

The Evolving Role of the Chief Compliance Officer in Financial Services



Chief compliance officers (CCOs) at financial services firms face a primary duty to ensure their organizations operate safely and within the bounds of industry regulations. Increasingly, though, CCOs must be as credible with business leaders as they are with regulators, bringing commercial acumen and the ability to support growth rather than simply trying to reduce risk. In line with this new emphasis on partnership, CCOs are often expected to build compliance organizations and cultures that support the twin objectives of safety and growth.

Driving culture alongside compliance has emerged as an increasing priority as the gap between what employees say and what they do has become more evident. Up to 30% of financial services employees have either breached their firms' code of conduct or witnessed others breaching it within the past year, Russell Reynolds Associates' recent Global Culture Imaging Study that included more than 1600 financial services employees showed, even though nearly 50% reported discussing ethical issues and implications in their workgroups.¹

This evolution has been reflected in the recent hiring activity we have observed globally in compliance as well as in broader governance roles. Through our conversations in the market, we see new definitions of what world class compliance functions look like, how the profile of the modern compliance leader is changing, and how organizations should be responding to this evolution. We also see new ways for other leaders in the organization to support this transformation, including aligning on tone from the top and investing adequate resources into the function, particularly around technology.

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Profile of a best-in-class CCO

As the mandate of the compliance function has evolved, the profile of an exceptional compliance leader is also shifting. To be sure, job one remains keeping the organization out of trouble through a deep knowledge of the regulatory landscape and industry as well as the ability to say “no” when the situation warrants it. However, in keeping with the desire for a CCO who is a sounding board and a thoughtful business partner, we also see organizations looking for new leadership competencies in their CCOs.

In our assessments of hundreds of compliance officers across the globe, several traits emerge among those who are truly best-in-class:

- **Understanding of the business:** An intimate knowledge of the business and the organization’s modus operandi, coupled with strong communication skills, help the best CCOs to earn business leaders’ trust. They are willing to challenge and be challenged.
- **Strategic thinker:** Proven track record of driving transformation and change, desire to help shape the strategy of the organization and transform the function; focused not only on fixing problems and reducing risk, but on steering the organization towards opportunities.
- **Passionate and fluent around technology and data analytics:** Proactively leverages data science, behavioral science and analytics to improve the function and enhance the business through broader and more forward-looking insights.
- **Cross-functional collaborator:** Works closely with not only legal, risk and audit teams to drive the business forward in a compliant way, but increasingly with business unit heads, technology and even sustainability teams to embed a culture of compliance across every facet of the organization.
- **Culture carrier:** Creates a sense of pride in working for the compliance function; attracts, develops and retains diverse teams of subject matter experts who reinforce culture; driver of cultural change more broadly, especially around ethics and conduct; diversity, equity and inclusion champion.
- **Internal and external relationship builder:** Credibility with both internal and external stakeholders (e.g. board, regulators); strong ability to build relationships based on both technical expertise and personal trust.



How leading CCOs build world class compliance organizations



Historically, many financial services firms were structured so that business leaders were responsible for growing revenues, and risk and compliance functions were responsible for 'policing' business leaders. This created an 'us vs. them' culture where compliance was seen as a hindrance to doing business; reacting to regulations rather than working with the business to develop commercially sound, compliant solutions. As a result, business leaders would often bring in compliance at the end of a decision-making process for a rubber stamp, rather than seeking the function's counsel on how to design better strategy.

Leading financial institutions are shifting away from this dichotomy. From a structural perspective, they are breaking down the silos that historically existed around compliance. They are also redefining the purview of the function to include aspects such as:

- **Business judgment:** CCOs must be sensitive to commercial concerns, acting as guardians of the franchise. They must also offer sound judgment and independent advice to protect the organization's long-term interests in anticipation of any potential compliance challenges, versus "fixing the problem" after the fact. While experience in a business management role is highly valued (and in demand), this is rare among the top CCOs we have analyzed. Additionally the ability to make pragmatic decisions that will be adopted by the business has become the hallmark of an effective CCO.
- **Technology transformation:** Technology adoption and automation are fast becoming top priorities for financial institutions. Investing in better technology, driving efficiency through better data and embracing agile methodologies free up capacity for compliance to truly act as a business partner and focus on the big picture. Tech and data-enabled compliance functions are able to be more forward-looking and effective at anticipating risks.
- **Culture, ethics and conduct:** CCOs are helping their organizations transform the compliance culture to emphasize holistic, proactive and innovative approaches toward emerging concerns, including regulatory changes, sustainability and diversity goals, and advanced behavioral risk identification.
- **Stakeholder management:** The CCO should act as a key liaison with both internal and external stakeholders, providing guidance and counsel to the board and the C-suite, ensuring they are fully informed of all significant compliance matters, including emerging regulatory issues.

Appointing a CCO to a Fortune 500 Financial Services Organization

The situation

A US-based Fortune 500 financial institution had recently developed a banking offering and was under pressure from regulators to scale its compliance quickly and in a way that worked within its culture. It would not be enough to hand down a deluge of new rules and processes to business leaders. Instead, the organization needed a compliance leader who was sympathetic to its starting point and could bring people on a journey to best-in-class compliance – all the while enabling the rapidly-growing banking business to continue to expand in a healthy way. As a result, the client partnered with RRA to appoint a chief compliance officer who had previously built successful compliance teams, knew how to partner with the business to develop a strong compliance culture and had the interpersonal skills and proven battle scars to credibly roll out a new program and reshape the team.

The mandate

The new compliance leader would ideally accomplish four main goals:

1. **Structural design:** Align the structure of the compliance function to the overall business structure, ensuring that the compliance organization was set up to support the business
2. **Team leadership:** Ensure the team understands the mission of the function and individuals are given the opportunity to excel in the profession
3. **Stakeholder management:** Communicate with and manage expectations of the regulators, board and business leadership
4. **Cross-functional collaboration:** Build bridges between compliance and risk, audit, technology and operations

The result

The successful candidate was an experienced leader with a career spanning business leadership, risk & compliance, and audit. He was also a strong team leader who brought experience leading at scale, with the ability to engage both internal and external stakeholders. With a demonstrated track record of leading complex organizations and driving change through consensus building and focused execution, he had the experience and the passion to transform compliance and AML programs.

This leader's impact has been clear from day one. He created partnerships with business lines and developed a structured game plan around short-, mid- and long-term objectives. He then set clear milestones and empowered the team to deliver on those milestones. Leveraging his credibility and experience with regulators, he has begun to create relationships based on trust and confidence. At the same time, the business is now able to demonstrate that it truly owns its risks and takes appropriate responsibility to ensure the safety of both the financial institution itself and most importantly, the clients.



Making compliance functions and leaders successful: Organizational accountability

With increasing opportunities for compliance leaders to contribute to strategy and culture, it is more important than ever that other leaders in the organization also step up to support a compliance culture. In our experience, there are three critical ways for other leaders to support new CCOs:

- **Offer a sound understanding of your business:** Current leaders can help an incoming CCO hit the ground running by making introductions and offering learning opportunities that will allow them to quickly master the business and establish credibility.
- **Align on tone from the top:** Strong compliance leaders are well equipped to support an evolving culture, but if the tone from existing leaders conflicts with the compliance mandate, even world-class CCOs are unlikely to make meaningful progress. Building alignment among the CCO, the CEO, the C-suite and the board will go a long way to accelerating transformation.
- **Invest adequate resources into compliance:** Compliance functions are thinly stretched across business as usual and increasingly complex transformation projects, therefore ensuring adequate resources and a diversity of skills to complement the CCO is essential.

Looking ahead



Although many organizations are still on a journey, we're seeing a tremendous amount of development and transformation among compliance leaders, with an emerging cohort that are more empowered to drive conversations around culture and emerging trends. As more organizations embark on this shift, demand for these leaders will undoubtedly grow. Those that can successfully attract the best compliance talent – or develop it internally – will find them key to driving change management, culture, ethics and conduct mandates throughout their organization, and therefore a major source of competitive advantage.

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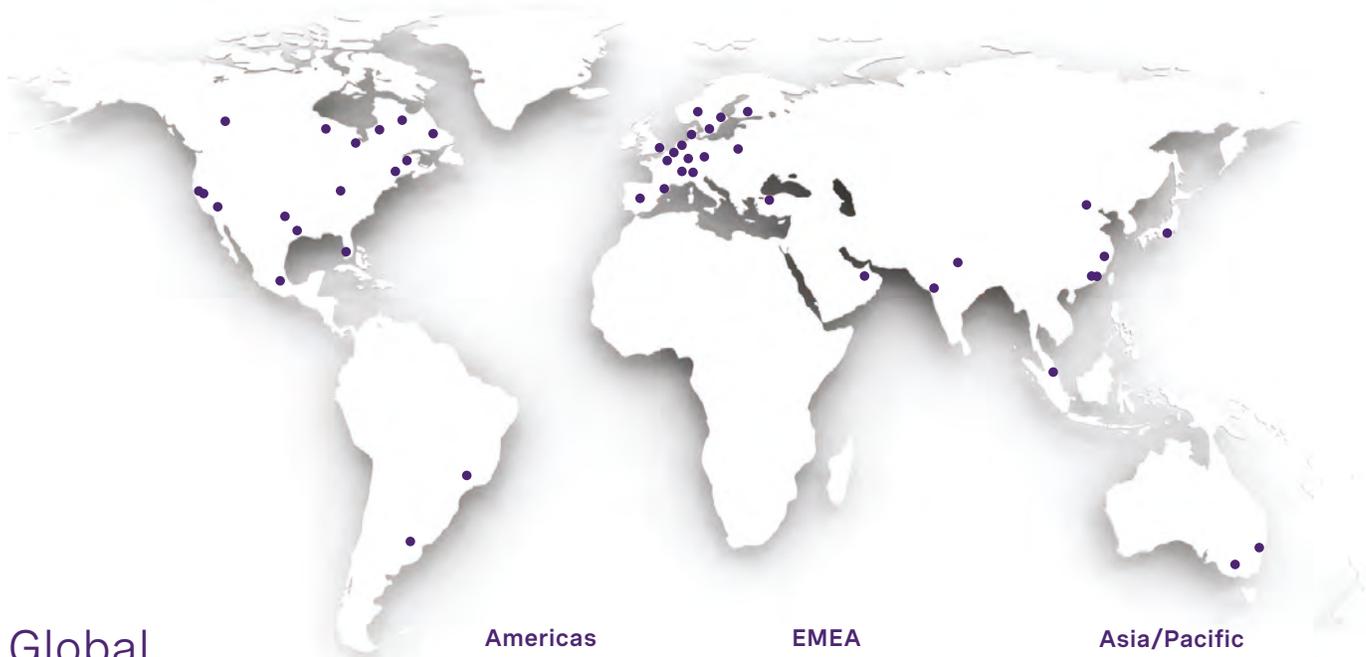
References

1. Russell Reynolds Associates Global Culture Imaging Study, 2021, n=1609 financial services employees

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