



# 2016 Compliance Transformation Survey

**How compliance leaders view their programs**

Prepared for Consumer Market industry

November 2016

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Dear Colleague,

We are pleased to present this report on KPMG LLP's (KPMG) 2016 Compliance Transformation Survey (Survey), which examined the progress that major organizations across multiple industries are making in their compliance journeys.

The challenges facing compliance officers continue to grow due to increases in the number and complexity of regulatory requirements and more rigorous enforcement by authorities. As societies place a greater priority on ethical behavior by organizations, the role of compliance is expanding beyond the traditional regulatory and legal compliance issues to include a much wider range of concerns such as ethical standards and sustainability.

To understand how organizations are responding to this changing environment, KPMG surveyed chief compliance officers and similar senior compliance executives (collectively, CCOs) from major organizations across seven industries regarding their compliance activities. The Survey addressed each of the nine components in KPMG's proprietary Compliance Program Framework, including compliance risk assessment, governance and culture, technology and data analytics, and monitoring/testing, among others. By examining specific compliance activities across the nine program components, we believe the Survey results can provide CCOs with vital information on how other organizations are managing compliance as well as highlight leading practices to consider implementing consistent with their organizations' risk profile and risk tolerance.

The current environment, which is distinguished by rapid regulatory change and expense reduction pressures, elevates the need to develop a risk-based strategic vision for compliance. Such a vision must be based on an understanding of current regulatory expectations as well as the likely trajectory of regulatory change. From there, it is possible to establish priorities for investment in core activities consistent with the compliance vision. Successful realization of the compliance vision will be dependent on the board of directors, senior management, executive leadership, and each of the three lines of defense sharing the same perspective and working toward the same goal.

We trust that the 2016 Compliance Transformation Survey results will provide you and your organization with valuable insights into your current state of compliance and highlight additional program enhancements for you to consider.



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# Executive summary

KPMG's 2016 Compliance Transformation Survey found that most organizations are making substantial progress in their compliance journeys, particularly in foundational areas such as **governance and culture; policies and procedures; and communications and training.**

However, organizations have made more limited progress in compliance activities that enable detection and response such as **monitoring and testing** and leveraging the power of **technology and data analytics.** In addition, most organizations recognize they have much more work to do in the area of **people, skills, and due diligence,** especially when it comes to their third-party due diligence processes, assessing the compliance skills of their employees, and considering adherence to compliance policies as a factor in performance ratings and compensation decisions.

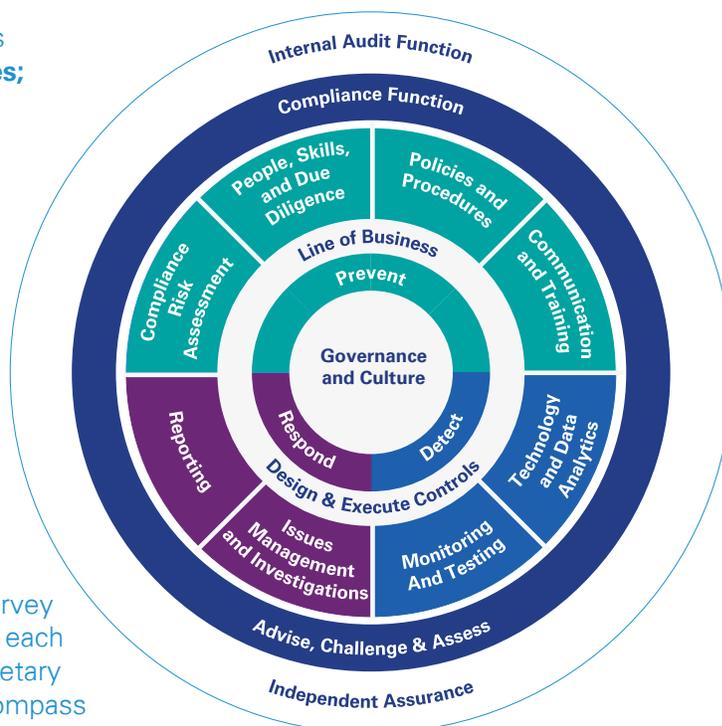
These are some of the key findings of KPMG's 2016 Compliance Transformation Survey, which was completed by CCOs in major organizations in seven industries. The survey examined the specific compliance policies and practices in each of the nine core compliance components in KPMG's proprietary Compliance Program Framework. These components encompass the range of compliance activities that CCOs should focus on when assessing the effectiveness of their compliance programs and setting priorities for improvement.

## Program strengths – all respondents

Across the nine compliance components, organizations generally report having strong programs in three primary areas that are "preventive" activities: **governance and culture, policies and procedures, and communications and training.**

Most CCOs report their **governance and culture** structures are in place, with the board of directors or a committee of the board annually reviewing and approving the compliance program and receiving reports on how the organization is mitigating compliance risk. In addition, most organizations have a code of conduct that clearly communicates expectations to employees regarding the compliance culture. Yet, many CCOs recognize that their lines of business could take greater ownership of the organization's compliance culture and agenda, and they do not perceive that employees recognize the competitive advantage provided by a strong compliance culture and good conduct.

## KPMG's Compliance Program Framework



In addition, most organizations have implemented **policies and procedures** to support their compliance programs. These policies and procedures generally align with their mission, vision, and values and are included within the organization's code of conduct and related policies and procedures. Many organizations, however, could still improve their processes for monitoring and responding to regulatory change.

Another area of strength for many organizations is in **communications and training** efforts. Most organizations report that they have clear lines of communication across their organization, that they have implemented comprehensive compliance training programs for all employees, and that new employees receive compliance training appropriate to their roles and responsibilities. Training of third-party contractors, however, remains an area where additional improvements are generally needed, with many organizations not having a formal annual training program for their vendors.

## Program components needing greatest improvement – all respondents

The Survey also identified three areas where substantial improvements in compliance programs could still be valuable: **technology and data analytics; monitoring and testing;** and **people, skills, and due diligence** (including third-party due diligence). It is noteworthy that both **technology and data analytics** and **monitoring and testing** are “detective” activities in KPMG’s Compliance Program Framework. As organizations develop more mature compliance programs, they work to strengthen the preventive elements of their programs and further develop capabilities to detect potential future problems. The Survey results suggest that, especially for these three components, many organizations could still make substantial progress in their journey towards more robust compliance programs.

Across the nine compliance components, organizations report the least progress with respect to **technology and data analytics**. Many organizations say they do not leverage technology to support their compliance initiatives, do not use key performance indicators (KPIs) and key risk indicators (KRIs) in their monitoring and testing to drive root cause analysis and trend reporting, and do not integrate them into compliance governance and risk management. Further, most CCOs have not confirmed that their technology infrastructure fully aligns with their compliance requirements and some gaps still need to be addressed.

In addition, a majority of organizations have established compliance **monitoring and testing** programs that encompass process, control, and transaction testing and that monitor and track regulatory change. These organizations also have a formal process in place for reporting results and tracking issues. However, many struggle to monitor their third-party vendors, often lacking a process to confirm they adhere to compliance due diligence processes and technology to manage third-party risks.

Furthermore, in the area of **people, skills, and due diligence**, most organizations perform onboarding due diligence for new employees and third-party vendors, including background checks and skills assessments, and address compliance infractions in a timely manner. Most do not, however, assess compliance skills annually for their first-line and second-line personnel, and many do not consider adherence to compliance policies and procedures as a factor in performance ratings and compensation decisions.

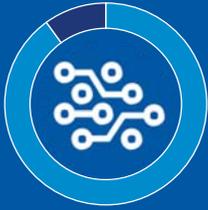
## Identified strengths

- 1 Governance and culture programs, including codes of conduct, are mostly in place with board participation
- 2 Policies and procedures support compliance programs and align with the organization’s mission, vision, and values
- 3 Clear lines of communication exist within organizations, and employees generally receive training appropriate to their roles and responsibilities
- 4 Employees and third-party vendors are subject to onboarding due diligence and skills assessments

## Identified areas for improvement

- 1 Recognizing the competitive advantage provided by a strong compliance culture and good conduct
- 2 Monitoring and responding to regulatory change
- 3 Conducting ongoing assessments of employee compliance skills and adherence to policies and procedures
- 4 Ongoing oversight of third-party contractors and vendors, including monitoring, testing, and training
- 5 Aligning technology infrastructures with compliance requirements, and leveraging technology to support compliance initiatives

# Key findings - all respondents



**Boards of directors provide active oversight.** More than **90 percent** of CCOs report their board of directors or a committee of the board is adequately informed of compliance risks and mitigation efforts. The group meets annually to review and approve the compliance program.



**Engaging the organization in compliance Risk Assessment.** While **84 percent** of CCOs report having a compliance risk assessment process, **31 percent** do not agree that business unit, operations, and IT management are involved in assessing compliance risk within their units.



**More involvement needed from lines of business.** Only **65 percent** of CCOs say that management in the lines of business take ownership of the compliance culture and agenda. Only **15 percent** strongly agree with this statement.



**More focus required on third parties.** Only **half** of organizations have a process to confirm that third-party vendors adhere to compliance due diligence processes, and just **31 percent** manage third-party risk and issue tracking through an enterprise-wide tool capable of monitoring KPIs and KRIs.



**Communicating to employees the importance of compliance.** Four in 10 CCOs (**39 percent**) do not consider adherence to compliance policies and procedures as a factor in performance ratings and compensation decisions, and **32 percent** do not agree that their employees understand the competitive importance of a strong compliance culture.



**Opportunities to leverage technology.** While **69 percent** of CCOs say their organization leverages technology to support its compliance initiatives, only **47 percent** say they use data analytics and other technology processes to conduct root cause and trending analysis.



**Compliance policies and procedures.** **94 percent** of organizations report having appropriate policies and procedures in place, while **95 percent** have compliance requirements including the code of conduct accessible to all employees.



**Many organizations require more robust compliance testing.** Less than **two-thirds** of CCOs report having a compliance testing program and plan under which the organization performs transactional, process, and controls testing.



**Keeping pace with regulatory changes.** Only **27 percent** of CCOs strongly agree that the compliance department has a change management process in place to identify and incorporate changes in laws and regulations.



**Widespread use of enterprise-wide compliance reporting.** **84 percent** of organizations provide reports on the enterprise-wide state of compliance including culture, conduct, governance, and key issues. In contrast, only **47 percent** of CCOs say their company has an enterprise-wide reporting system that is integrated across functions and business units and with compliance monitoring.



# Consumer Market industry overview

**For U.S. consumer markets organizations, compliance obligations originate from various regulatory and evaluative frameworks, such as the U.S. Sentencing Guidelines. Unlike industries such as healthcare and life science, and financial services, where detailed regulatory compliance requirements inform a mature corporate compliance structure and compliance activities, consumer markets chief compliance officers (CCOs) arguably have more flexibility to design an effective program that is tailored to their organization's specific needs, culture, and risk profile.**

KPMG LLP's Compliance Survey provides insights into the maturity of compliance programs at eight of the largest consumer markets organizations in the United States. As expected given this regulatory backdrop, the consumer markets CCOs who participated in KPMG's Compliance Survey responded that their top compliance challenges are foundational and strategic, and ultimately link back to the concept of an **effective** program. This includes the following challenges:

- Enhancing accountability and compliance responsibilities (63 percent)
- Improving the effectiveness and sustainability of compliance (63 percent)
- Managing changes in surveillance, reporting, data, and controls (50 percent).

When compared to organizations across all industries, consumer markets CCOs generally report having less mature compliance programs in at least six of nine compliance program areas, especially in their **compliance risk assessment, governance and culture, reporting, and monitoring and testing** efforts<sup>1</sup>. The compliance programs at consumer markets organizations also seem to require substantial improvements in the area of technology and data analytics, where they are similar to other industries in having less mature programs.

<sup>1</sup> Note: KPMG's Survey sought feedback from consumer markets CCOs on the effectiveness of their entity-level compliance programs and controls, rather than feedback on compliance programs and controls in specific risk areas (e.g., Antitrust or Anti-Bribery and Corruption).

In identifying program activities to prioritize for enhancement, consumer markets organizations may wish to consider starting with areas that do not appear to be aligned with regulatory expectations. Depending upon the organization, these may include:

- Strengthening compliance risk assessments
- Enhancing accountability within the first line of defense
- Refining roles and responsibilities across the three lines of defense
- Enhancing control assessments.

Consumer markets CCOs should ensure they have a compliance program that can meet basic regulatory requirements before investing in more complex, larger-scale efforts.

Note: The summary below does not include the compliance program components **communications and training and issues management and investigations**, because the responses of consumer markets organizations were similar to the responses of all survey respondents.

## Program strengths

1

Among consumer markets CCOs, **63 percent** strongly agree that compliance infractions are addressed in a timely manner and appropriate disciplinary action is taken when applicable, compared to only **44 percent** among all CCOs.

2

**88 percent** of consumer markets CCOs strongly agree that their organization requires employees to take applicable compliance training on certain key compliance policies and procedures, while only **68 percent** of all CCOs strongly agree that this is the case at their organization.

## Program areas needing greatest improvement

1

### Compliance risk assessment

- Only **half** of consumer markets organizations say their compliance department maintains current inventories of regulatory obligations, compared to **77 percent** among all organizations.
- Only **38 percent** of consumer markets organizations leverage qualitative and quantitative measurements in their compliance risk assessments, compared to **84 percent** among all organizations, which may be the result of regulatory expectations in other industries.

2

### People, skills, and due diligence

Compliance roles and responsibilities are defined and documented throughout the organization for the first line and second line of defense at only **half** of consumer markets organizations, while this occurs at **71 percent** of all organizations.

3

### Governance and culture

Only **38 percent** of consumer markets organizations report that their board of directors or delegated board committee has a process in place to review and approve the compliance management program when there are changes to the regulatory environment, while such a board process exists at **77 percent** of all organizations.

4

### Policies and procedures – Regulatory change management

Only **38 percent** of consumer markets organizations have a process in place to capture changes in applicable laws, rules, and regulations in domestic and global jurisdictions where they operate, while such a process exists in the compliance departments at **69 percent** of all organizations.

5

### Monitoring and testing

While **68 percent** of all organizations report that compliance has a testing program that performs transactional, process, and controls testing, only **38 percent** of consumer markets organizations say their testing program has these capabilities.

6

### Reporting

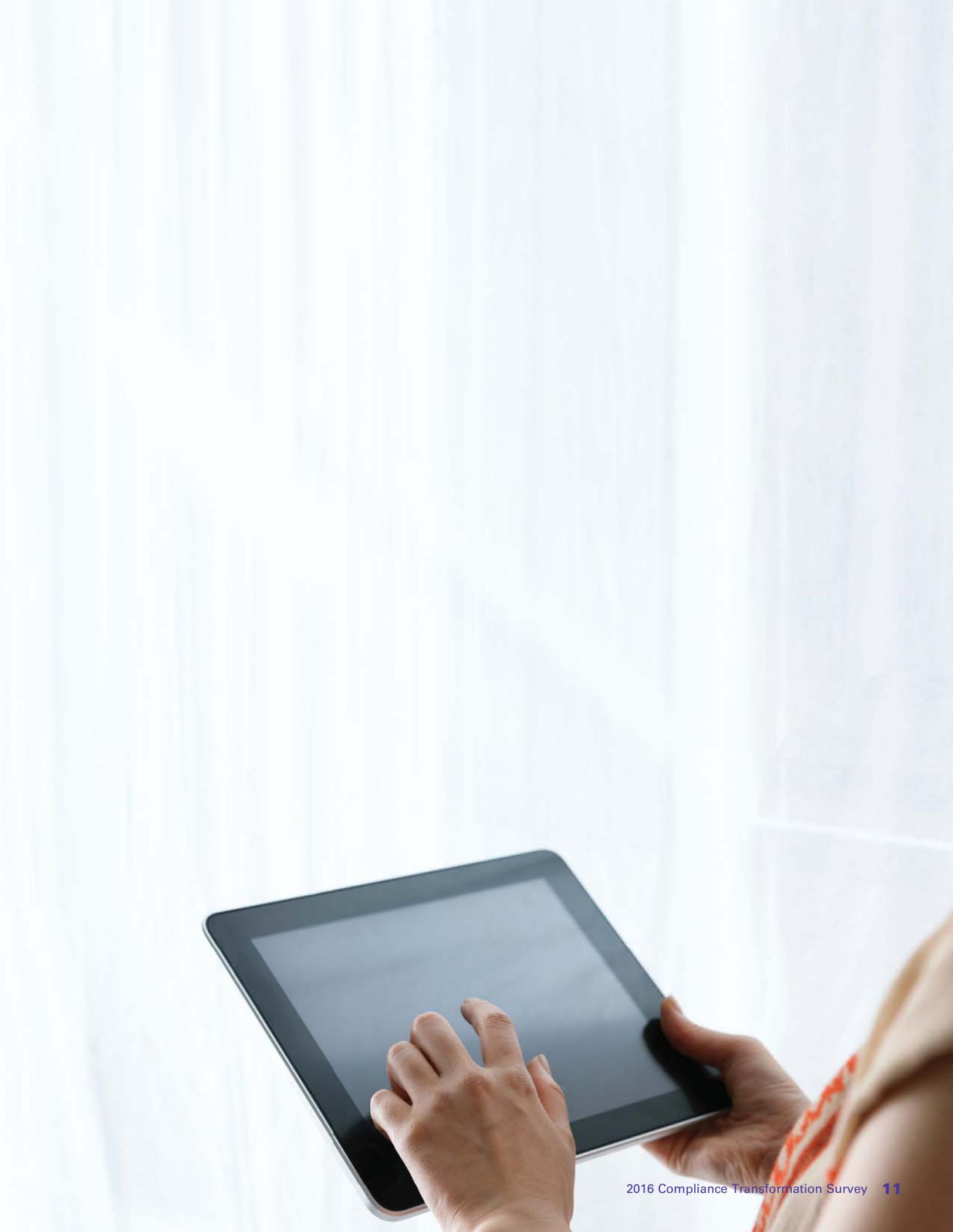
**Half** of CCOs at consumer markets organizations believe compliance reporting supports the organization's risk appetite and strategic efforts to meet heightened expectations for risk management, compared to **82 percent** among all CCOs.

7

### Technology and data analytics

Consumer markets organizations are similar to all organizations surveyed in reporting that their compliance programs need substantial improvements in the area of technology and data analytics. However, **63 percent** of the consumer markets CCOs report that their organization leverages technology to support compliance initiatives but only **half** say that their technology infrastructure has been analyzed to confirm alignment with compliance requirements.

# Compliance Transformation Survey - Respondent profiles

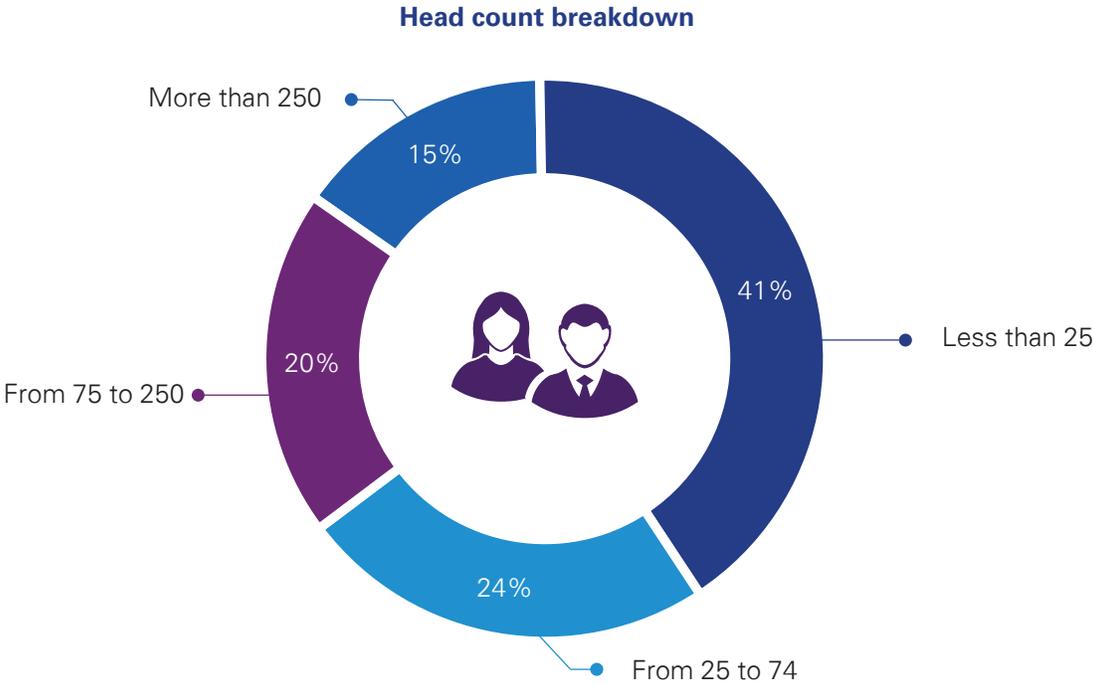


# Respondent profile

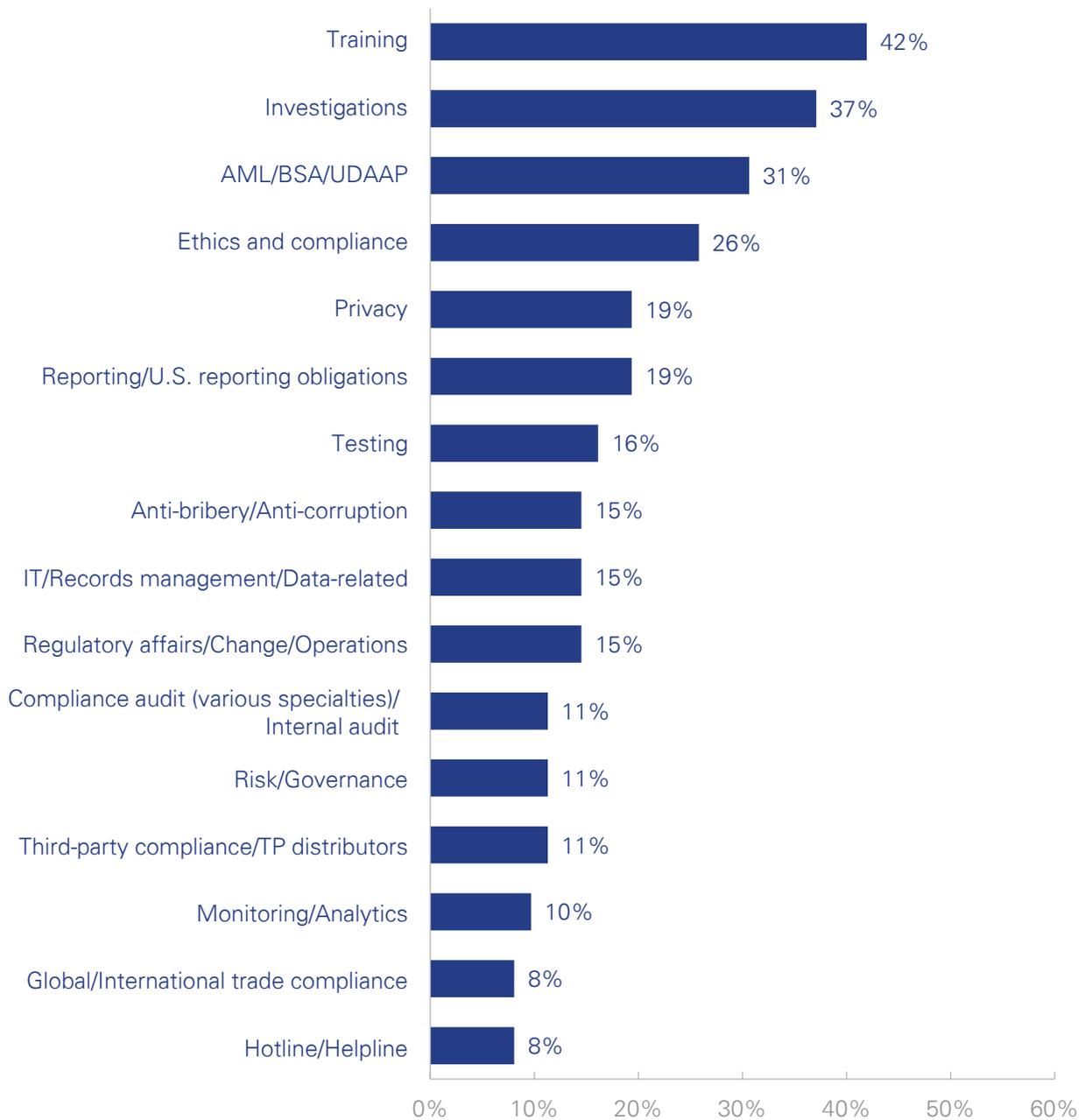
Demographic information was collected from each respondent and is shown on the next several pages in questions Q1a through Q12.

Q1a.

**What is the head count of your Compliance department (second line of defense)?**



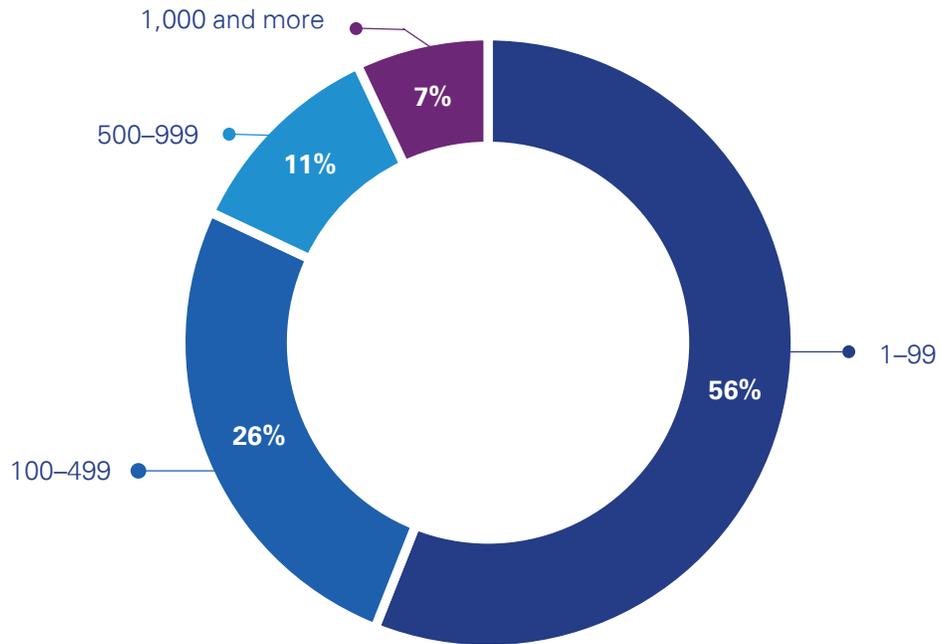
## What groups exist within the Compliance department?



**Note:** Responses comprising less than 8 percent not shown

Q1c.

If known, what is the approximate head count of personnel who perform activities in both the first and third lines of defense?



Q2.

Has the head count of your Compliance department changed in the past year?



■ Increased    ■ Stayed the same    ■ Decreased

## What is the title of the head of your Compliance department?

Below are examples of the various titles for the head of the Compliance department.

Chief Compliance Officer

Chief Ethics and Compliance Officer

**Note:** The most prominent response by far was Chief Compliance Officer, followed by Chief Ethics and Compliance Officer. Additional answers provided by respondents included all of the following:

Vice President and CCO

Senior Vice President & Chief Compliance and Ethics Officer

Vice President, Ethics and Compliance

General Counsel (GC)

Vice President, Corporate Compliance and Ethics

SVP, Chief of Staff & CCO

Deputy GC (DGC), Global Functions, Ethics & Compliance, and Chief Ethics & Compliance Officer

Chief Regulatory and Compliance Officer

VP & DGC, Compliance and Ethics

VP, Global Chief Compliance Officer

Compliance Director

Managing Director of Corporate Compliance

Vice President of OACE

Assistant General Counsel and CCO

Group Managing Director

Vice President, Chief Compliance Officer & Senior Deputy General Counsel

Vice President and Chief Compliance and Audit Officer

Senior Vice President Enterprise Risk Management and Chief Ethics and Compliance Officer

VP Global and Chief Compliance and Privacy Officer

Executive Vice President, Chief Compliance Officer

VP & Chief Ethics & Compliance Officer

Corporate Vice President and Global Chief Compliance Officer

VP Audit and Compliance and Privacy Officer

Chief Compliance and Risk Officer

Executive Vice President and Chief Ethics & Compliance Officer

Global Compliance and Ethics

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**To whom and to which board of directors committee(s) does the head of the Compliance department report?**

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Below are examples of the various entities to which the Compliance department reports.

Board of Directors
Audit Committee
CEO
General Counsel
Chief Risk Officer
Risk Committee or other subset of the Audit Committee
Chief Legal Officer

**Note:** The above is representative of the answers received but is not all-inclusive. Many responses were a combination from the above list.

Q4a & b.

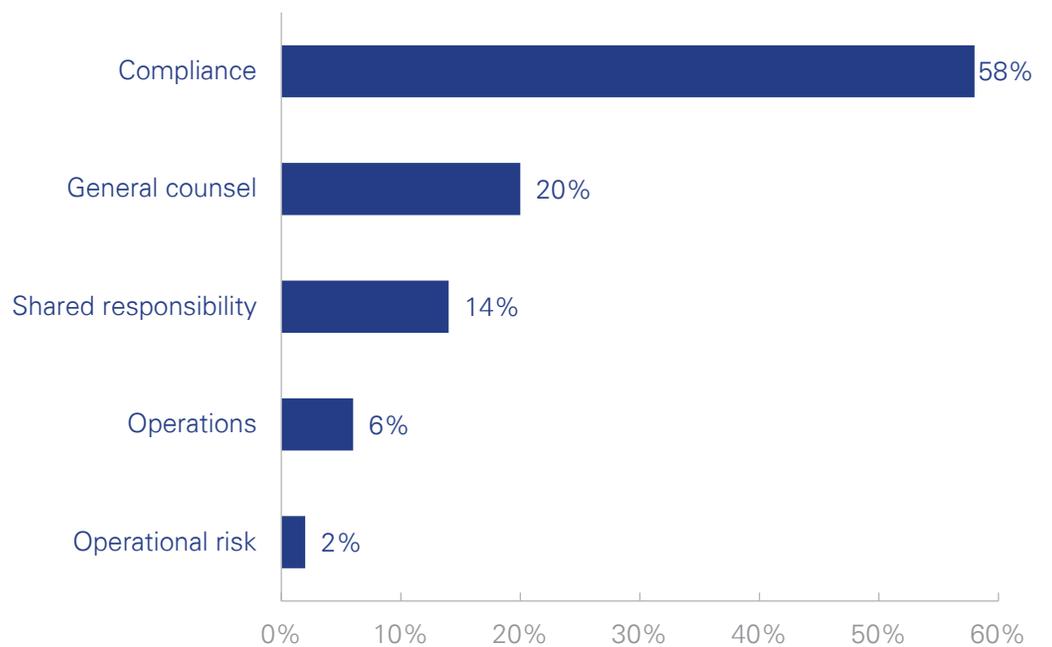
**What processes does the Compliance department own?**



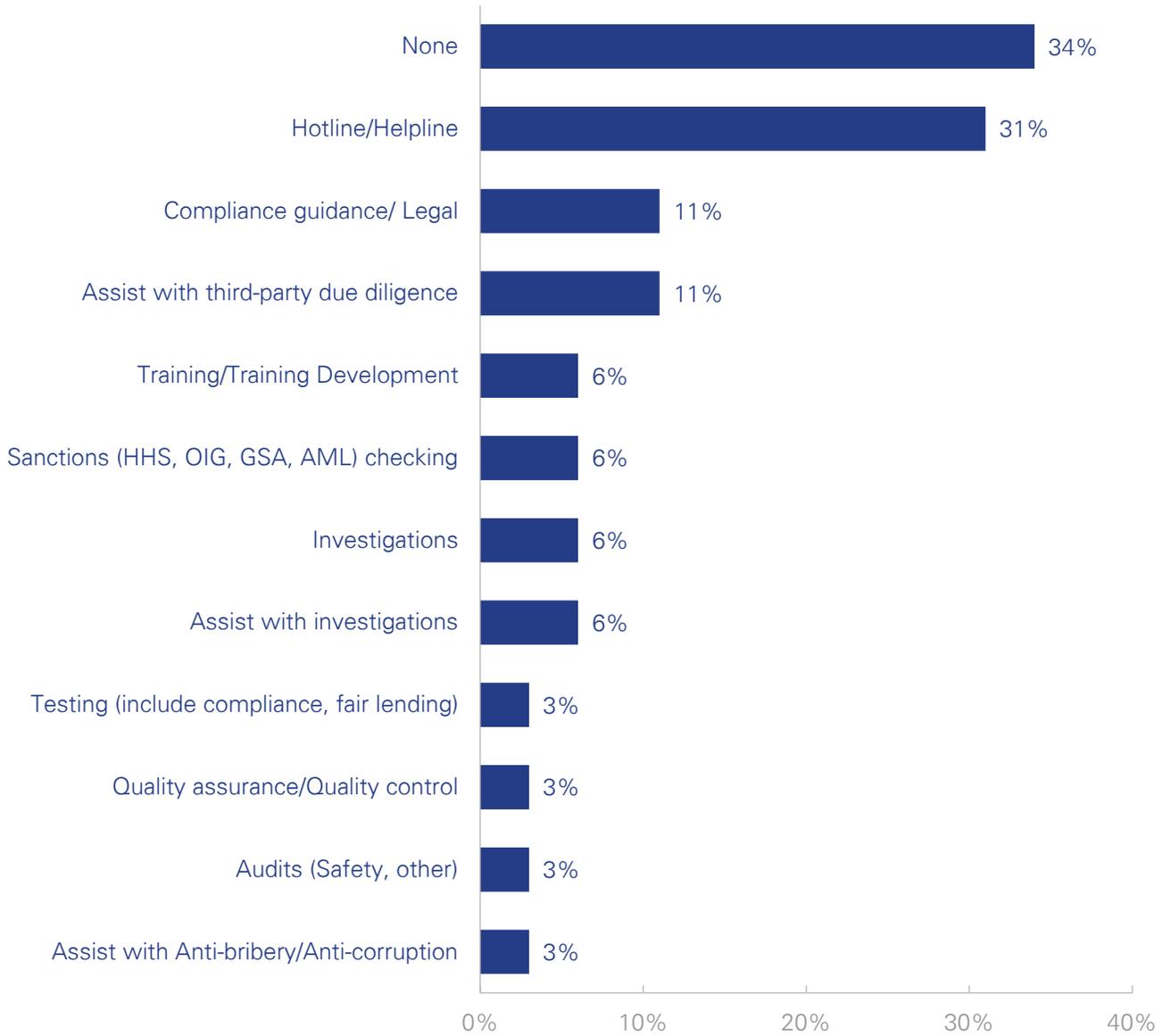
**Note:** Multiple choices were allowed?

Q5a & b.

**Which department owns the regulatory change framework/methodology and process?**



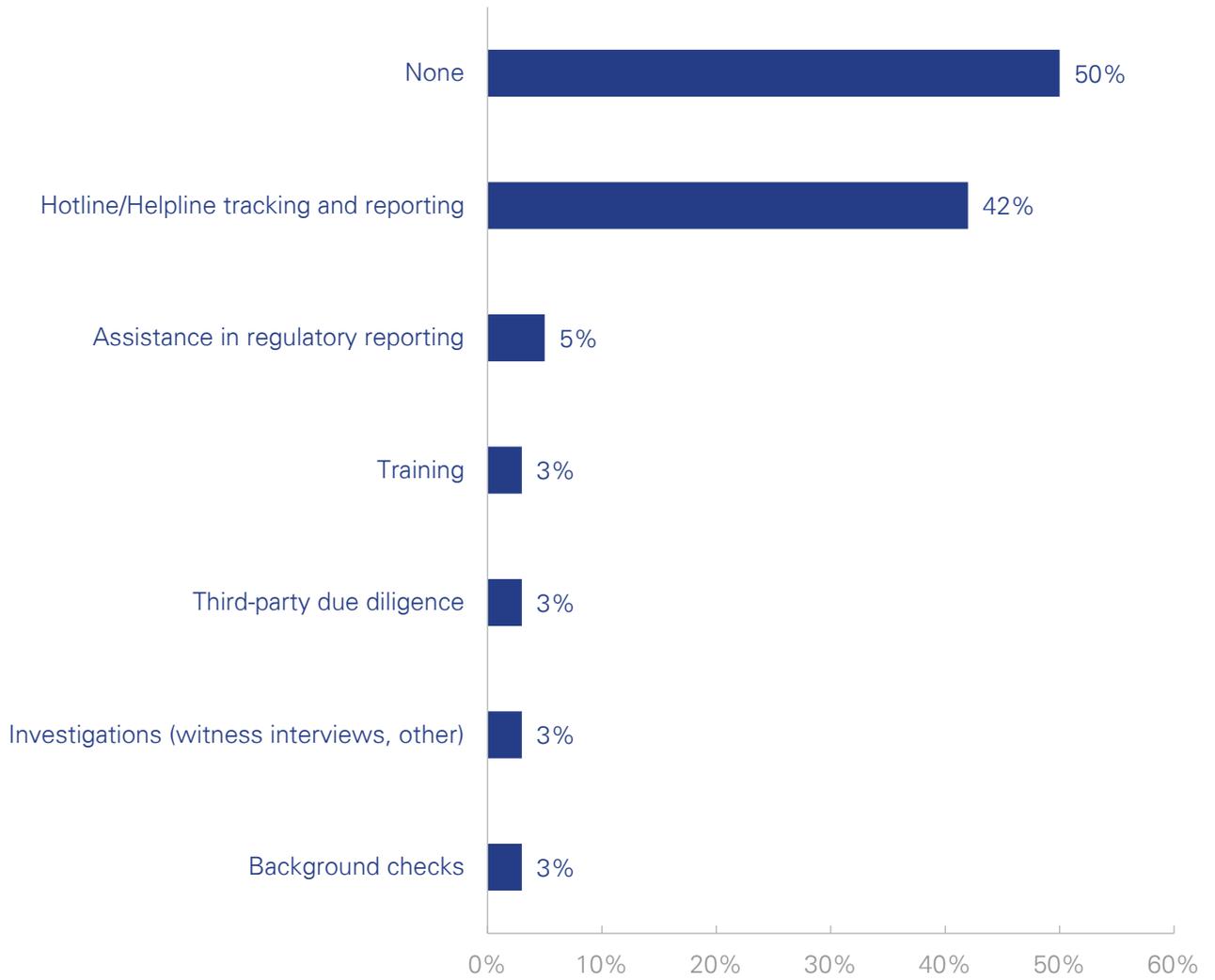
**What, if any, compliance-related activities are outsourced to third parties?**



**Note:** Some respondents replied with more than one answer. Answers with less than 3 percent response were not tabulated.

Q7.

**What compliance processes and key controls are administered by these outsourced third parties?**

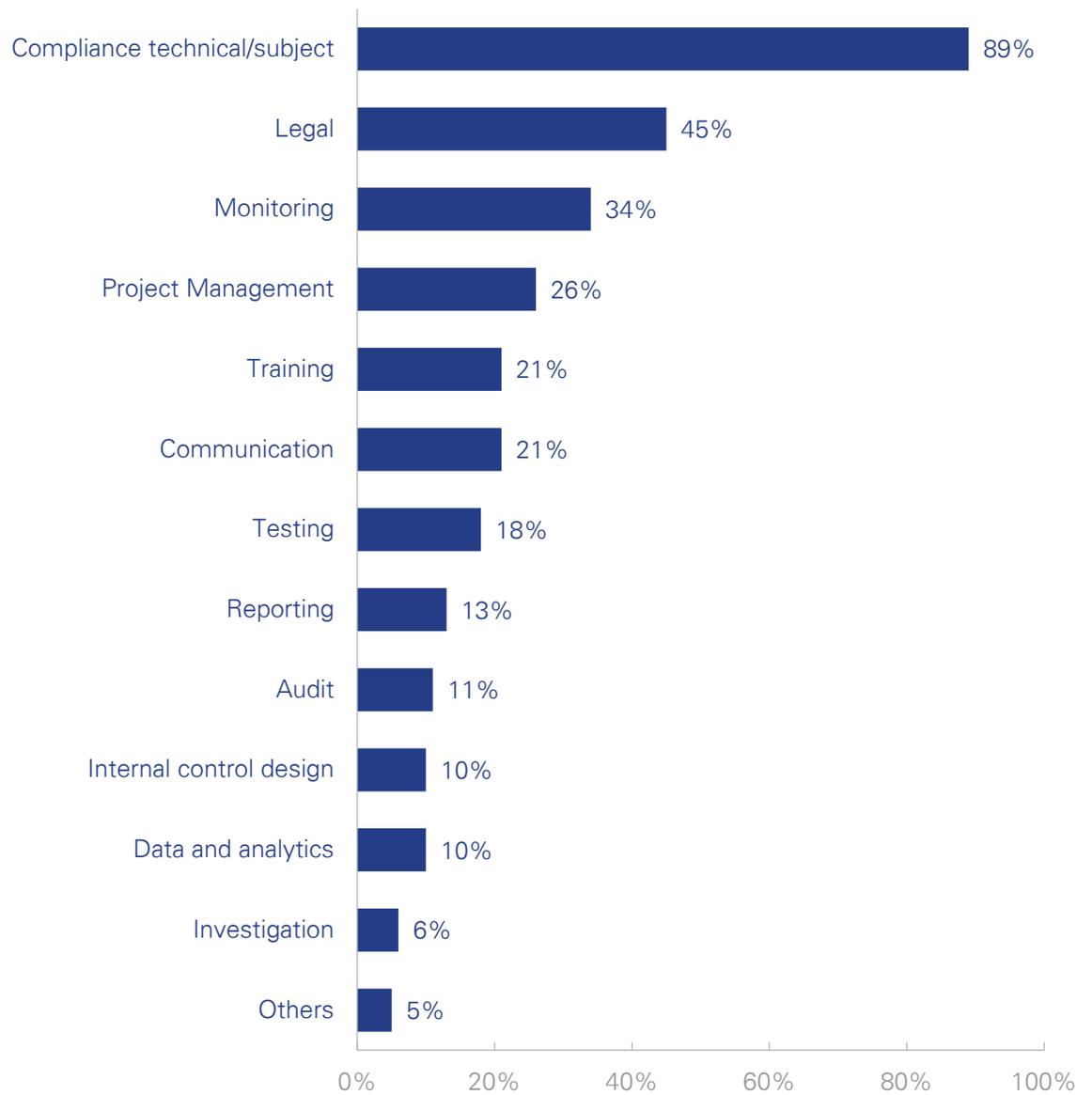


**Note:** Some respondents replied with more than one answer. Answers with less than 3 percent response were not tabulated.

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**What would you define as the three most predominant skills in the Compliance department currently?**

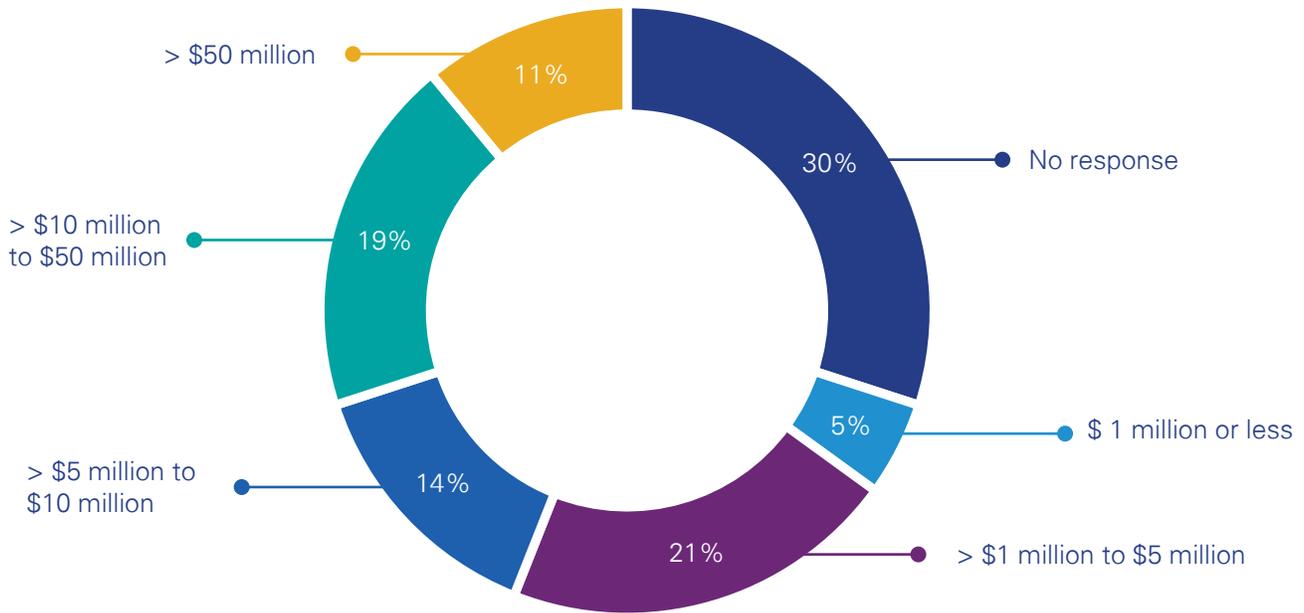
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**Note:** A small number of respondents included more than three responses.

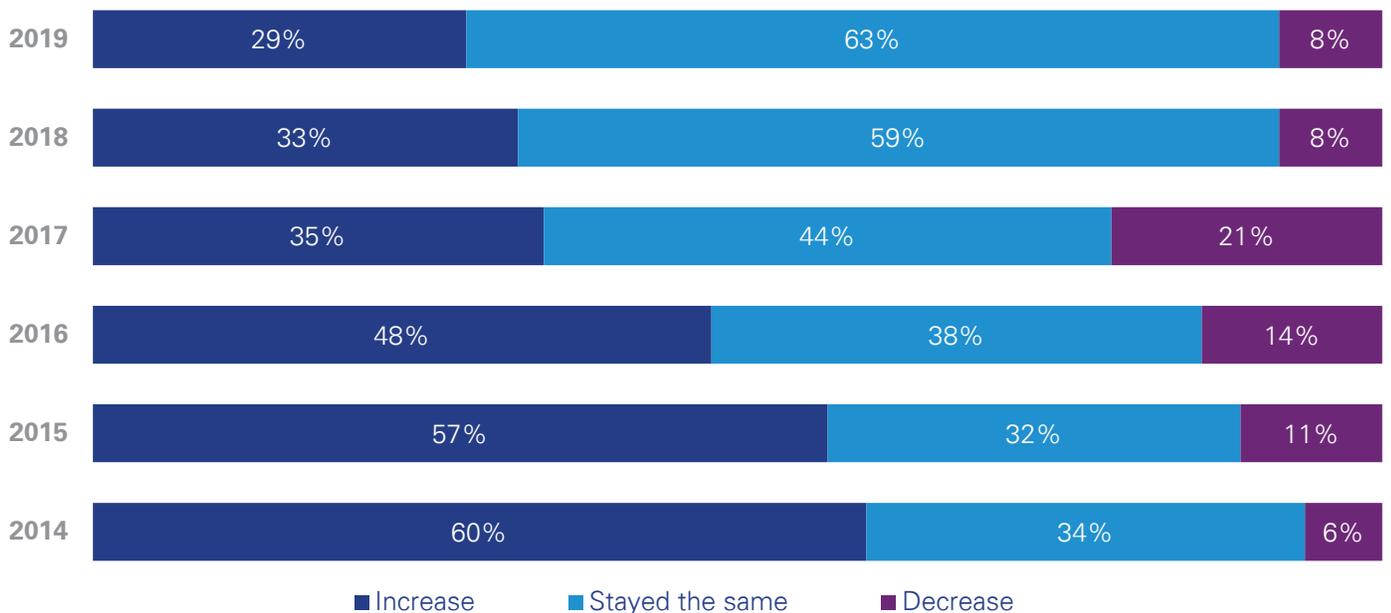
Q9.

**What is the approximate annual operating budget for the Compliance department?**



Q10 & 11.

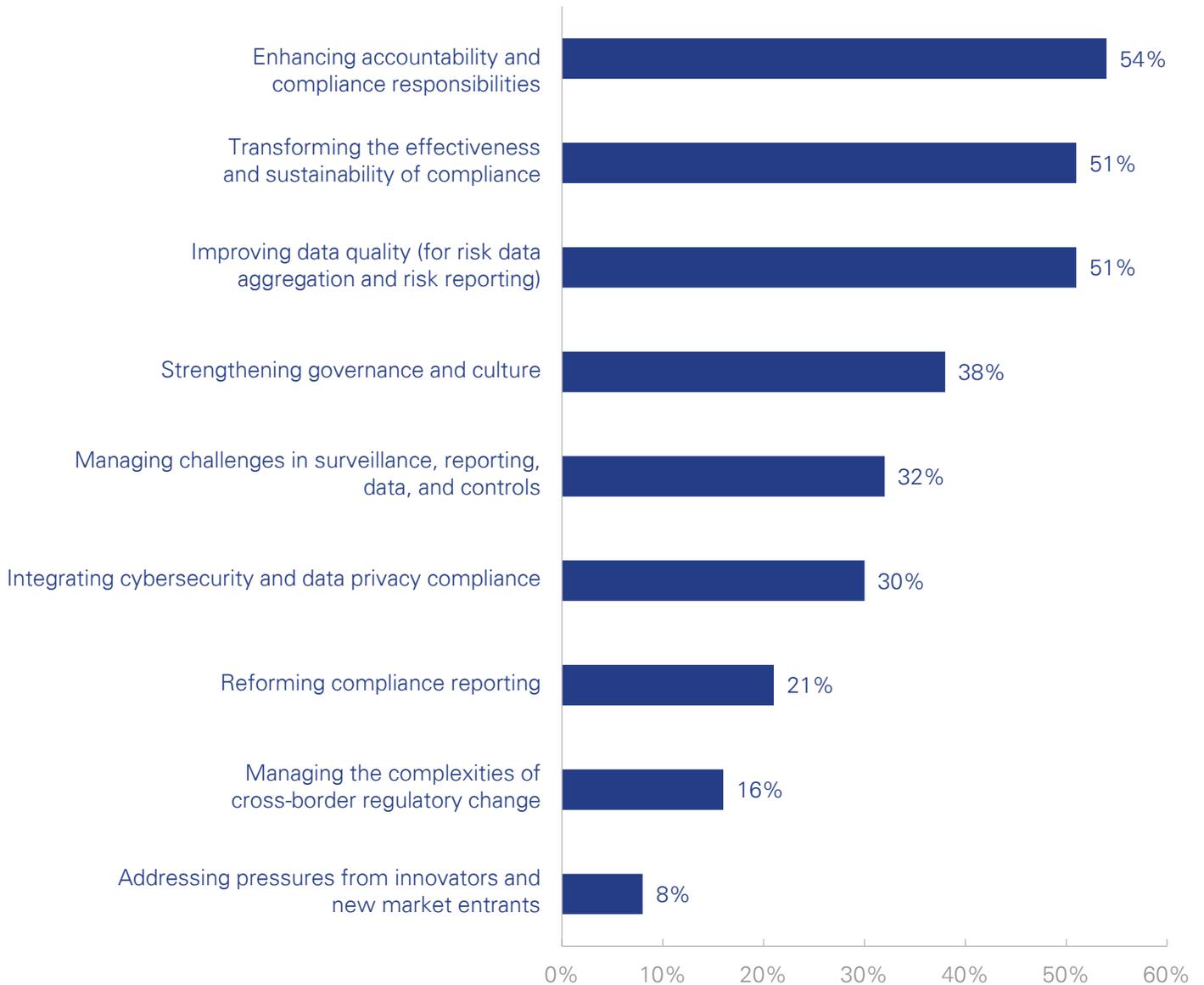
**How, if at all, has the Compliance department budget changed over the past and coming three years?**



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**What are your top three compliance challenges for 2016/2017?**

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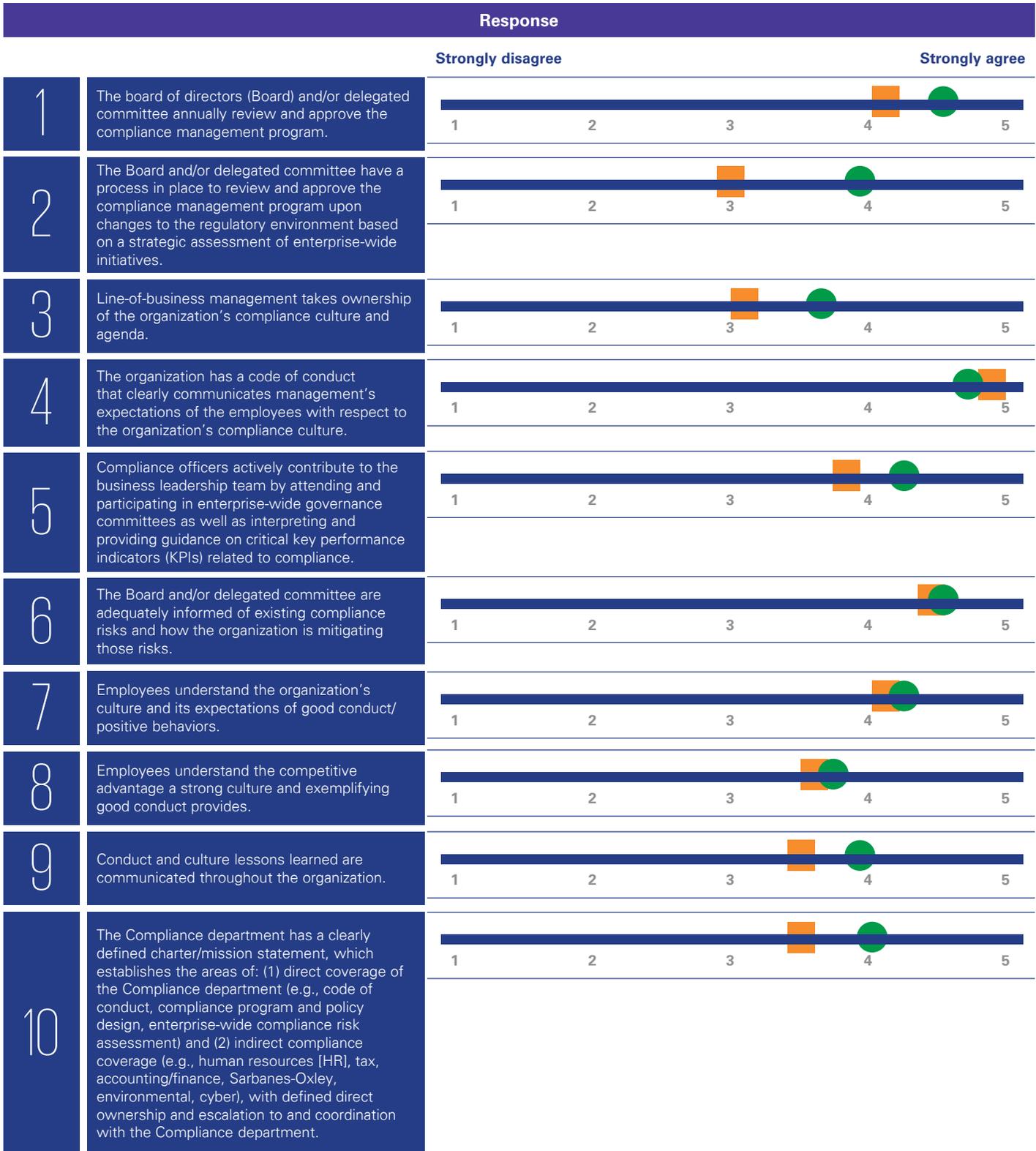


# Compliance Transformation Survey - Benchmark results



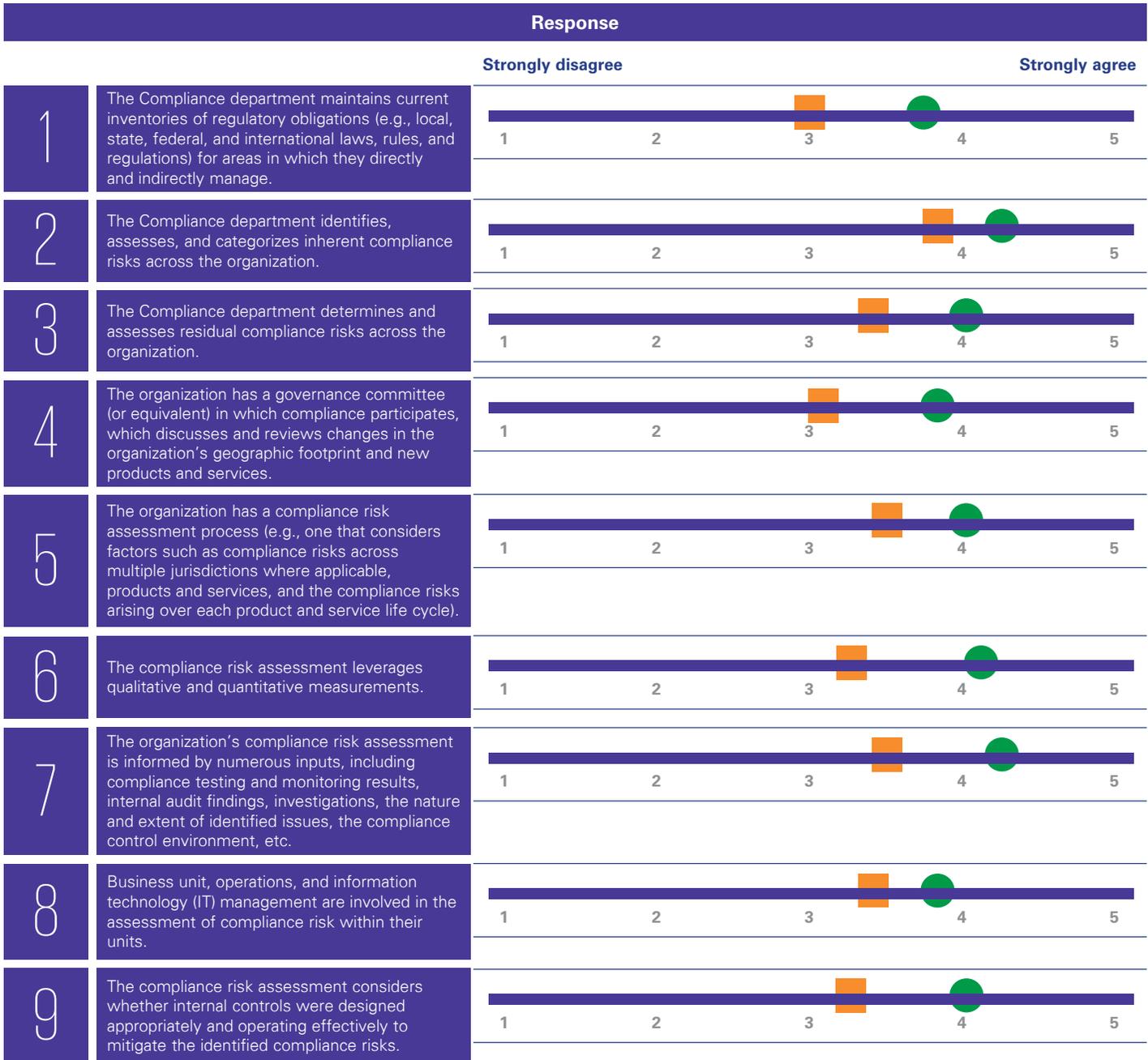
# Governance and culture

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



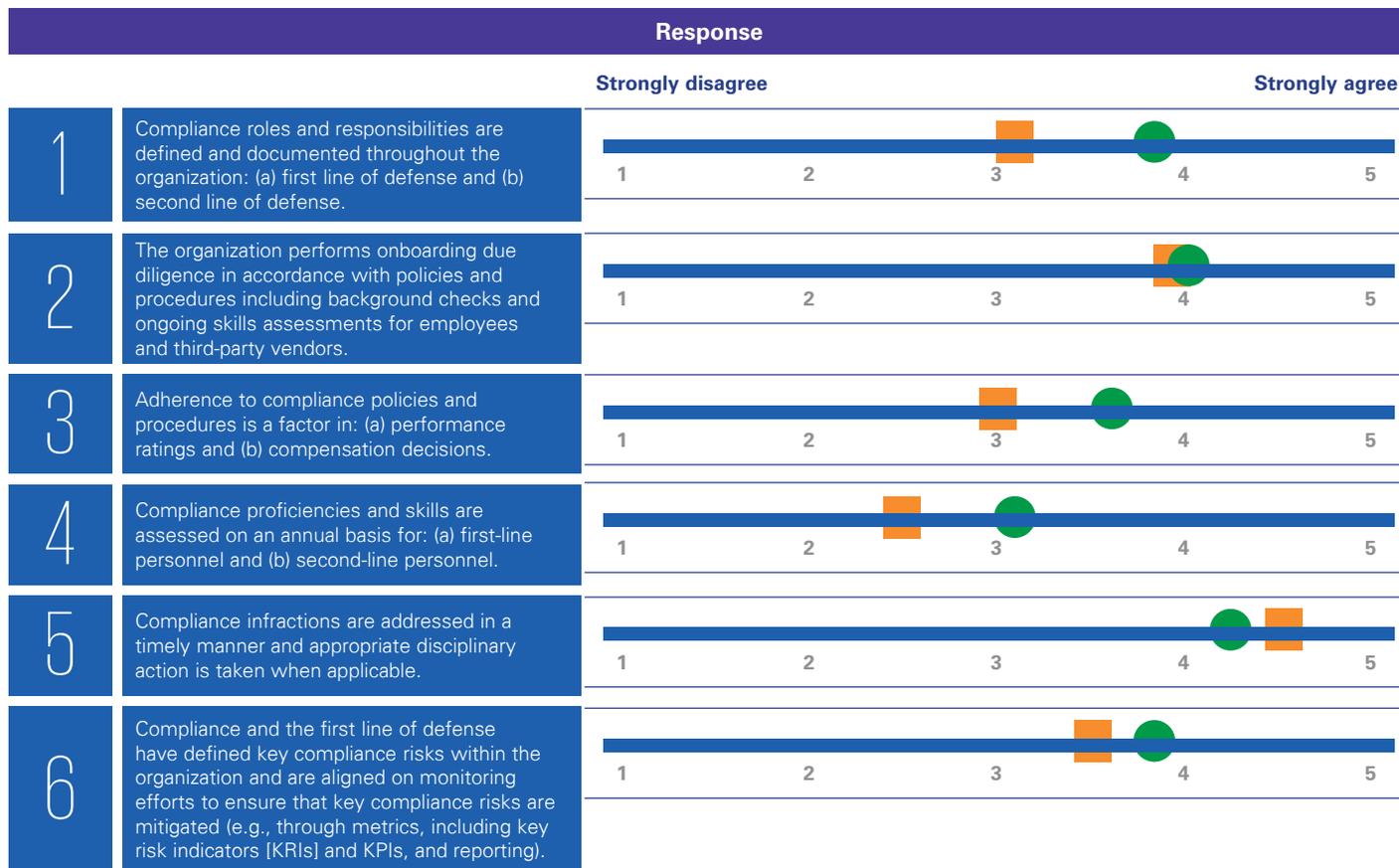
# Compliance risk assessment

**Key:** ● Average response – All respondents    ■ Average response – Industry respondents  
**Response scale:** (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



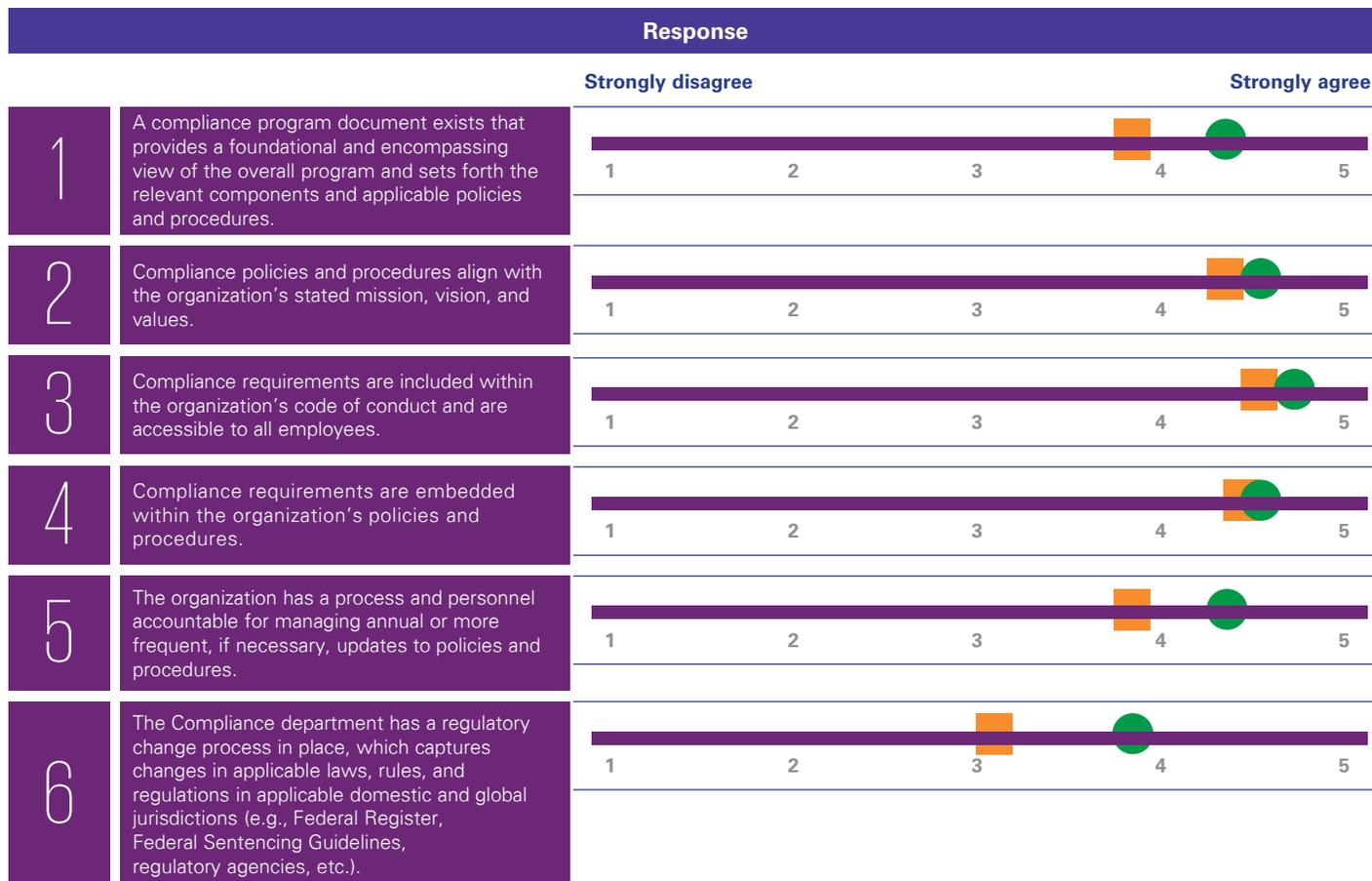
# People, skills, and due diligence

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



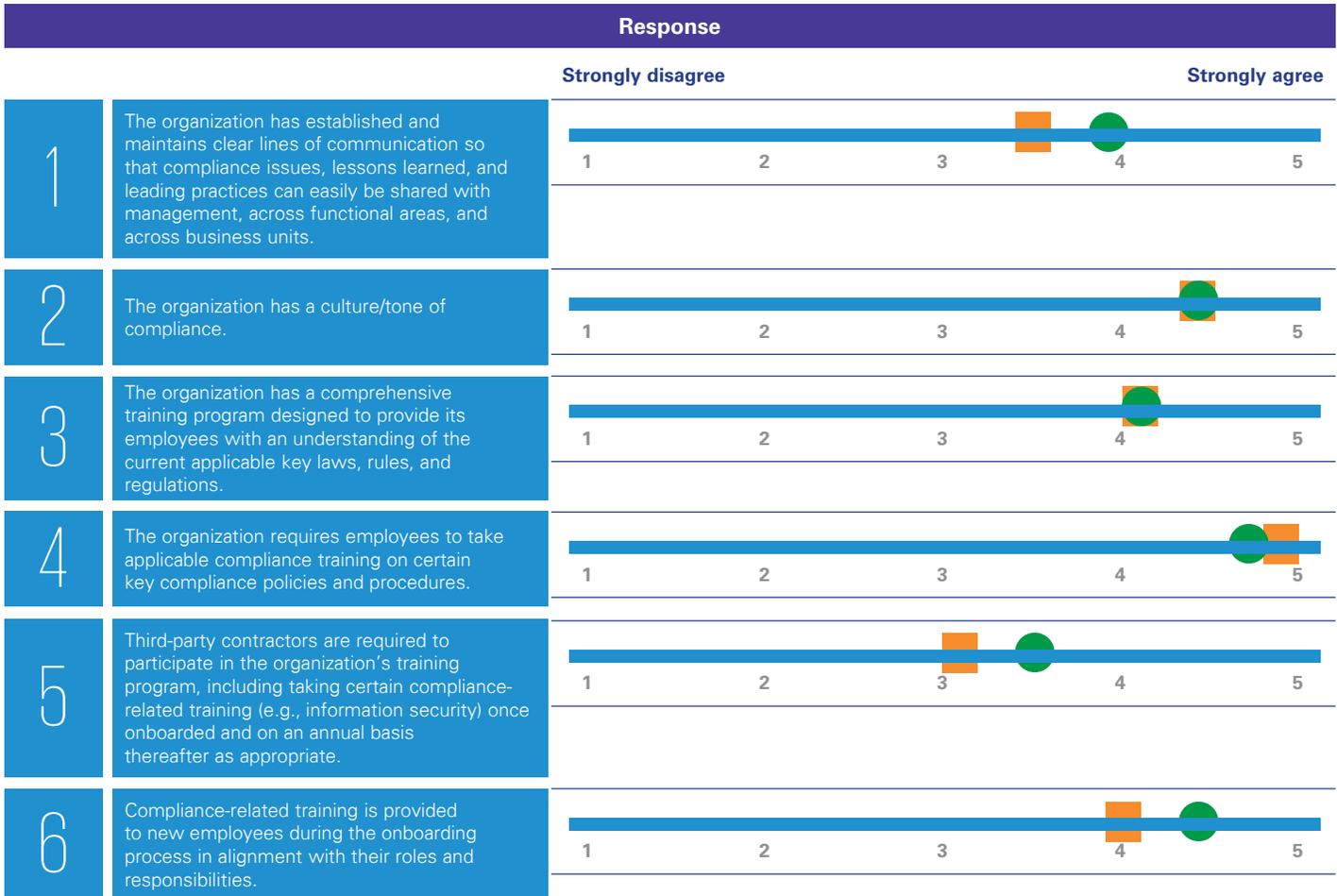
# Policies and procedures

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



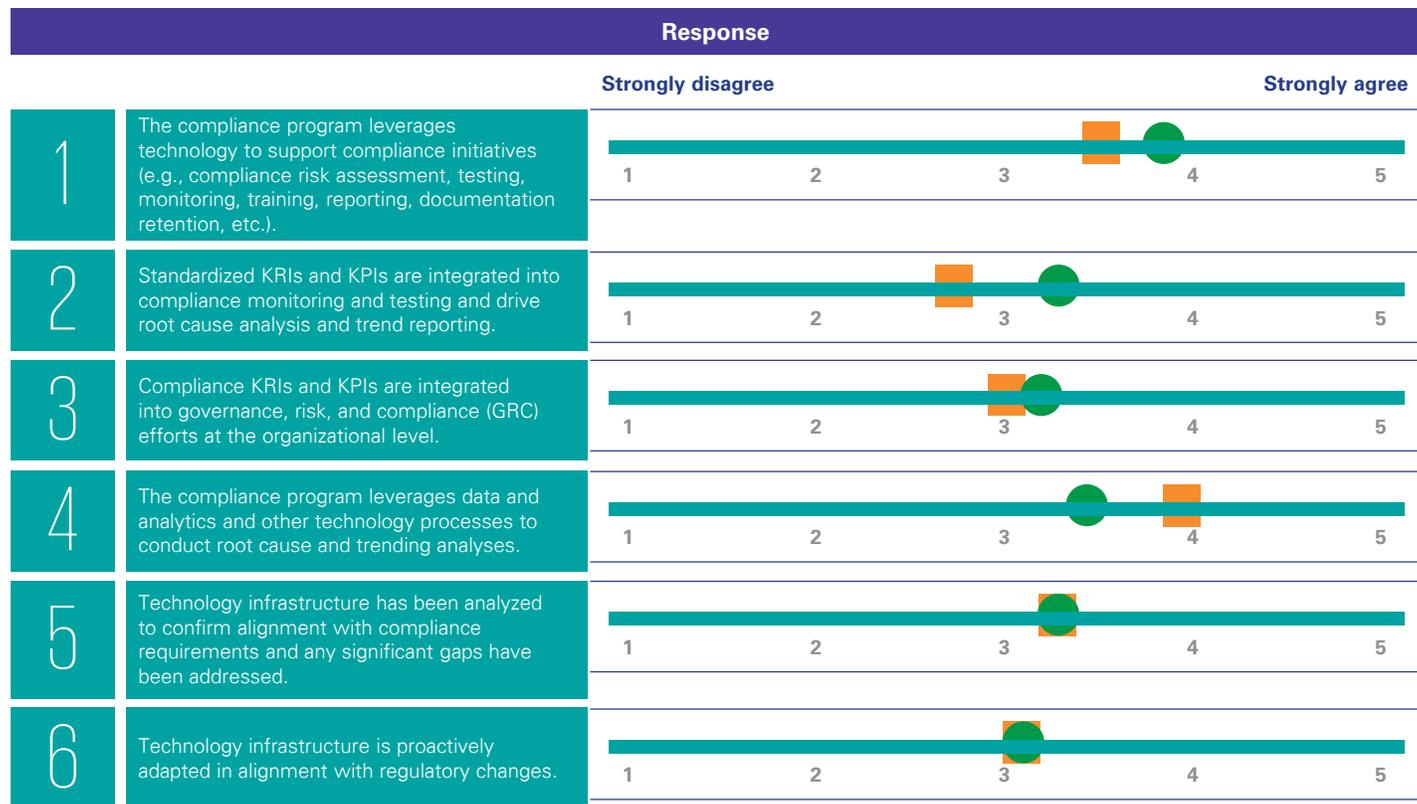
# Communication and training

**Key:** ● Average response – All respondents    ■ Average response – Industry respondents  
**Response scale:** (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



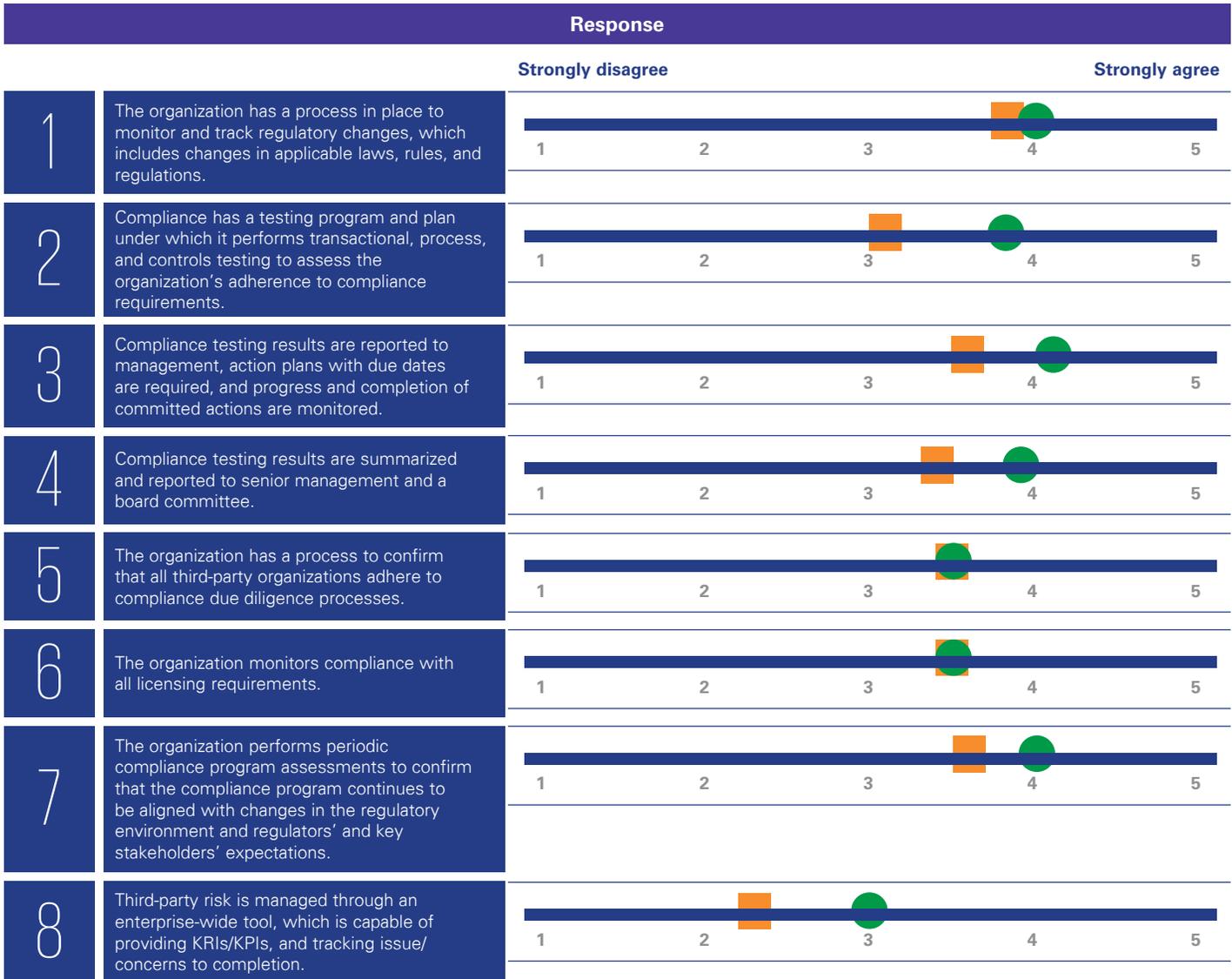
# Technology and data analytics

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



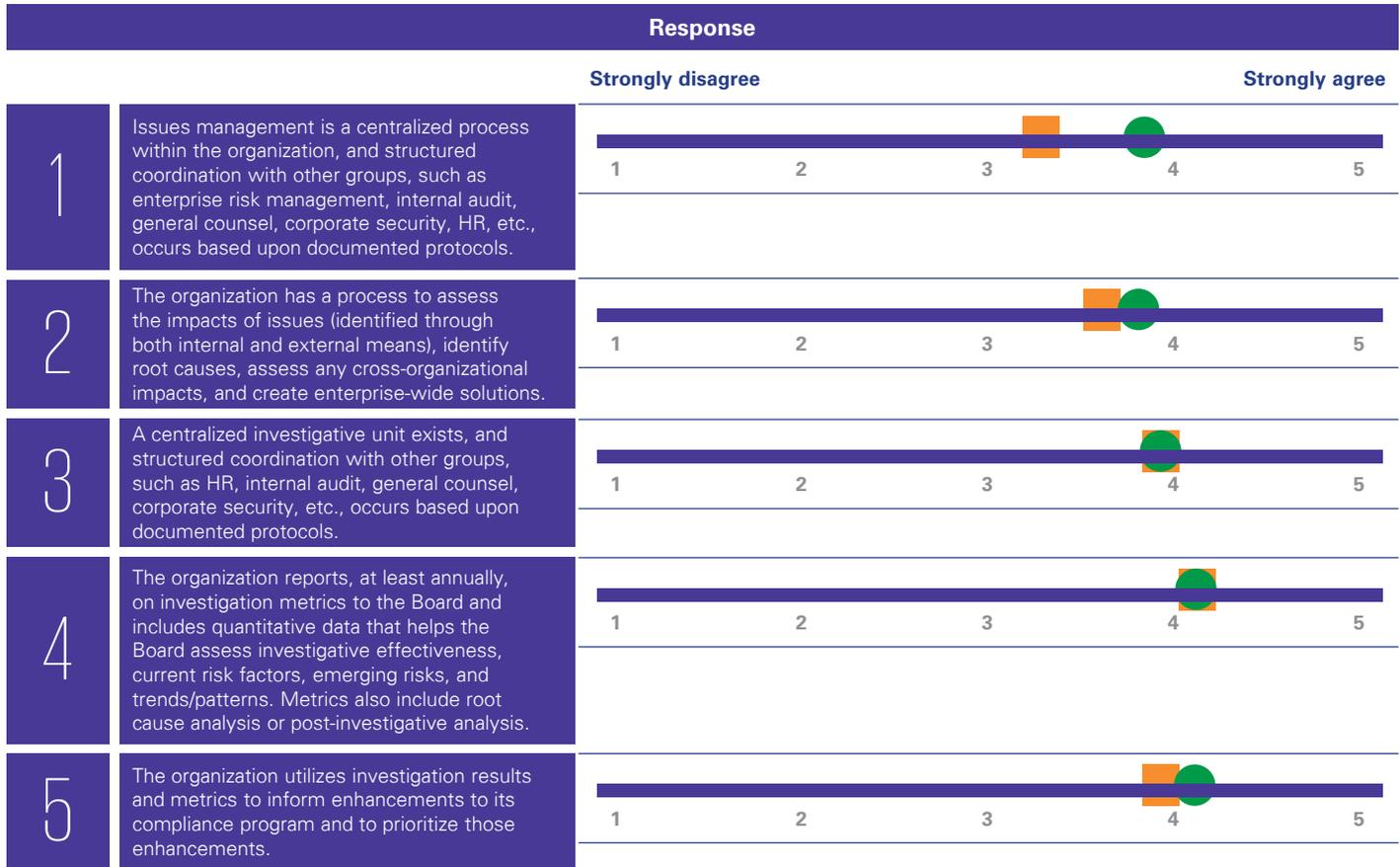
# Monitoring and testing

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



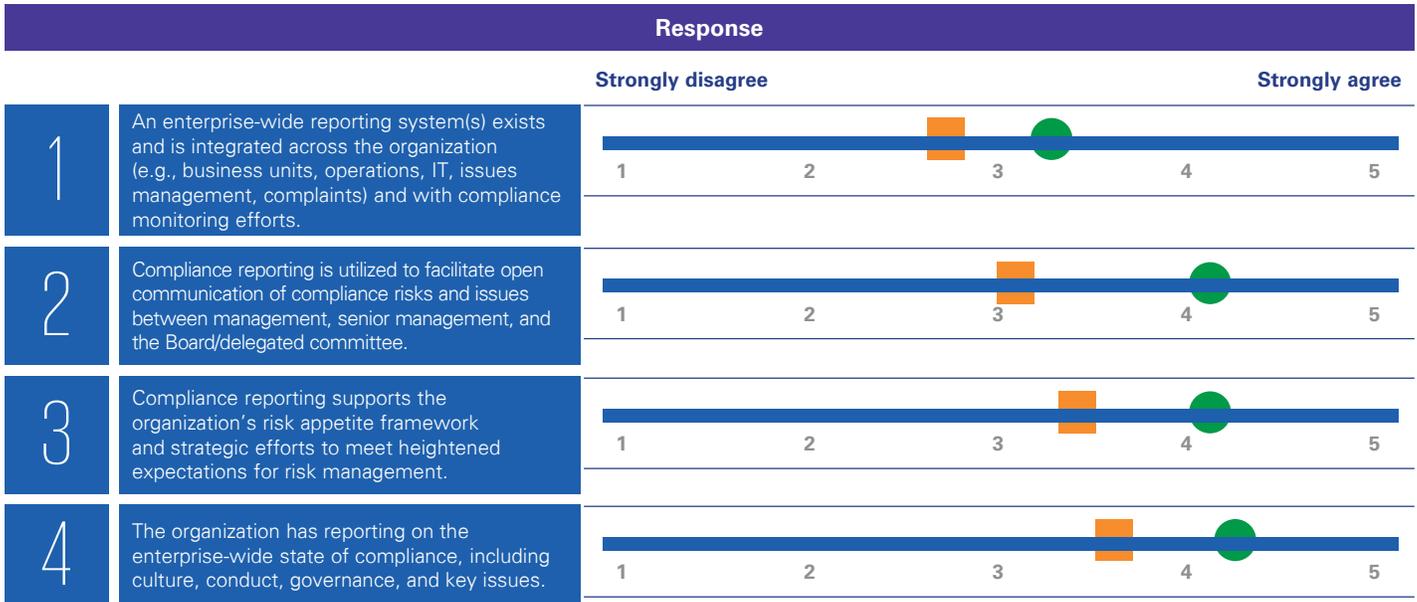
# Issues management and investigations

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



# Reporting

Key: ● Average response – All respondents    ■ Average response – Industry respondents  
 Response scale: (1) Strongly disagree, (2) Disagree, (3) Neutral/Do not know, (4) Agree, (5) Strongly agree



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## KPMG is very appreciative for the respondents' support of the 2016 Compliance Transformation Survey.

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## Survey methodology and background

KPMG's Compliance Transformation Survey was conducted as a Web-based survey in mid-2016. It consisted of 60 questions focused on the nine components in KPMG's proprietary Compliance Program Framework:

- Governance and culture
- Compliance risk assessment
- People, skills, and due diligence
- Policies and procedures
- Communication and training
- Technology and data analytics
- Monitoring and testing
- Issues management and investigation
- Reporting

Survey respondents were asked to evaluate statements regarding key aspects of their compliance programs for each of the nine components using a 5-point scale, where "1" indicated "strongly disagree" and "5" indicated "strongly agree."

Survey respondents included chief compliance officers and similar senior compliance executives in major organizations, generally representative of organizations in the FORTUNE 100, FORTUNE 500, and FORTUNE 1000, across seven industries: consumer markets, energy, financial services, healthcare and life sciences, industrial markets, insurance, and technology, media, and telecommunications.



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