THE FOUNDATION

Behavioral Focused Reporting is based on 2 basic concepts:

- What is Compliance?
- What is the future?
WHAT IS COMPLIANCE?

THE FUTURE OF COMPLIANCE

Regtech:

- Mere digital recording of existing process and procedures
- Does very little in managing behavior
THE FUTURE OF COMPLIANCE continue…

The future of Compliance is in AI that can:

- Simulate the decisions that we make today
- Manage behavior better than we are currently doing it

CHALLENGES FOR MACHINE LEARNING

**Machine learning:** is basically a fancy term for an algorithm that identifies trends in data and then uses those trends in order to simulate decisions

The biggest challenge for Machine Learning in Compliance is the lack of large data sets, meaning that the algorithm does not have any space where it can “learn” from
DATA AS THE BRIDGE TO THE FUTURE

How to we gather the data required by the Machine Learning that will take us to the future?

What data to we gather? It has to:

- Enable Machine Learning
- Manage behaviors

WHAT’S THE THING WITH BEHAVIOR MANAGEMENT?

How effective are our controls?
Maybe I can bend the rules if I make them longer.
THE ABC BEHAVIOR ANALYSIS APPROACH

**Antecedent**

**Behavior**

**Consequence**

No more itching

DIFFERENT KINDS OF CONSEQUENCES

- **Important** Consequences are more powerful — USD 500 bonus is more important than praise from supervisor
- **Positive** reinforcement is more powerful — Praise versus criticism
- **Immediate** consequences are more powerful than future ones — Daily feedback versus monthly feedback
- **Certain** consequences are more powerful than uncertain ones — An automatic buzzer sounding for errors versus reprimand which is uncertain

The perfect driver for changes will be a consequences that impacts something important, which has a positive outcome, which can be obtained immediately and which is certain
WHAT BEHAVIORS DO WE WANT TO CHANGE?

Two approaches:

**COMPREHENSIVE APPROACH:** Risk Assessment

**SHORT METHOD:** Identify existing controls

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**KPI EXAMPLES**

<table>
<thead>
<tr>
<th>PRINCIPLES</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>Senior Management Compliance Awareness as a percentage</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>Number of Partner with PEPS</td>
</tr>
<tr>
<td>Standards and Controls</td>
<td>Number of transactions with discount above average, as a percentage of all transactions</td>
</tr>
<tr>
<td>Training and Communication</td>
<td>Number of times that Compliance Policies were accessed on Jam Page and Intranet</td>
</tr>
<tr>
<td>Oversight</td>
<td>Number of whistleblower calls with substance as a percentage of all whistleblower calls received</td>
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KPIs

Measure the occurrence of the behaviors to be influenced by tracking KPIs:

- Set a **baseline** against which we can measure the change in behavior
- Provide updates on real **Compliance Risk Indicators**
- Provide **early indicators** on potential **Compliance impacts** on the sales pipeline

CONSEQUENCES

Item 6 of the **U.S. Sentencing Guidelines**:

**DISCIPLINARY ACTION**

**INCENTIVES**
Breakout Session (5 min)

- Break up in Groups
- Select 1 KPI from the board
- Identify ways to measure it
- Identify ways to use positive reinforcement
- Prepare to defend your position in a 5 min group discussion

Final Thought

With the simple turn of a single man’s hand a rudder turns a ship that would otherwise not be moved by the sweet and tears of a thousand men