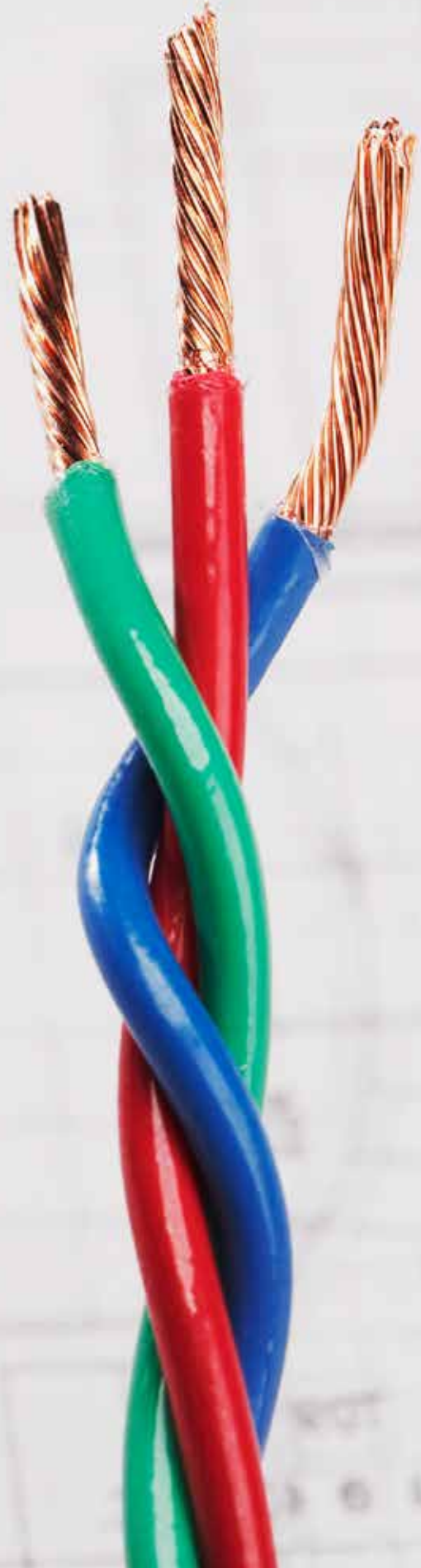




Streamlining to create value

The future of compliance

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Organizations want to stay on the positive side of regulatory, compliance, and ethical risks while increasingly looking at how best to bridge business and compliance objectives. As such, the promise of artificial intelligence and automation gives rise to hopes of reducing and optimizing operational and compliance spend. While regulatory technology (RegTech) has great value across industries and is gradually being adopted, organizations must first reassess their core processes and controls in order to drive more streamlined governance while enhancing risk management and mitigation. Whether called convergence, integration, transformation, or optimization, all firms should look to three core elements in this process:

1

Redesign skills and roles



2

Align risk and controls



3

Consolidate testing, surveillance, and investigations



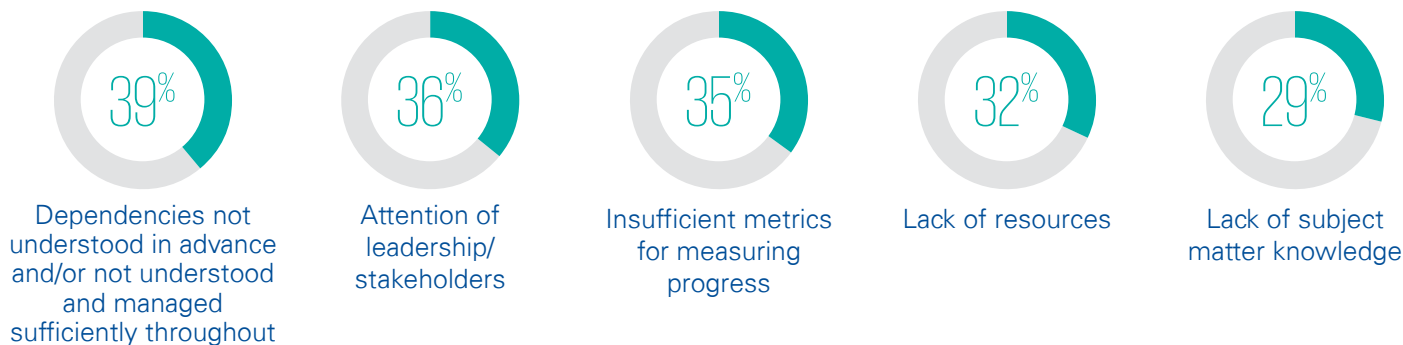
Redesign skills and roles

Often undervalued and yet critical to streamlining efforts are the buy-in, skills, and talent needed to set risk strategy and embrace changes in skills and roles. Compliance and ethics risk professionals must be change agents with great judgment as well as analytical and communication skills. This is even more critical in a time of advanced digital technology, agile business operations, and changing customer expectations. They also must be supported by skilled compliance and ethics professionals with the human and technology savvy to understand and apply information to human interactions in a fast-changing global business environment increasingly impacted by disruptive technologies. Likewise, business leaders must appreciate and prioritize the efficacy of compliance and ethics risk prevention, detection, and response above simply cutting costs.

As such, accountability for compliance and ethics is critical and should be both well understood and documented, with sufficient organizational stature and independent critical challenge. Compliance and ethics must also be an integral and respected partner with all areas, including its human resources and legal counterparts to drive forward ethics and culture programs; technology to drive automation, incident response, and privacy programs; and the front line to streamline onboarding, operational control effectiveness assessments, and employee, transactional, and vendor monitoring.

 Key skills	 Leadership qualities
<ul style="list-style-type: none"> — Is cerebral and strategic — Does not wait for authority to be given — Aligns risks and program with the company's vision — Is comfortable with raising issues and asking for help — Creates a culture of compliance — Is thought provoking – Not reactive — Must be fast and responsive in agile environment — Acts as a change agent 	<ul style="list-style-type: none"> — Has the respect of senior leadership within the enterprise — Protects the best interests of the company but not at the cost of the customer and doing what's right — Understands the organizational culture, including both strengths and gaps — Understands the legal, regulatory, social, and economic factors impacting the company — Quickly adapts to an ever-changing compliance environment

Efforts to embrace streamlining and compliance automation are challenged by various factors including:



Source: KPMG Compliance Automation Survey (2018), [unpublished].

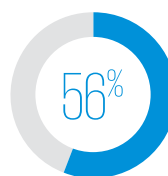


Alignment of risk and controls

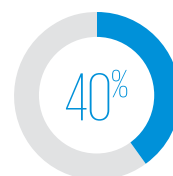
An alignment of risk and controls is needed to drive consistency around how to identify relevant compliance, ethics, and reputation risks; how to conduct assessments that are aligned to and informed by the realities of the company's business operations; how to leverage output and quantify potential impact for business purposes; and what should be communicated to key stakeholders.

Most organizations do not have a central point to manage how new risk assessment requirements are implemented and how existing risks are mapped to the appropriate functional level of business controls. Meanwhile, their leadership is seeking to view risks and controls through a single lens for multiple purposes and communicate this information consistently in automated dashboards. Improving the content such that it clearly ties to business objectives and reduces redundancy can help encourage the appropriate level of focus on the part of the right senior resources.

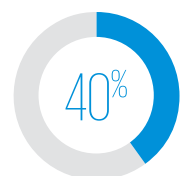
Only 1 in 5 CCOs and CIOs said they have an enterprise-wide strategy to better align risks and controls by automating compliance activities. Organizations have placed a priority on:



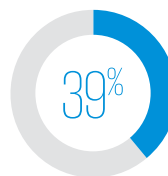
Risk assessments



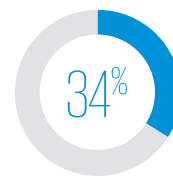
Policy management



Regulatory change management



Due diligence



Monitoring and testing

Source: KPMG Compliance Automation Survey (2018), [unpublished].

	Convergence continuum		
	Not converged	Partially converged	Fully converged
Timing and assessment process Frequency, duration, and execution of assessments culminating in sign-off/attestation	Assessments take place at different times (e.g., quarterly, annually, as needed)	Some but not all assessments are aligned in implementation timing and reporting of results	The organization assesses once using the same process with aligned preparation, execution, and reporting time frames
Governance Management of execution and procedures and reaction to regulatory actions and findings	Each assessment is governed by an independent body	Some degree of coordination among governing bodies but decisions are still made in silos	Centralized management of methodology, implementation, and sign-off
Challenge/validation/control testing Independent challenge, validation, and control testing of assessment framework	Challenge, validation, and controls testing occur in silos or are not performed	Partial integration of challenge, validation, and control testing activities into assessment program	Center of excellence for challenge, testing, and validation of assessment inputs and outputs
Sign-off/attestation Review and approval of assessment outputs	Assessment sign-off conducted independently	Some but not all assessments are aligned in sign-off timing; participants attest once for several assessments	Integrated sign-off structure
Risk and control rating criteria Mechanism through which risk exposure and the associated control environment are measured	Each assessment uses a unique rating methodology	Some but not all assessments are aligned in ratings definition and criteria	Single rating methodology used for all assessment types
Assessment granularity Alignment of risk, control, organizational, and role hierarchies across businesses	Level of granularity varies greatly among assessments	Granularity of data is agreed within lines of business	Framework accommodates varying degrees of granularity across the organization and as needed by assessments
Risk and control taxonomy Mechanism for consistently identifying, cataloging, and reporting on risks and controls	Taxonomy is unique to assessments	Key assessments are aligned in risk and/or control taxonomy	A single risk and control taxonomy exists for all assessment purposes
Library of risks and controls Common source for risk and control information across the organization	A standard library of risks and controls does not exist	Standardized libraries are leveraged by lines of business or assessments	Risk and control catalog is utilized for all assessments and across the firm
Tools and technology Apparatus for executing, capturing, and reporting on assessment activity	Assessments are conducted in silos with desktop software or independent vendors	Tools exist for collecting and reporting on assessment data but are built for a single purpose	A common set of tools exists to facilitate all assessment types
Reporting Channels required for review and approval of assessment outputs	Reports are designed for a singular purpose	Reports exist and meet the needs of a single assessment or line of business with limited integration of other assessment activities	Centralized, standardized reporting exists that meets the needs of both the firm and regulators and integrates the outputs of other assessment activities

Consolidation of testing, surveillance, and investigations

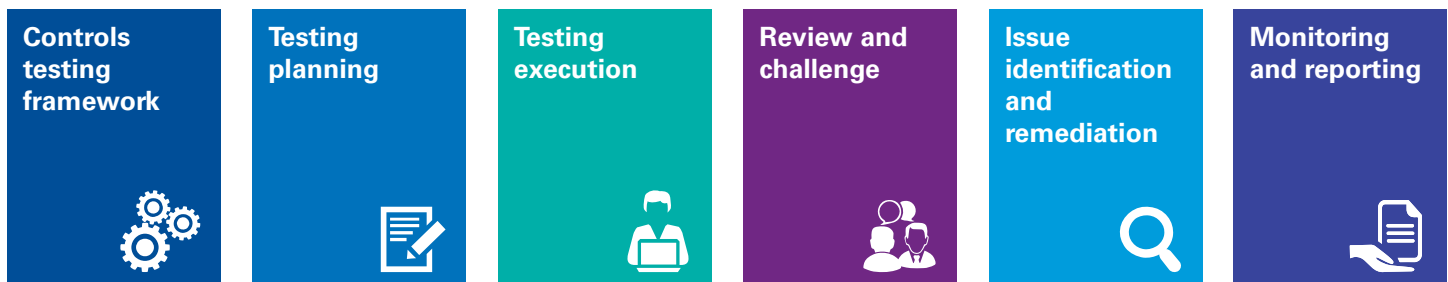
Inefficiencies across the organization usually increase based on the number of disparate testing, surveillance, and investigation programs. This may lead to an inability to detect root cause and/or systemic issues. Increasingly, organizations are looking to both automate and consolidate testing, monitoring, and surveillance activities through constituent standards, plans, scripts, and reporting.

Likewise, prior disparate investigation units are increasingly sharing appropriate data and/or consolidating units in an effort to both gain greater efficiencies as well as to increase knowledge that may help to drive positive cultural and ethical change.

To get started, all organizations should:

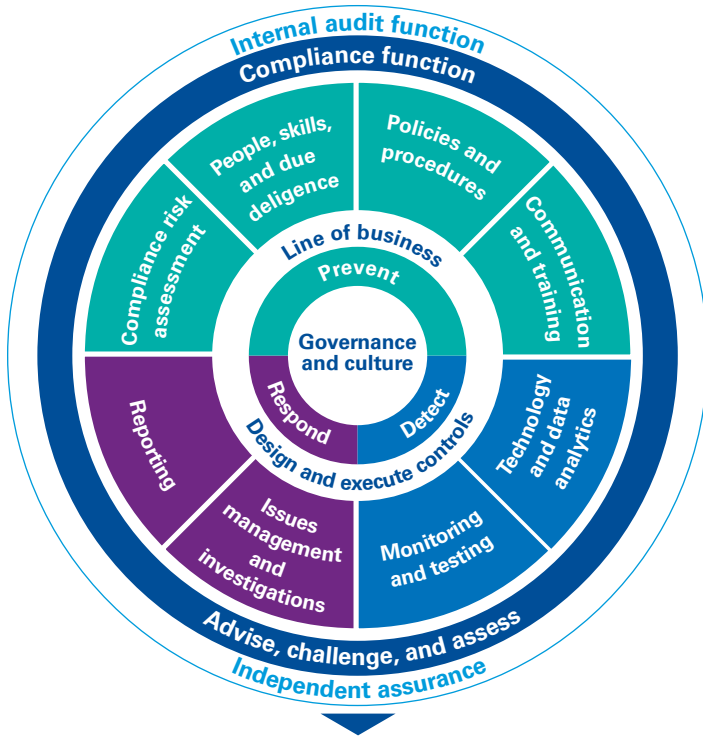
1. Inventory risk and control source systems
2. Standardize naming conventions, definitions, and attributes
3. Rationalize risks and control inventories and align to common taxonomy
4. Inventory existing control testing, monitoring, and surveillance activities
5. Assess testing, monitoring, and surveillance objectives, scope, methodologies, and granularity
6. Identify technology platforms, including data sourcing agreements
7. Identify available key behavioral analytic and control metrics.

Six key pillars of an effective controls testing program:

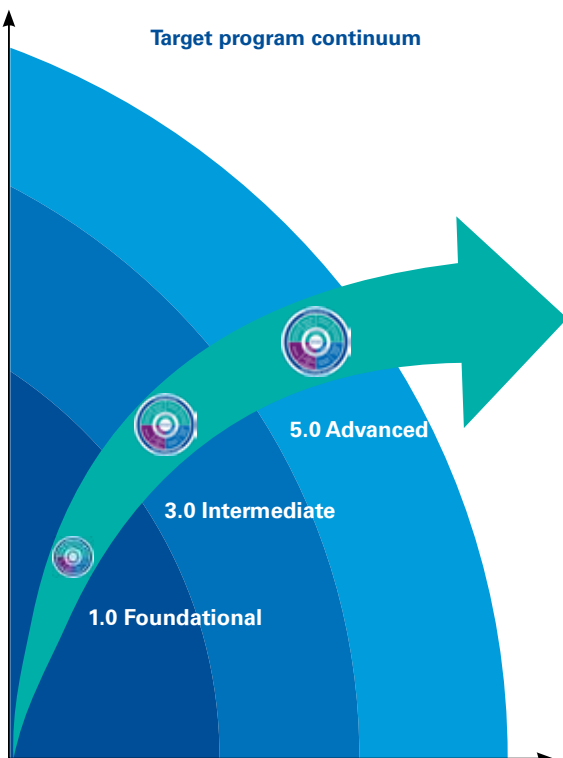


¹ KPMG Compliance Automation Survey (2018), [unpublished].

Measure the potential benefits and costs



Target program continuum



Potential benefits:

Enhanced effectiveness

- Metrics/data analytics help to identify areas of greatest risk and uncover trending risks through forward looking analytics
- Greater consistency

Greater efficiencies

- Reduced operating and compliance costs
- Process optimization
- Streamlined and defined workflows

Better management of compliance risks

- A more tailored risk based approach
- Aggregated view of risks

Improved regulatory management

- Ability to lower regulatory exposure
- Improved readiness to support regulatory inquiries

Expanded testing and monitoring coverage

- Timely identification of risks and quick response

Improved resource allocation

- Deploy individuals to the most impactful activity (reallocation)

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