

Compliance Organisation Health Check

by Christian Scholten and Andrej Psorn

The financial industry is undergoing change. Increasing pressure, low interest rates and rising operating costs are adversely affecting the business results of many leading private banks in Switzerland. At the same time, FinTechs are entering the market with lean services and low operating costs and promise clients an alternative to the established private banks. The compliance organization is proving to be a cost driver and a test for private banks. On the one hand, the compliance organization plays a vital role as it functions as the so-called second line of defense and is intended to protect banks from operational risks. On the other hand, this line of defense has recently revealed serious flaws in many banks. Attempts have been made to close these flaws in the compliance organization with additional resources, however, it was often neglected to conduct a health check of the compliance organization from the ground up and to address the problem areas with thoughtfulness and integrated measures. This article describes the current challenges of compliance organizations and shows how your compliance organization can benefit from a health check.

Challenges and Opportunities

Companies in the financial industry, in particular private banks, face a wide variety of challenges in the organization and operation of their compliance organization. The following lists some of the most important fields of concerns:

- **Long onboarding times for customers, especially in private banking.** Onboarding times of up to 4 weeks are not unusual in private banking, yet they can be shortened by a mature and efficient compliance organization.
- **Lack of automation in various areas of the value chain** due to years of omissions to invest into technology. This is partly due to the fact that since the financial crisis, the focus has been on quick emergency solutions and on securing operational continuity, i.e. a holistic improvement of business processes was not the main focus.
- **Non-observance of compliance regulations** and resulting fines and reputational damage. Penalties in the eight-digit millions are no longer a rarity but increasingly a reality and even established private banks get into trouble. The financial damage is amplified by the resulting loss of reputation and transition of customers to other private banks.
- **Information gaps in customers' KYC profiles** due to non-transparent, uncoordinated internal processes. A recurring problem in many banks is the information imbalance between front office and compliance department, caused by conflicts of interest between these two areas. In simple terms, front line staff are trying to acquire new customers and retain existing ones, while compliance staff are responsible for enforcing regulations and minimizing risk. The information gap is also fueled by the lack of technical measures and the use of different IT systems by the Compliance and Front Departments.
- **Missing or outdated information about the customer and their relationships.** Obsolete systems that have evolved over time, so-called "legacy systems", resulted in customer information that was no longer up to date and even recorded differently in the various systems. Outdated information about the customer bears significant operational risks. Many private banks endeavor to update their customer information and "KYC profiles" in so-called "remediation projects", but more often than not, the problem of legacy systems is being neglected. This means that the remediation projects will inevitably be repeated in the near future.
- **Defective IT systems in daily business,** such as a missing IT solution for adverse media or transaction monitoring, have further increased operational risk. Many private banks are striving to replace inadequate IT systems. Yet again, they are driven out of necessity to find a solution to satisfy the Financial Market Authority and miss out on full integration of the new solution into the bank's system landscape.

TALOS Health Check

TALOS Health Check offers a standardized procedure to systematically record the risks inherent to your compliance organization. The Health Check will also propose actionable

risk-reducing measures to close the identified gaps. Figure 1 shows the most important areas at company and customer level that will be highlighted during the Health Check.

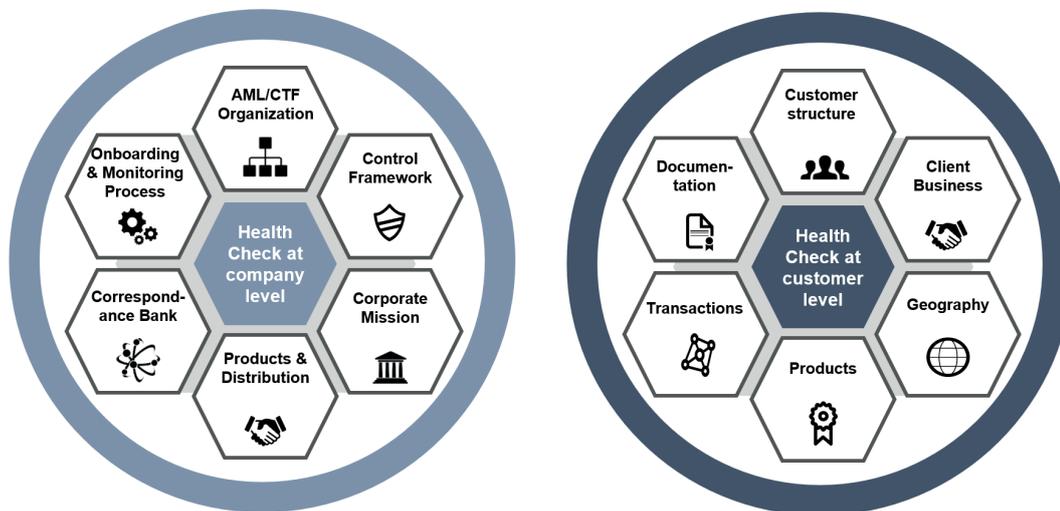


Figure 1:
TALOS Health Check at
company and customer
level

Our evaluation and improvement process is based on a multi-stage process with 6 different steps or phases (see Figure 2).

In the first step of the process, the preparation takes place. In a kick-off workshop, we plan and discuss the methodology and the further procedure in detail.

In a second step, the actual analysis of the compliance organization is carried out at company and customer level by using a risk matrix to evaluate the individual areas at company and customer level. In order to systematically record the areas of improvement, we have compiled a standardized questionnaire to carry out an internal self-assessment and an external assessment in joint workshops.

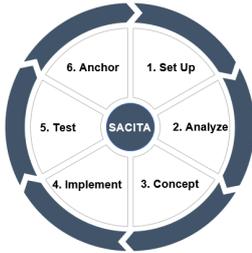
The third step is the conception phase in which the areas of improvements and risk mitigation measures are being worked out. We will summarize the findings and recommendations in a structured report and discuss it in a final workshop.

The fourth, fifth and sixth phase, focus on the implementation, testing and anchoring of the risk mitigation measures. This will ensure that your compliance organization is ready to deal with current and future requirements. We are also pleased to support you during these phases.

TALOS

Publication

SACITA Framework



We recommend a pragmatic approach in three phases. For the sake of completeness, the entire project lifecycle is shown, including phases 4, 5 and 6.

1. Set Up	2. Analyze	3. Concept	4. Implement	5. Test	6. Anchor
The project goals and plans are clear and understandable for all parties involved	Analysis of the compliance organization at company and customer level	Development of risk-reducing measures to close the identified risks	Implementation of the risk mitigation measures	Test of implemented measures and fine tuning	Evaluation of BAU readiness as well as planning and implementation of improvements
Kick-off Workshop	Questionnaire & Risk Assessment	Health Check Report	Implementation	Test Report	BAU Checklist

Health Check
 4-6 calendar weeks

Figure 2:
TALOS Health Check

How can TALOS support?

- **Standardized and proven procedure.** Based on many years of experience in the analysis and implementation of regulatory projects, TALOS has developed a standardized and proven procedure helping us to quickly identify critical areas for improvement
- **Comprehensive analysis within a short time.** We are able to prepare a comprehensive evaluation of the critical fields for improvement at both the company and customer level within a short time, usually within 4-6 weeks.
- **Actionable solutions to address the identified risks.** TALOS Health Check goes beyond a simple health check. We also propose actionable measures to address the identified risks.
- **Implementation and anchoring of measures.** TALOS also supports you in the implementation and anchoring of risk mitigation measures. Our consultants have a track record in managing complex regulatory transformation projects and are Prince 2 and Scrum certified.

TALOS

Publication

Who we are

TALOS is continuously striving to shape new standards in management consulting. As a specialized consulting boutique of Swiss origin, we are serving the European financial services industry from our local offices in Zurich and Luxembourg.

Founded by experienced management consultants in 2008, we have grown since then to a renowned consulting company with a complementary service offering across various disciplines.

With our tailored hands-on approach, we accompany our clients in mastering the fundamental challenges the industry is facing.

We are a trusted partner for our clients helping them to increase their organizational effectiveness and operational efficiency.

We strive to be recognized as one of the leading management consulting boutiques for the European financial services industry.

Zurich

TALOS Management Consultants
Bleicherweg 45
CH-8002 Zürich
Tel. +41 44 380 14 40

Luxembourg

TALOS Management Consultants
6, Rives de Clausen
L-2165 Luxembourg
Tel. +352 26 20 23 54

www.talos-consultants.com
www.shapenewstandards.com

Your Contact

Christian is Partner at TALOS and has been working as an internal consultant for a German logistics group since 2005 and as a management consultant since 2007 (Accenture, TALOS).

Christian Scholten

Partner
christian.scholten@talos-consultants.ch



Andrej is manager and joined TALOS in 2015. He has worked as a management consultant for 9 years (TALOS, PwC) and specialises in the financial services industry. Andrej has extensive regulatory expertise in various regulatory areas as well as sound project management know-how and IT affinity. Andrej has also led the regulatory think tank in TALOS.

Andrej Psorn

Manager
andrej.psorn@talos-consultants.ch

