Integrated Compliance Efforts: Business Benefits Beyond Regulatory Mandates

Findings from the 2004 Global Financial Services Industry Risk-Based Compliance Survey Conducted by Protiviti and Operational Risk Magazine
INTRODUCTION

Firms are facing a growing number of regulatory mandates as new legislation seeks to strengthen risk management practices in an increasingly sophisticated financial services industry. Mandates such as the updated Basel Accord, International Accounting Standards Board’s Standard 39 (“IAS 39”), USA PATRIOT Act, and the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) have increased firms’ compliance responsibilities dramatically. These mandates have similar aims and overlapping reporting requirements. As firms’ compliance responsibilities continue to mount, a cost-effective response is an integrated risk management program.

Business Reaction and its Costs

In November 2004, Protiviti and Operational Risk magazine conducted a global survey to assess the current state of business compliance programs and initiatives commenced or planned to meet new compliance requirements. The survey focused on financial services institutions and included questions on compliance requirements for the following areas:

• Corporate Governance
• Basel II and Compliance
• Business Continuity
• Financial Crime including Anti-Money Laundering

The survey also measured changes in the resources invested to address these requirements. Generally, the survey indicated that a small number of compliance requirements are driving most compliance efforts. This highlights the significant potential for an integrated approach as part of a broader operational risk management program.

Regardless of firm size or primary business lines, the Compliance Survey brings together the multitudes of regulatory-mandated compliance requirements that are affecting organizations. We found that most organizations are focusing on the same major compliance initiatives: the Basel II Accord, changes to International Accounting Standards and Sarbanes-Oxley. Not only were these the most frequently cited initiatives, but they were also cited as the most important.

Coincident with firms’ increased compliance requirements is a significant increase in expenses. Firms have responded to greater compliance requirements by adding new technology and other resources. Non-technology
related compliance costs have increased more than 10% in the last two years for nearly 57% of the organizations surveyed. New technology platforms are driving costs to a lesser extent. Technology compliance costs have risen 10% or more over the last two years for 42% of companies. Over 75% of those respondents predict further increases of at least 10% in 2005. Organizations are making significant investments in pursuit of compliance with multiple regulations.

When asked to consider compliance requirements that overlap with Basel II’s operational risk management requirements, close to 60% of respondents identified at least two other compliance initiatives with overlap. The most frequent responses included audit/accounting rule changes, Sarbanes-Oxley, data protection legislation and COSO enterprise-wide risk management framework.

Integration for Business

As firms manage their businesses within these compliance initiatives, they will need to determine how to leverage time and money to efficiently identify, measure, monitor and respond to the risks they face. Compliance efforts cannot be viewed as special projects, but must be integrated as part of a cost-effective overall risk management framework. Additionally, that integrated risk management framework must align with and become the foundation of solid business practices. We believe that firms have the opportunity to avoid redundant efforts in pursuit of mitigating risk, and that such risk management can improve financial performance.

Investing in Risk-Based Compliance

With the level of resources being expended by financial institutions to adhere to regulations, firms should expect more than just meeting compliance requirements out of these significant investments. “Initiatives such as Basel II and Sarbanes-Oxley focus more on enhancing risk management and improving controls, which should ultimately improve the bottom line through reduced operating losses and lower earnings volatility. These results further strengthen the business case for investing in risk-based compliance initiatives,” said Randy Marshall, managing director and leader of Protiviti’s Financial Risk Solutions, in the November 2004 issue of Operational Risk magazine. We believe that an integrated technology platform and an integrated operational risk management framework together can not only aid financial institutions in achieving compliance, but also protect and strengthen shareholder value through an improved risk culture.

The importance of risk-based compliance has never been greater, with increasing scope and scale of recent regulatory mandates. We are pleased to present the results from the First Annual Risk-Based Compliance Survey, which was sponsored by Protiviti and Operational Risk magazine. Respondents from financial services organizations representing regions across the globe participated in this critical study. We want to take this opportunity to thank all those respondents who shared with us their management of current and anticipated compliance mandates, which enabled us to provide you with further insight on the challenges as well as the opportunities of greater focus on risk-based compliance. We hope you find this document to be a valuable contribution to your understanding of the practice of global risk-based compliance.

Questions regarding the survey should be directed to Angela Isaac, director and Basel II Services product lead, at 312.476.6489 or angela.isaac@protiviti.com.

Protiviti
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I. SURVEY DEMOGRAPHICS

Who are the respondents?

More than 260 participants responded to the Global Risk-Based Compliance Survey, conducted by Protiviti and Operational Risk magazine. Respondents explicitly indicated their primary business area in one of the financial services sectors displayed in the chart on the opposite page. Submissions to the Compliance Survey originated from all parts of the world including: the European Union (45%), Asia-Pacific region (17%) and the United States (12%). Respondents from the Middle East, Africa, Central and South America, and Non-EU European countries accounted for 16% of the total responses.
Respondents represented the full spectrum of financial services firms, both in terms of size and business activity. Financial institutions with total assets of US$100 billion or more represented over 20% of the respondents. In reviewing the responses on the following pages, it is important to keep in mind that smaller firms are also very well represented, with nearly one out of three respondents from firms that are less than US$1 billion in total assets. Overall, the survey received broad participation relative to size based on total assets.

Many sectors of the financial services industry were represented by those surveyed, with the majority of respondents coming from commercial and retail banking. Asset management and integrated financial services are also well represented among respondents, at approximately 17% each.
II. COMPLIANCE ACTIVITY AND INVESTMENT REQUIREMENTS

The financial services industry, more than many other industries, has for a very long time recognized the importance of a strong compliance function. Yet, today, many financial institutions are finding themselves under pressure to enhance their compliance management. The reasons behind the current emphasis on compliance are many. They include the challenges faced by the industry in implementing new requirements, such as Basel II and, in the United States, the USA PATRIOT Act; the recognition of heightened compliance risk faced by many companies forced to manage ever growing and complex businesses; the desire to avoid being the subject of the all too many recent headlines that speak to compliance failures at financial institutions; and the recognition of the importance of effective compliance management to a company’s overall corporate governance framework.

As is the case with other areas of risk management, the success of compliance efforts is dependent on people, processes and, increasingly, technology. The number of people with compliance responsibilities in financial institutions is growing. And, in order to comply with new and evolving regulatory requirements, financial institutions are turning more and more to technology as the enabler — to support the risk analysis required for Basel II, to help detect money laundering and terrorist financing, and to support financial reporting requirements. Industry experts predict sizeable, continuing compliance-related spending by financial institutions.

Properly done, investing in technology promoting an integrated compliance approach can yield multiple benefits. “In addition to protecting against reputation loss, which the markets have penalized swiftly and deeply in recent years, an integrated compliance strategy minimizes the institution’s risk of loss in handoffs between business activities, while also enhancing returns on investment by leveraging each compliance activity and investment dollar across a variety of requirements,” notes Cory Gunderson, managing director and leader of Protiviti’s Credit Risk Management practice. “The high level of investment required to identify, manage and monitor a financial institution’s operational, regulatory compliance and financial reporting risks often pales in comparison to the potential market capitalization hit from even one unmitigated compliance risk,” says Gunderson. The challenge the industry faces is aligning compliance needs wherever possible to maximize technology and avoid overburdening the business with repetitive requests. Successful organizations will exploit technology to meet multiple compliance objectives.
What are your firm’s five most important compliance initiatives?

Top five compliance initiatives: The full bar represents the percentage of total respondents who ranked selection as one of the top five compliance initiatives. The blue bar identifies the percentage of respondents ranking the specific initiative as their #1 choice.

When respondents were asked to choose their top five compliance initiatives and rank them by their importance to senior management, their top four choices clearly stood out: Basel II operational risk, Basel II credit risk, audit/accounting rule changes and Sarbanes-Oxley. In addition, they ranked Basel II credit risk and audit/accounting rule changes as the most important initiatives to the senior management of their firm. What is most interesting is that at least 20% of respondents indicated each of the compliance initiatives listed in the chart above as being in the top five compliance initiatives at their firm. This demonstrates the sheer number of compliance regulations facing firms today and the importance of integrated compliance/business processes while leveraging technology in meeting so many compliance regulations simultaneously.
For which initiatives has your firm purchased or built a technology platform to support compliance?

The initiatives respondents indicated as being in the top five compliance initiatives in their firm are the same initiatives for which they have purchased or built a technology platform to support compliance. The top four – Basel II operational risk, Basel II credit risk, audit/accounting rule changes, and Sarbanes-Oxley – follow in the same order as the previous question as well. The survey indicates the importance of technology platforms in implementing Basel II credit and operational risk compliance requirements, with each receiving responses of over 55%. Audit/accounting rule changes and Sarbanes-Oxley round out the top four, with the approaching implementation deadlines of Standard 39 from International Accounting Standards Board and Sarbanes-Oxley from the United States.
How have your firm’s non-technology related compliance costs changed over the past 24 months?

With the growing number of regulations, respondents are clearly seeing an increase in compliance-related expenditures. Compliance costs, excluding technology expenditures, have increased similarly. According to our respondents, nearly 28% reported increases between 1% and 9%, 32% reported increases between 10% and 24%, and still an additional 24% indicated increases greater than 25%.
How have your firm’s technology-related compliance costs changed over the past 24 months?

Likewise, the majority of respondents have seen significant growth in technology expenditures to support compliance initiatives in their organizations, with the trend expected to continue in the near future. Nearly 80% of respondents reported that technology-related compliance costs increased in the past 24 months, with one out of three respondents indicating those increases to be between 10% and 24%. In addition, 84% of respondents who reported that technology-related compliance costs increased in the past 24 months anticipate further increases into 2005.

Opinions of Risk-Based Approach to Compliance

While it seems to be evident that compliance-related expenditures are on the rise, we questioned the ultimate effect a risk-based approach to compliance would have on costs. Our respondents could not come to a consensus on this issue as 48% projected increases in compliance costs, compared to 38% of respondents who determined that a risk-based approach would result in a decrease in compliance costs. There was much greater agreement on the impact of compliance on regulatory scrutiny: 73% of the organizations surveyed agreed that a risk-based approach to compliance would result in a decreased potential for regulatory and reputational risk, which could prove to be priceless for the many financial institutions being faced with increased compliance requirements to manage risks associated with the industry.
III. CORPORATE GOVERNANCE

Given the number of corporate restatements, allegations that financial institutions may have aided companies in perpetrating financial fraud and the new corporate governance requirements that have been enacted in countries across the globe, it is difficult to imagine that corporate governance is not the number one topic in every boardroom. Even the vast majority of financial institutions that are well managed and conscientious in their dealings with their customers, employees, stockholders, regulators and other constituents are focused on the need to restore market confidence by demonstrating their commitment to sound principles of corporate governance.

In very broad terms, “corporate governance” is simply how the board of directors and senior management of a company direct the company's activities. It includes how they set corporate objectives; comply with applicable laws and regulations; manage day-to-day activities; protect the interests of their customers, shareholders and employees; and communicate company results to the marketplace. It also includes the code of ethics that a company develops to guide its activities and the tools it uses to enforce desired behavior of its executives and its employees.

As companies continue to implement corporate governance reforms, it is apparent that senior management will be challenged to develop a new working relationship with the board of directors, audit committees, regulators and external auditors. It will be senior management's responsibility to ensure that directors and audit committees have a good understanding of the company strategy and objectives and that they receive the information they need on an ongoing basis to monitor the company's performance. The integrity of the company's accounting and financial reporting systems will be the responsibility of management, the board, the audit committee and the external auditors. All these individuals will need to work together to ensure that the appropriate systems of controls are in place to monitor the risk, financial control and compliance with law.

Which executive is responsible for corporate governance compliance efforts?

![Responsibility for Corporate Governance Compliance Efforts](image-url)
For companies to restore market confidence by demonstrating sound principles of corporate governance there must be an executive responsible for the effort. The survey indicated corporate governance responsibility is concentrated within three roles: Head of Compliance, Head of Risk Management (or the Chief Risk Officer) and Chief Financial Officer. Almost 32% of respondents indicated their firms’ Head of Compliance is responsible for corporate governance compliance efforts. Twenty percent cited the Head of Risk Management or the Chief Risk Officer and 14% responded that the Chief Financial Officer is responsible for corporate governance. Only 8% of respondents, representing institutions from all asset sizes, said they had a dedicated corporate governance executive in place. The lack of accountability for compliance in recent years has caused the government to tighten its grip around companies’ financial reporting and disclosure requirements and regulators to step up their focus on management accountability for regulatory compliance. Thus, organizations have opted for creating positions within their firm to focus on compliance with regulatory mandates.

How much of an investment needs to be made to comply with regulations of multiple jurisdictions?

Today, compliance regulations are no longer restricted to a single jurisdiction. Whether recent compliance requirements are intended to be multi-jurisdictional, such as Basel II, or single-jurisdictional with greater reach as in the Sarbanes-Oxley Act of the United States, compliance requirements reach outside the bounds of a single jurisdiction. The question is what level of investment is required to meet regulations arising from multiple jurisdictions? Over 70% of respondents indicated that complying with regulations of multiple jurisdictions required a moderate or significant investment by their firms. When sampling only institutions with total assets of US$25 billion or more, the number is even more significant: 86%. For institutions with less than US$1 billion in total assets that said multiple jurisdiction requirements were applicable to them, still over 66% indicated moderate or significant investments were required. Only 15% indicated a small investment was required to meet compliance requirements of multiple jurisdictions. Not surprisingly, the cost of meeting compliance regulations of multiple jurisdictions is high.
At what stage of Sarbanes-Oxley compliance are firms?

In the United States, Sarbanes-Oxley has been the major, if not the most important, focus of many firms’ compliance efforts. The majority of U.S. firms reported that they are either Sarbanes-Oxley compliant or implementation is almost complete. Outside the U.S., Sarbanes-Oxley will be a focus for those companies registered with the U.S. Securities and Exchange Commission that are required to comply with the regulation by the end of 2006. This is reflected by the fact that most firms outside the U.S. indicated they were somewhere between initial implementation stages and implementation being almost complete. Of the respondents who consider Sarbanes-Oxley applicable to their organizations, only 11% have not started the process of implementation.

Are firms realizing any business benefits from Sarbanes-Oxley implementation?

Interestingly, a majority of respondents agree their organizations have seen benefits resulting from the implementation of programs to comply with Sarbanes-Oxley. Respondents cited improved internal controls, improved internal reporting, reduced reputational and regulatory risk potential, and more efficient business processes as the benefits they have received from Sarbanes-Oxley. Only 24% of respondents, largely represented by retail or commercial banking firms, indicated they did not detect any business benefits from Sarbanes-Oxley implementation.
What initiative would offer the greatest assistance with corporate governance compliance?

Due to the scope of corporate governance regulations facing firms, many organizations would find some degree of international coordination beneficial in meeting corporate governance compliance efforts. Respondents expressed the most interest in the international coordination of corporate governance rulemaking or a home-host corporate governance recognition framework, especially respondents in Europe and the Asia Pacific region. The majority of respondents indicating interest in a single international corporate governance set of rules were European. Interest in a home-host corporate governance recognition framework came mostly from institutions with US$25 billion or less in total assets. The largest institutions also favored mutual recognition in addition to international coordination.
What corporate governance initiatives do firms currently have in place or will have in place within 12 months?

**Corporate Governance Initiatives in Place vs. Those to be Put in Place Within 12 Months**

Firms cited a breadth of initiatives they have already implemented to assist in corporate governance compliance. The majority of respondents indicated having or implementing the following initiatives by the end of the year: improved reporting management system, enhanced IT security and code of conduct. Areas where banks also indicated new initiatives are: reputational risk management strategy, improved corporate governance policy framework and processes, and enhanced policies on new product development. The number of initiatives across all categories is expected to grow as responses indicated new corporate governance initiatives in 2005. Respondents continue to be proactive in implementing various strategies to aid in compliance with corporate governance regulations.
**IV. BASEL II AND COMPLIANCE**

For financial institutions, the focus on complying with the Basel II Accord further reinforces the importance of a consistent operational risk management framework to overall governance and decision-making.

Financial institutions globally are facing an unprecedented number of compliance initiatives, which have at their core a common regulatory theme of concern over operational risk management effectiveness. Where in the past, the typical organizational response has been to address such legislation with a compliance-based approach, it is our point of view that such an approach leads to fragmented and inefficient, and indeed potentially ineffective, management strategies.

We believe that integration of management’s response to Basel II and similar compliance requirements such as Sarbanes-Oxley, enabled by a robust technology infrastructure, provides the greatest competitive opportunity to properly align institutional accountability and transparency, to derive holistic and meaningful information for decision-making, and to achieve optimized and sustainable business processes. The overall result is a strengthening of the corporate governance culture, more informed risk taking, risk-based capital allocation and pricing, and ultimately enhanced corporate profitability.

**Is there any correlation between Basel II and other areas of corporate compliance?**

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<thead>
<tr>
<th>Areas of Corporate Compliance Which Overlap Basel II Operational Risk Management Requirements</th>
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<tbody>
<tr>
<td>Audit/accounting rule changes (e.g., IAS 39)</td>
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<tr>
<td>Sarbanes-Oxley</td>
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<tr>
<td>Data protection rules or legislation</td>
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<td>COSO enterprise-wide framework</td>
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<td>National business continuity rules or laws</td>
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<td>National corporate disclosure and reporting rules</td>
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<td>Complex structured products rules</td>
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<td>EU corporate governance regulations</td>
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<td>Straight through processing</td>
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<td>EU Third Money Laundering Directive</td>
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<td>U.S. Anti-Money Laundering laws</td>
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<td>Markets in Financial Instruments Directive (MiFID)</td>
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<td>USA PATRIOT Act</td>
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<tr>
<td>EU Second Money Laundering Directive</td>
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<td>Gramm-Leach-Bliley Act (US)</td>
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<td>U.S. Exchange listing regulations</td>
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Respondents indicated a number of corporate compliance requirements that overlap requirements set forth by the Basel II Accord. Half of the respondents agreed that the Basel II Operational Risk Management requirements overlap audit and accounting rule changes, such as IAS 39. Other primary areas in which Basel II compliance appears to overlap include: Sarbanes-Oxley, data protection rules or legislation, COSO enterprise-wide framework and national business continuity rules or laws. The more recent regulations, such as Sarbanes-Oxley, appear to encompass some of the compliance requirements as set forth by the Basel II initiative, while many of the older rules and regulations, such as the USA PATRIOT Act, may not cover issues intended to be addressed by Basel II.
Areas of overlap with Basel II may offer opportunities for integration of Basel II and complementary compliance requirements or a head start on Basel II compliance. The majority of respondents who saw a correlation between compliance with Sarbanes-Oxley and Basel II have already begun implementation of Sarbanes-Oxley compliance. While a mere 12% of respondents (who see an overlap between Sarbanes-Oxley and Basel II requirements) are currently fully compliant with Sarbanes-Oxley, an additional 78% of respondents are in the process of adherence to Sarbanes-Oxley regulations, with 38% reporting as “almost complete.”

Overall, to what extent would your institution find an integrated system solution of Basel II Operational Risk AMA and other compliance requirements (e.g., Sarbanes-Oxley) desirable?

Financial institutions are facing a host of different compliance rules and regulations. The ability of a company to address Basel II compliance requirements, as well as requirements for other overlapping compliance regulations simultaneously, may prove to be cost-effective and time-efficient. Over 60% of the respondents surveyed agree that an integrated system solution of Basel II Operational Risk AMA requirements and other compliance requirements would be desirable, while only 11% do not consider this type of solution a priority.
Are firms concerned that reporting and disclosure conflicts will arise between Basel II requirements and International Accounting Standards?

Two-thirds of respondents expressed concern about potential conflicts in reporting and disclosure between Basel II requirements (identified in Pillar 2 “Supervisory Review Process” and Pillar 3 “Market Discipline”) and International Accounting Standards. Because many financial institutions look for capital globally, regulators are challenged to meet the needs of market participants while ensuring investor protection and market integrity through full disclosure based on the International Accounting Standards. Basel II will emphasize enhanced risk- and capital-related disclosures to foster an improved capital adequacy framework.
V. BUSINESS CONTINUITY

Although financial services firms are the most mature when it comes to developing and executing business continuity plans, formal business continuity management programs are being introduced and matured in a growing number of organizations worldwide.

At a high level, business continuity is defined as the development of strategies, plans and actions that provide protection or alternative modes of operation for those activities or business processes which, if they were to be interrupted, might otherwise bring about a seriously damaging or potentially fatal loss to the enterprise. Business continuity is not limited to information technology alone. Rather, business continuity is comprised of three integrated disciplines:

**Crisis Management** – processes designed to protect people and property, as well as stabilize a situation in preparation for recovery;

**Business Resumption** – processes focused on the recovery of critical business processes in order to minimize the impact of downtime; and

**IT Disaster Recovery** – actions designed to recover critical technology assets, to include voice and data networks, business applications and data.

For those firms with existing business continuity programs, a wide variety of drivers continue to push executive managers to expand the scope of business continuity or deploy more mature solutions. Beyond the “traditional” regulatory drivers that continue to hold executive management accountable for the design, deployment and maintenance of business continuity plans, new drivers are emerging. Specifically, organizations have identified lessons learned following the events of September 11 and understand the human element much more clearly now than in the past. More mature business continuity programs now focus heavily on the human dimension, and include robust accountability and communications elements. In addition, senior managers are more closely integrated into response and recovery processes given the need to protect the reputation of their institutions.

Overall, the following Compliance Survey results are consistent with these trends. Additionally, the survey highlights a more strategic business issue, which is the convergence of numerous risk management disciplines. Business continuity has emerged as a differentiator and one of the many facets of a tightly-integrated risk management program. The lines are blurring between business continuity and the traditional risk management practices of physical security and personnel protection, health and safety, facilities management, and insurance. In today’s business environment, business continuity is far more than a purely technical challenge.
Who is responsible for business continuity compliance within organizations?

Over the past 10 years, ownership, responsibility or accountability has effectively transitioned from the information technology and internal audit departments to a more business-focused role. The results of the survey demonstrate that only 20% of organizations drive business continuity from internal audit and IT. These organizations typically find it difficult to fund non-IT recovery solutions (when owned by the CIO), or develop and deploy business continuity solutions given a focus more on risk assessment and business impact analysis (when driven by the internal audit department). Sixty-seven percent of organizations note a business “owner,” with a large number of business continuity programs managed by risk management and compliance professionals.

To summarize, these trends allude to a convergence of business continuity with other risk management disciplines.
Will firms really need to utilize their business contingency plans?

Given the events of September 11, the 2003 blackout in the northeastern United States and also in Italy, and an active hurricane season in Florida, executives are concluding that they are likely to face a business interruption. According to the Compliance Survey, more than 50% of respondents feel a business interruption is likely. Regulatory and contractual demands, in addition to threat perception highlighted in the survey, are driving the increasing growth of business continuity investment and maturity.
Do threats of terrorist attacks impact business continuity plans and related expenditures?

The wars in Iraq and Afghanistan, pervasive terrorist attacks, North Korea and Iran’s nuclear ambitions, and Osama bin Laden video clips on Al-Jazeera have led to continuing executive manager concern regarding terrorism. More than 75% of respondents noted that the threat of terrorism impacts business continuity planning. Perhaps related to these findings, September 11 demonstrated to risk management professionals that foreseeable threats and the concept of their likelihood are less important than planning for worst-case, high impact events that could have long-term implications regarding survivability.

How should business continuity practices be determined?

The split nature of the results from this survey question is not surprising. Benchmarking results, regulator commentary, experience and standards all have an impact on best practice perception. Like many risk management disciplines, business continuity management is not fully mature nor are practices consistent. Additionally, it’s important to note that although organizations strive to be “best in class,” many implement solutions based on their unique business requirements.
Do firms have business continuity plans in place for today and for the future?

Business continuity continues to mature beyond the data center. Based on lessons learned from a wide variety of business interruptions, investment in communication and human resource related continuity mechanisms have increased. Based on our experience, management remains concerned about the availability of shared back-up facilities (IT and workplace recovery). A growing number of executives have concluded that dedicated internal solutions, although perhaps more costly to manage and maintain, are less risky. These survey results support Protiviti’s view of emerging business continuity planning trends. In terms of future initiatives, the survey concluded human resources and communications solutions are pervasive needs. Emergency control centers and the need for central management of events are a pending need as well. Lastly, physical security improvements continue to be pursued, which is related to the concern regarding the threat of terrorism.
VI. FINANCIAL CRIME

Financial institutions, by their very nature, are prime targets for fraud. Common financial institution fraud includes identity theft, check fraud, mortgage and other lending frauds, credit and debit card fraud, ATM theft, robbery, employee embezzlement and money laundering. Tempted by the vast amounts of non-public personal information collected by financial institutions and aided by technology, fraud schemes have become more complex and international in scope and often involve organized crime groups. New words, such as “phishing,” have even entered our vocabulary to describe these emerging schemes.

Following the events of September 11, heightened attention has been paid to preventing and detecting money laundering and terrorist financing in the financial services industry. Significant investments are being made not only in money laundering detection software, but also in databases that help identify high-risk customers and validate customer-provided information.

While financial institutions have considerable experience with fraud prevention, deterrence and detection techniques, financial institution fraud programs have often been managed on a business unit or departmental basis, not as part of a corporate initiative. Examples would include systems and processes in place to detect check kiting, credit card fraud or even money laundering. In the current environment, however, the pressure is on to develop and maintain comprehensive, corporate-wide anti-fraud programs that leverage technology and information across the organization. The identification and measurement of fraud risks must be incorporated into a financial institution’s overall risk management program.

Which executive is responsible for financial crime compliance?

In recent years, technology changed the way financial crime is committed. After September 11, heightened attention has created new anti-money laundering (AML) compliance efforts. Firms understand the consequences of financial crime and thus the importance of having an executive in place to ensure that financial crime does not become an issue within their organizations. By far, most respondents (43%) agreed the “Head of compliance” is responsible for financial crime compliance efforts in their organizations, while only 10% of respondents report having a dedicated financial crime/anti-money laundering executive in place.
Have Suspicious Activity Reports (SARs) had an impact on tracking financial crime?

The importance of anti-money laundering efforts after September 11 has increased the number of initiatives as well as tools and resources to help authorities in tracking and fighting financial crime. The relationship between law enforcement and financial institutions is key in tracking and fighting financial crime. It is important for financial institutions to feel their efforts, such as Suspicious Activity Reports (SARs) filings, are making a difference in combating financial crime. The vast majority of respondents surveyed agree that SARs have had a moderate to very high impact on the ability of law enforcement authorities to track financial crime. Fewer than 5% of respondents felt SARs filings have no impact on tracking financial crime. With most respondents indicating only a moderate impact, there appears to be some room for improvement.
How do firms rate their financial crime legislation and the relationships they maintain with law enforcement officials?

Relationship with Law Enforcement in the Financial Crime Area

It is imperative that financial communities work proactively with law enforcement to uncover incidents of fraud or money laundering. The respondents agreed, as 87% reported productive relationships with authorities. Larger institutions reported a more favorable relationship with law enforcement, with over 85% reporting a productive relationship, while 88% of institutions reporting an unproductive relationship had less than US$50 billion in assets.

How well is anti-money laundering (AML) legislation in your jurisdiction drafted?

Quality of AML Legislation Considering Cost vs. Benefit

In conjunction with maintaining positive and productive relationships with authorities, financial institutions need to believe that AML legislation is well drafted. It is the financial institutions, not the legislators, that have to implement AML requirements. It is also important to weigh the cost of implementing regulations compared to the benefits realized from doing so.
Over 67% of respondents considered AML legislation in their area to be well drafted when considering cost versus benefit, while just more than 5% feel AML legislation in their jurisdiction is poorly drafted. It appears financial institutions feel confident in AML legislation. However, more work may be needed given that almost 28% of respondents reported that legislation in their jurisdiction is not so well drafted.

What tools do organizations use to aid in compliance with financial crime regulations?

Financial Crime Compliance Tools Currently Used and Additional Tools Planned to be in Place Within 12 Months

In order to comply with financial crime regulations, firms have implemented various strategies to assist in their compliance efforts. Nearly 65% of respondents currently monitor transactions and accounts, and almost 50% have implemented transaction filters that screen against government lists. Across the board, firms seem to be executing a number of preventative and detective controls and will continue to do so. The majority of these controls are technology-related, minimizing the amount of time and energy otherwise required to achieve compliance with financial crime regulations.

Conclusion

The importance of risk-based compliance has never been greater with increasing scope and scale of recent regulatory mandates. Managing these mandates challenges the capabilities and resources of affected institutions. In order to further the practice of risk-based compliance, we must gain a greater understanding of how organizations are managing these significant initiatives, in terms of resources, infrastructure and technology. We hope that the results of this First Annual Global Risk-Based Compliance Survey provide greater insight on what these organizations are doing globally to address their compliance mandates.
About Protiviti Inc.

Protiviti is a leading provider of independent internal audit and business and technology risk consulting services. We help clients identify, assess and manage operational and technology-related risks encountered in their industries, and assist in the implementation of the processes and controls to enable their continued monitoring. We also offer a full spectrum of internal audit services focused on bringing the deep skills and technological expertise to enable business risk management and the continual transformation of internal audit functions.

Protiviti has more than 35 locations in North America, Europe, Asia and Australia. The firm is a wholly owned subsidiary of Robert Half International Inc. (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

Business Risk

Successful companies know that without risk, there can be no reward. Risk goes hand-in-hand with the profitability and long-term growth of an organization. But what often keeps business leaders awake at night is not knowing the key risks on which to focus – competitors, regulatory compliance, profit margins, financial restatements, fraud, loss of revenues, etc. Risks are managed by controls within an organization’s business processes. These same processes drive business performance and ultimately determine enterprise value. The melding together of risk, control and business processes provides the foundation for the unique perspective Protiviti shares with our clients. From the proven methodologies we use and the technologies we deploy to the client relationships we nurture, Protiviti works to protect and enhance the enterprise value of our clients.

Basel II Services
Capital projects and construction
Corporate security
Credit risk management
Enterprise risk management
Financial investigations
Financial process effectiveness
Litigation consulting
Sarbanes-Oxley Act compliance
Regulatory risk
Revenue assurance
Spend risk solutions
Supply chain risk management
Trading and commodity risk
Treasury risk management

Technology Risk

Like brakes on a car, controls on technology help you go faster. They help you navigate pitfalls that stand in the way of your success, such as lax security, failed continuity and poor project management. Technology risk management also allows you to innovate, introduce and advance your solutions with confidence. We help you design and implement practical risk management solutions to allow you to push your technology to the edge – to maximize its value.

Security and privacy
IT operations risk management
Business systems control and effectiveness
Business continuity/disaster recovery
Information systems testing
Reliability and performance management
IT asset management
Project risk management
Change management
IT optimization
Infrastructure

Internal Audit

Protiviti provides a full spectrum of services, technologies and skills to management, directors and the internal audit community. We provide world-class professionals and state-of-the-art methodologies and tools. Our network allows us to offer the right resources at the right time and in the right place to meet your needs, and we offer a creative and flexible approach to quality assurance reviews, from a standard compliance report to a full transformation of your capabilities. We also provide ongoing assistance for your internal staff and systems.

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Protiviti Subject Matter Experts

NORTH AMERICA:

Carol Beaumier
Managing Director, Financial Services and Regulatory Risk
New York, New York
Tel: +1 212.603.8337
E-mail: carol.beaumier@protiviti.com

Jim DeLoach
Managing Director, Governance Services
Houston, Texas
Tel: +1 713.314.4981
E-mail: jim.deloach@protiviti.com

Cory Gunderson
Managing Director, Credit Risk Management
Chicago, Illinois
Tel: +1 312.476.6382
E-mail: cory.gunderson@protiviti.com

Randy Marshall
Managing Director, Financial Risk Solutions
New York, New York
Tel: +1 212.603.8365
E-mail: randy.marshall@protiviti.com

Carmen Rossiter
Managing Director
Toronto, Canada
Tel: +1 416.350.2181
E-mail: carmen.rossiter@protiviti.com

Angela Isaac
Director and Product Leader, Basel II Services, Operational Risk
Chicago, Illinois
Tel: +1 312.476.6489
E-mail: angela.isaac@protiviti.com

Brian Zawada
Director and Product Leader, Business Continuity
Cleveland, Ohio
Tel: +1 216.696.6098
E-mail: brian.zawada@protiviti.com

EUROPE:

Mike Adlem
Managing Director
London, United Kingdom
Tel: +44 20 7930 8808
E-mail: michael.adlem@protiviti.co.uk

Jonathan Burnett
Managing Director
Paris, France
Tel: +33 1 42 96 22 77
E-mail: jonathan.burnett@protiviti.fr

Giacomo Galli
Managing Director
Milan, Italy
Tel: +39 348 0384 114
E-mail: giacomo.galli@protiviti.it

ASIA/PACIFIC:

Gary Anderson
Managing Director
Melbourne Vic, Australia
Tel: +61 39 672 4213
E-mail: gary.anderson@protiviti.com.au

Hyo Kambayashi
Managing Director
Osaka, Japan
Tel: +81 90 5044 8329
E-mail: hyo.kambayashi@protiviti.jp
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