Key Features of an Effective Compliance Program

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Agenda

- What role does Compliance play
- Three lines of defense
- Components of an effective compliance program
- Advantages of an effective compliance program
- Best practices
If you think compliance is expensive, try noncompliance...

Sampling of regulatory fines/penalties assessed in 2018

What role does Compliance play?

Painting the Lines: COMPLIANCE helps the business understand requirements, options, and associated risks

Setting the Boundaries: LEGAL defines which regulatory requirements are applicable to the activities and interprets those requirements for compliance and the business

Choosing a Lane: Based on their risk appetite, the BUSINESS uses information provided by Compliance and Legal to make informed business decisions about their compliance activities
Three lines of defense

1st Line of Defense
(Risk Ownership & Management Controls)

2nd Line of Defense
(Risk Control & Monitoring)

3rd Line of Defense
(Risk Management Assurance)

Additional example provided in the Appendix

Compliance program elements

Example

High Level Responsibility

Risk Assessment

Written Policies & Procedures

Training & Education

Response & Prevention

Monitoring & Testing

Enforcement & Discipline

Reporting

Regulatory Exams & Relationship Mgt
Compliance program components

Example

Components of a Compliance program tend to build on top of each other, creating an integrated feedback loop up and down the pyramid.

Collaborative partnership

Nationwide example

- Integrated regulatory exam management strategy
- Development of scorecards for business unit industry benchmarking
- Certification and validation of prior regulatory corrective actions
- Effective new law implementation program
- Coverage map and risk assessments
- Regulatory assessment testing program
- Use of targeted assessments to better understand emerging risks
Advantages of an effective compliance program

- Employees who are more engaged and committed
- Lower turnover
- Higher productivity
- Employees are more likely to feel comfortable reporting misconduct
- Reduced fines/penalties
- Increases trust with employees, customers, and third party partners
- Builds positive brand awareness
- Contributes to an overall strong culture

Best practices

- Compliance independence
- Strong tone from the top down
- Employee accountability (compliance objective)
- Training appropriate to the role
- Compliance professional development (annual training requirement, attending peer round table discussion, etc.)
- Measuring effectiveness (sharing results with senior leadership and Audit Committee)
**Annual effectiveness assessment**

*Nationwide example*

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**Executive Interviews (1:1)**
- SVP and Compliance
- VP and Compliance
- AVP and Compliance

**Surveys**
- Business partner
- Compliance & Ethics associates
- Enterprise associates*

**Internal material**
- Internal Audit results
- Metrics

**Other material**
- External exam results

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**Self-Assessment Questionnaire**

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**Effectiveness Assessment Report**

* * 2,000 randomly selected associates

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**Self-assessment questionnaire**

*Nationwide example*

- Annually, Compliance leadership completes a 44 question self-assessment
- Questions are oriented around the elements of an effective compliance program

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**Survey format**

**COMPLIANCE ELEMENT**

<table>
<thead>
<tr>
<th>Question</th>
<th>Rating</th>
<th>Comment section</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH LEVEL RESPONSIBILITY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance staff have a prominent status in the organization and are approximately independent of the business they support</td>
<td>Pick from list</td>
<td>•</td>
</tr>
<tr>
<td>RISK ASSESSMENT</td>
<td></td>
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<tr>
<td>Risk assessments are completed in a collaborative manner (compliance &amp; business) and per prescribed schedule</td>
<td>Pick from list</td>
<td>•</td>
</tr>
<tr>
<td>TRAINING &amp; EDUCATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance associates maintain appropriate levels of continued education to enable adequate levels of compliance expertise</td>
<td>Pick from list</td>
<td>•</td>
</tr>
<tr>
<td>MONITORING &amp; TESTING</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due diligence/background checks are performed for registered, licensed, and appointed personnel candidates and management is alerted to any red flags for consideration prior to hiring</td>
<td>Pick from list</td>
<td>•</td>
</tr>
<tr>
<td>RESPONSE &amp; PREVENTION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal mechanisms exist to support associates with anonymously reporting compliance issues and other suspected wrong doing</td>
<td>Pick from list</td>
<td>•</td>
</tr>
</tbody>
</table>

1 Rating options: 1 - Strongly Agree, 2 - Agree, 3 - Disagree, 4 - Strongly Disagree, 5 – N/A
1:1 Executive interviews

*Nationwide example*

Compliance leaders conduct in person executive interviews. All programs use a standard seven question template with an overall rating scale.

- Does someone ask for your input when making significant changes to the compliance program supporting your line of business?
- Does Compliance keep you informed about regulatory changes and participate in relevant business discussions and decision-making?
- Do current reporting methods keep you informed about compliance risks and issues, and other important compliance matters (e.g. regulatory exams, trends, etc)?
- Business Partner Overall Effectiveness Rating: I am satisfied with the effectiveness of the overall compliance program for my line of business and with the related support provided by this Compliance team.
  ___ Strongly Agree       ___ Disagree
  ___ Agree               ___ Strongly Disagree

Questions?
APPENDIX
Three lines of defense
Nationwide example

The Business is the 1st Line of Defense

1st Line of Defense
Risk Ownership & Mgt Controls

Selected Line of Business & Corp Function Mgmt

Property & Casualty

Financial Services

Corp Functions

2nd Line of Defense
Risk Control & Monitoring

Selected Risk Mgmt Functions

IT Risk Mgmt

Enterprise Risk Mgmt

Financial Rpting Controls

Privacy

Quality

Compliance

3rd Line of Defense
Risk Mgmt Assurance

Assurance & Validation

Internal Audit

Compliance & Quality Assurance are independent 2nd Line of Defense programs

The Business is the 1st Line of Defense

Nationwide example