



Strengthening Compliance Effectiveness Metrics

Board Leadership Committee
November 2021



Summary



As expectations from regulators, Boards, and investors have evolved, the need to develop and maintain effective metrics to support compliance efforts and provide a window into an organization's compliance risks and controls has never been more important.

We will discuss the key measures to help compliance, business, and risk leaders to initiate the next steps to bolster their metrics.



Confirm your compliance metrics goals to prioritize enhancements that are directionally aligned to goals and business needs



Evaluate existing compliance metrics, specifically key risk indicators and key performance indicators to understand the strength and the area for improvement of the metrics



Distinguish execution effectiveness metrics between first and second line of defense to measure the performance of compliance function and the first line business

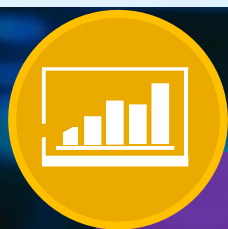


Determine the compliance metrics to enhance based on a detailed analysis of factors to realize greater value and risk coverage



Incorporate additional financial and nonfinancial attributes to address new regulatory obligations and Board expectations such as the environmental, social and governance reporting

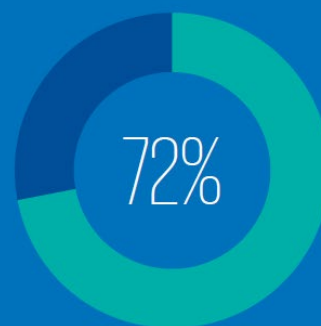
Top metrics to measure compliance program effectiveness



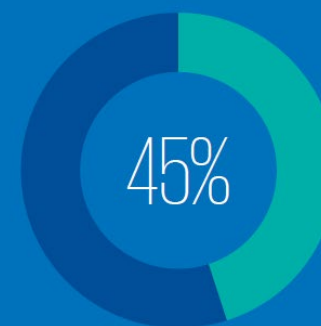
KPMG 2021 Chief Compliance Officer Survey

In early 2021, KPMG surveyed 249 chief compliance officers (CCOs) of the largest organizations across the following industries:

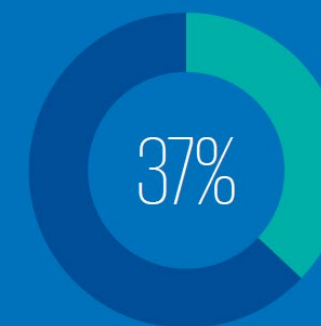
healthcare and life sciences (26%), financial services (25%), technology media and telecommunications (13%), industrial manufacturing, commercial markets and retail (24%) and energy (11%)



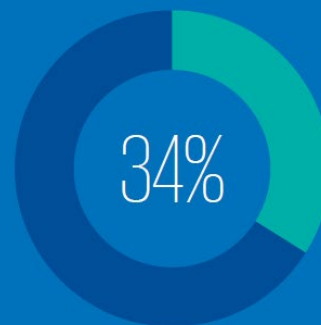
Internal audit/
external audit results



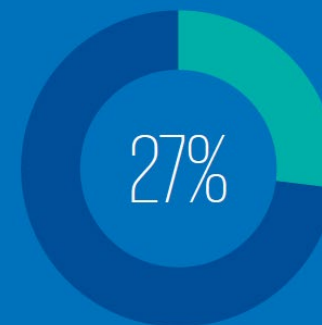
Regulatory
actions/inquiries



Training
results



Internal employee
survey results



Culture assessment
results

Key questions to address before determining the metrics

Sample Compliance Activities	Policy Effectiveness	Hotline verification	Training Effectiveness	Vendor Management	Incident identification	Issue remediation
						
	Are employees consistently accessing published policies?	Do hotline reports vary by geographic region?	Is the impact of training being reflected on social media?	How are high-risk vendors identified?	How are operational incident and non-compliance events identified through internal and external channels?	How long does it take to prepare and approve management action plans?
	Does the rate that employees access policies vary after training?	What is the percentage of substantiated versus unsubstantiated claims?	Does the delivery of training result in increase in hotline reports or complaints?	What is the percentage of high-risk vendors that are engaged?	Are the existing whistle-blowing, compliance monitoring, complaint handling, internal audit mechanisms robust enough to facilitate the timely identification and escalation of incidents?	How long does it take to implement and close management action plan?
Sample Questions to Ask	Do certain business areas or geographic regions access policies more regularly?	What is the percentage of complaints reported anonymously?		How often are high-risk vendors audited?	Is there any effective culture / conduct self-assessment mechanism in place?	

Types of Metrics

Descriptive

Metrics based on a data attribute that provides a basic insight into what happened, such as a summary of logged numbers resulting from compliance efforts

Diagnostic

Metrics based on multiple data attributes that shed light on why something happened, such as insights around trends, root causes, and correlations

Predictive

Metrics that leverage past data and trends (including patterns, and abnormalities), coupled with operational activity, to inform the business about what will likely happen so that it can better predict future outcomes and make decisions on compliance risk mitigation activities

Prescriptive

Metrics that utilize technology to factor in data about possible situations, available resources, and past/current performance to inform the business about what should be done and suggest a course of action/strategy



Evaluate existing compliance metrics to confirm goals going forward

After the compliance priorities are determined, organizations can tailor their reporting metrics to address the previously outlined sample questions, evaluate their compliance risks based on their regulatory environment, and guide decision-making going forward.

Organization cannot take a “one-size-fits-all” approach to metrics and must refine the approaches based on the priorities.

Enhanced metrics should be used to collect data from varying sources and business areas in order to develop supplemental metrics that tell a broader and insightful story

Determine Compliance Metrics to Enhance for Greater Value

Regulatory requirements and expectations in all jurisdictions where the organization operates



To review the existing compliance metrics and cross-functional stakeholders to understand if the organization's priorities and key risk areas are covered.



To identify what risk information they already collect about their compliance with each of their regulatory requirements through various compliance mediums.



To determine the additional data needed to enhance the knowledge of compliance posture and assess ways to aggregate and triangulate such data to make necessary correlations

Board interest in compliance, financial and nonfinancial topics

To evaluate what information the Board, business, risk and operational leaders need to know.

Priorities of Board members and senior executives shift over time in parallel with the expectations of regulators and stockholders.

The Board's risk tolerance and senior management's desired proactiveness must be understood in order to tailor reporting in the most effective manner.

The alignment is critical to demonstrate reporting value and inform the organizational investments necessary to enhance capabilities around compliance metrics.

Determine Compliance Metrics to Enhance for Greater Value

Goals for predictive analytics and modeling



Organisations are increasingly making efforts to advance the use of predictive analytics and develop risk models to categorize high-risk transactions and areas of operations.



A roadmap is often created to guide the journey and detail the order of implementation for distinct use cases.



To prioritize implementation of those predictive metrics that are most impactful for the organization and will provide the most value in identifying and classifying its highest-risk areas.

Activities and needs of the business



It is important to understand the operational challenges for compliance and develop metrics to illustrate the execution effectiveness and operational outliers with greater compliance risk.



By distinguishing the effectiveness of the activities conducted by the first and second lines of defense, compliance leaders can tell a more holistic story to highlight potential business areas that require more support or emphasis.

Determine Compliance Metrics to Enhance for Greater Value

Available data, data integrity and technology infrastructure



Be cognizant of the data relying upon. If the data quality is poor or unavailable, any metrics or use of the data downstream will be based upon potentially faulty and will be unreliable.



To build compliance data lakes as central data repositories to help standardize data quality and drive risk insight.



To enhance existing data and remediate the data before it can design metrics that are truly valuable and indicative of compliance effectiveness and health



Technology and tools for metrics development and reporting



To use technology to generate reporting dashboards that synthesize established compliance metrics and can paint a more holistic and consistent enterprise-wide view of compliance risk.

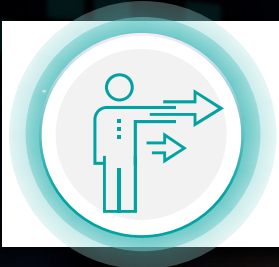


Dashboards to avoid siloed views that can undervalue risk indicators in isolation and obtain a more comprehensive vision of their compliance risks.



Senior leaders are better equipped to monitor their compliance risks in a more targeted manner, focus on improving compliance activities that they most need it and remain vigilant in addressing their trending risks enterprise-wide. Resources to be allocated using risk-based approach.

Continuous improvement and strengthening of compliance metrics



To reassess and refine their existing inventory of compliance metrics to address evolving risks and regulatory expectations



To conduct regular evaluations of the compliance metrics for reaffirming the metrics they use, address shifting Board expectations, keep pace with business market and regulatory trends

To ensure the metrics remain aligned to the highest risks and priorities so that they provide the most useful insights for the Board and business stakeholders



To conduct data testing for validation on the completeness, accuracy and integrity of the data especially when there are changes to the data or the technology system



To review on the metrics for identifying instances for follow-up, a quick refresher or additional communication to reinforce a particular issue. Governance remains key.

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