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)
BUSINESS

2nd Line of Defense
(Risk Control & Monitoring)
COMPLIANCE

3rd Line of Defense
(Risk Management Assurance)
INTERNAL AUDIT

Compliance program elements
Example

High Level Responsibility

Risk Assessment

Written Policies & Procedures

Training & Education

Response & Prevention

Monitoring & Testing

Regulatory Exams & Relationship Mgt

Reporting

Enforcement & Discipline
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.

1. Identify and Manage Applicable Regulatory Requirements
2. Develop Policies, Standards and Procedures
3. Create Training Appropriate to Role
4. Execute Controls, Monitoring and Testing
5. Respond to Issues
6. Produce Actionable Reporting

**Collaborative partnership**

**Nationwide example**

- Integrated regulatory exam management strategy
- Effective new law implementation program
- Development of scorecards for business unit industry benchmarking
- Certification and validation of prior regulatory corrective actions
- Coverage map and risk assessments
- Regulatory assessment testing program
- Use of targeted assessments to better understand emerging risks
- Collaborative partnership between the Business, Legal, and Compliance

**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

<table>
<thead>
<tr>
<th>Executive Interviews (1:1)</th>
<th>Surveys</th>
<th>Internal material</th>
<th>Other material</th>
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</thead>
<tbody>
<tr>
<td>SVP and Compliance</td>
<td>Business partner</td>
<td>Internal Audit results</td>
<td>External exam results</td>
</tr>
<tr>
<td>VP and Compliance</td>
<td>Compliance &amp; Ethics associates</td>
<td>Metrics</td>
<td></td>
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<tr>
<td>AVP and Compliance</td>
<td>Enterprise associates*</td>
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</tbody>
</table>

Self-Assessment Questionnaire

Effectiveness Assessment Report

* 2,000 randomly selected associates

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

<table>
<thead>
<tr>
<th>Survey Annual COMPLIANCE ELEMENT</th>
<th>Rating</th>
<th>Comment section</th>
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<tbody>
<tr>
<td>RISK MANAGEMENT RESPONSIBILITY</td>
<td>1 - Strongly Agree</td>
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<tr>
<td>RELASSED ASSESSMENT</td>
<td>1 - Strongly Agree</td>
<td></td>
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<tr>
<td>TRAINING &amp; EDUCATION</td>
<td>1 - Strongly Agree</td>
<td></td>
</tr>
<tr>
<td>PROFESSIONAL STANDARDS</td>
<td>1 - Strongly Agree</td>
<td></td>
</tr>
</tbody>
</table>

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

Board of Directors
C-Suite

1st Line of Defense
Risk Ownership & Mgmt Controls

2nd Line of Defense
Risk Control & Monitoring

3rd Line of Defense
Risk Mgmt Assurance

Selected Line of Business & Corp Function Mgmt
Property & Casualty
Financial Services
Corp functions

Selected risk areas
IT Risk Mgmt
Enterprise Risk Mgmt
Financial Reporting Controls
Privacy
Quality
Compliance

Assurance & Risk
Internal Audit