



Conference of Chief Compliance Officers

August 27, 2014

Compliance is an essential function to deal with legal, regulatory and supervisory issues which pervade all spheres of banking operations. Dedicated Compliance Units are needed to address the various issues to ensure that deviations from prescribed rules, regulations, and guidelines are promptly addressed and redressed. The dimensions of compliance have changed from Group wide perspective to conglomerate model of functioning and to integrated risk management or enterprise wide risk management framework.

Under the RBS framework, compliance assessment framework includes, calibrating each guideline and mapping it to risk categories, testing controls around each guideline and transactions audit followed by verification by compliance officer. Compliance assessment template includes 158 regulatory guidelines that need testing and required to be updated all the time. Action template for serious violations, i.e, thematic study, targeted scrutiny and commissioned audit by external agencies are essential. Compliance score serves as input for aggregate risk score. Banks are also expected to articulate the controls put in place around each of the guidelines. Integrity of regulatory/ supervisory reporting, IRAC Norms, priority sector norms, overseas regulatory requirements, foreign exchange business, KYC/ AML/ FATF requirements, customer grievances and communication etc. are the supervisory areas that require enhanced compliance culture.

There is a strong correlation between effective compliance and investigative interviews. The sciences of investigative interviews include defensive avoidance, rapid closure and confirmation bias. The common challenges under the investigative interviews are inefficiency, perception of the function as strong 3rd line of defence, credibility, data quality, accuracy of findings and influencing the business to act on the report. However, investigative interviews are difficult for many reasons. Those involved may feel uncomfortable, anxious, angry or frustrated. Interviewees and third parties are liable to engage in inappropriate behavior. The major challenge in investigative interviews are planning, investigative mindset, managing the conversation, probing into fine-grain detail, accurate detailed note taking, appropriately robust challenges, understanding of cognitive systems, detecting deception etc.

Managing a strong compliance culture generally include compliance at global, regional and local level. Global level compliance includes AML and sanctions, CFTC – Dodd Frank Act, FATCA, increasing regulatory scrutiny and penalties, technology & data and assurance. Regional level compliance includes increasing complexity of multi regime regulatory environments, varying market complexity, international regulatory co-ordination, cross border, data privacy and on-shoring / off shoring. Local

compliance areas are legal entity focus, local vs. global requirements, compliance resources. For effective compliance culture strong front office supervision culture is the first line of defense. Robust compliance program is the second line of defense and robust audit is the third line of defense.

RBI issued guidelines on “compliance functions in banks” in April 2007. Many participants felt that RBI may issue a circular reiterating these guidelines and also indicating a suitable structure necessary for carrying out the compliance function effectively i.e, Chief Compliance Officer and an adequate support system. These guidelines may also incorporate additional guidelines relating to Risk Based Supervision and Compliance thereof.

Many participants felt that the RBI circular on exchange of information for consortium/ multiple banking arrangements needs to be withdrawn/ simplified in the context of setting up of a mechanism at RBI for receiving credit related information from banks i.e. CRILC. Further, some credit information is also collected by credit information companies and is available to banks. It was also suggested that the exchange of information among banks should be in a digital format so as to avoid cumbersome collection and compilation required as at present. These could perhaps be done through the aegis of Indian Banks’ Association. A few participants suggested that there is a need for strengthening the support system provided to Chief Compliance Officers so that the compliance function can be discharged effectively. Overall, it was felt that the guidelines relating to compliance issued by RBI need to be followed in true spirit by banks rather than treating them as a matter of compliance.