employee retention, and better relations with unions, all as its stock price increased over time.

- Frank cited a second example: GE Capital believed underperforming units must have had an ethics and compliance issue, so they parachuted professionals in for ethics and compliance training. Over the next year, earnings increased 15:1.

- In another example, Forrester brought up Louis Gerstner, who turned around IBM by focusing on culture. Quoting Gerstner, Forrester said, "Culture isn't part of the game, it is the game. Culture comes down to not what you expect, but what you inspect." He explained that inspection is "looking at the fundamental levers that drive behavior," and suggested asking, "Is culture linked to performance evaluation? In the allocation of decision rights afforded to employees? In the reward system?"

Values vs. Rules

- "If you want to see how returns on compliance will intersect with corporate opportunities, you have to look at corporate values," said Vash. She suggested, "Companies should be looking at values-based compliance systems, not rules-based compliance systems." "Employees will understand it better, get behind it, and support it," she argued.

- Vash further observed that regulations have been backward-looking over the last decade. "We are trying to stop crises of last year from happening again next year, and we are not forward-looking, or measuring what's lurking around the corner." She noted that this is a piecemeal approach rather than a holistic one, due in part to having a rules-based system instead of a values-based system.
- Forrester noted that "Millennials will make up 50 percent of the workforce in less than three years, and 75 percent of the workforce by 2030. I think they lean more on the values-base, purpose-base, connection-base."

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Working with Regulators

- Golumbic suggested a major area of focus should be on "cultivating a constructive exchange with regulators and law enforcement. That's been a significant focus of my team as we've dealt with a regime where we have on-site examinations by multiple regulators on a consistent basis. The more we can share about how we manage and refine our program, and the more transparent we can be, increases our credibility in the event something happens."
- The tension with regulators comes into play when there is a lack of understanding of the businesses themselves, according to Vash: "Companies need to be able to defend to regulators what their values are and how they have committed to abide by the law while being profitable and competitive."
- Frank observed that, "There is often a complaint by the business community that they're getting an insufficient return on their investment." But, he continued, "They may need to increase their [non-monetary] investment to get a better return. Taking the time and spending the resources to develop the relationship [within the business and with regulators, for example], this is part of the investment."

The Benefits of Self-Reporting

- "If it's not written down, in the eyes of anyone who is going to scrutinize our behavior subsequently, then it didn't happen," said Golumbic, who is focused on ensuring his compliance team can "establish an audit trail of good faith efforts to arrive at the appropriate conclusions so that even if we get it wrong, the record will reflect that it won't have been for a lack of trying. This creates its own set of administrative costs, but it is important to document rationale in order to better defend decisions."
- Vash asserted that "good faith efforts include self-reporting… It is important not to just document what you've done but to keep the lines of communication open with regulators so they know you and know what your company is doing."
- Golumbic created a library of presentations, metrics, and case studies so that his team has a ready source of information to provide to regulators and senior management to establish trust and confidence. He warned, "You don't want to have to reconstruct this effort every single time. On an ongoing basis, you should be capturing – in a replicable way – a trail of your efforts so you can shed light on them at the appropriate time."

ABOUT DOW JONES RISK & COMPLIANCE

Dow Jones Risk and Compliance provides unique data for monitoring a range of risks associated with third-parties. Committed to excellence and quality, we help financial institutions and businesses meet regulatory requirements on anti-money laundering, anti-bribery and corruption, economic sanctions, third party due diligence and commercial risk operations.

ABOUT RANE

RANE is an information services and advisory company serving the market for global enterprise risk management. We provide access to, collaboration with, and unique insights from the largest global network of credentialed risk experts covering over 200 categories of risk. Through our collective insight, we help enterprises anticipate emerging threats and manage today's most complex risks more effectively.