

Highly Successful Compliance Officers Going Beyond the Regulations

BY JIM JORGENSEN, CPA, CIA, CISA

AS THE ROLE OF THE COMPLIANCE OFFICER (CO) evolves at a rapid pace with the increasing complexities of the technology and regulatory environment, COs must continuously develop and hone their skills. What are these skills that highly successful COs possess?

To address this question, we spoke with several COs from community banks to large regional banks. This article shares their insights about what skills they feel are most valuable for their roles, and how they acquired and developed them.

Foundational Skillset

At its core, the role of any compliance professional includes an understanding of the applicable regulations inside and out, and having a good system in place for monitoring regulatory change. The COs said that knowing and staying current on regulations is table-stakes for a compliance professional. But besides being experts on the regulations, the COs consistently pointed out that there is far more to their jobs than just having a strong knowledge of regulations.

In order to perform effectively, a CO must have a broad range of skills beyond just regulatory knowledge. The CO's duties and responsibilities, as stated in the federal regulations, include having sufficient authority and independence to interact with all departments, have access to the bank's operations, and effect corrective action when needed.

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- **Susan Rich, EVP, CCO/CRA Officer/Audit Liaison, One Bank Florida**

To accomplish this directive, a CO's duties include ensuring that the bank:

- Develops compliance policies and procedures;
- Provides proper training in consumer protection laws and regulations to management and employees;
- Reviews policies and procedures for compliance with applicable laws and regulations;
- Assesses emerging issues and potential liabilities;
- Provides proper responses to consumer complaints; and
- Reports compliance activities, findings, and corrective action to the board.

Managerial Skillset

The COs unanimously felt that to be successful, they first must be excellent managers. In other words, they must possess strong leadership skills. Without effective leadership over the bank's compliance organization and program, it would be nearly impossible to comply and keep up with the ever-growing and evolving business and regulatory environment. Managerial skills are critical to facilitate discussions effectively with the bank's business lines and effect change. At their best, COs are agents of change. (See *We Are Change Leaders* on page 6 of the May-June 2019 issue of *ABA Bank Compliance*.)

Managerial skills are tested every day through interactions with a wide variety of personnel within and outside the bank, such as the compliance team, the board, bank executives, bank operations management, internal auditors, customers, vendors, consultants, and federal and state regulators. Each of these stakeholders has their own needs and objectives.

Building Relationships

COs and the compliance department do not want to be perceived by bank personnel as the ones who always say "no, you can't do that" and just report on what is being done wrong at the bank. To combat this perception, the COs emphasized that it is necessary to build strong partnerships and relationships with all stakeholders. It starts with the board and C-suite and extends throughout the bank with heads of bank operations, internal audit, and corporate functions and the regulators.

Strengthening these relationships is not easy. Practical solutions are achieved through strong partnerships. These partnerships are developed by demonstrating that the compliance department takes the approach that "we are all on the same team." Teamwork comes from demonstrating that the compliance department cares about the bank and the challenges faced by each of the lines of business. The COs passionately stated that there is no place for an "us versus them" atmosphere.

They further said that even informal meetings, such as lunch meetings, go a long way to building relationships. In today's environment where many meetings are virtual, one must be creative to continue to stay connected. Sherry Holtzclaw, chief compliance officer at First Merchants Bank, suggests, "To facilitate effective verbal and non-verbal communications in this new virtual environment, I set an expectation with my team that cameras should be on during virtual meetings with our regulators, management, lines of business partners, and compliance team members."

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Communication Skillset

In order to build strong relationships effectively with bank leadership, the compliance function must gain their confidence through effective communication skills, both verbal and written. For example, Compliance presentations can provide an opportunity to:

- Discuss the bank's compliance program and potential issues;
- Provide training and educational opportunities; and
- Demonstrate the compliance function's commitment to bank objectives and strategies.

A bank's leadership looks to the CO to be able to explain the regulations and related impacts concisely, as well as issues that apply to daily operations.

In addition to presentations, compliance departments issue various reports regarding their activities. As such, writing skills are critical. Reports need to be clear and concise and provide the detail to support any findings and recommendations. The compliance department could receive ongoing training to further develop soft skills for meeting facilitation, presentations, written reports, and negotiation. A CO pointed out, "One thing to always keep in mind is that the best communicators are always the best listeners."

Communications with the Board

Communicating with the board is a skill requiring special emphasis. The COs felt relationships with their boards are critical to their success. They must always show confidence and a positive attitude. Presentations must be concise and clear, and get to the point quickly, with plenty of time for questions. While it is reasonable not to have an immediate answer for a question, far more important is promptly following-up with an answer to a board member's question. The COs recommended that it is important, if possible, to meet individually with members of the board to build strong relationships.

Having a Risk-Based Approach

Risk management and an understanding of the bank's risk tolerance is crucial to developing a risk-based approach. By having a strong understanding of the bank's risk appetite and how to manage risk, COs are better prepared to have discussions with management regarding the impact of non-compliance. Many internal and external factors can change compliance risks. They also suggested meeting frequently with the other risk managers at the bank, such as those in internal audit, credit administration, treasury/finance, information security, bank operations, and, of course, the chief risk officer.

By understanding operational and compliance risk, the compliance officer is better prepared to understand the controls that need to be in place to address the regulatory risk. One CO noted that there is a significant difference between just knowing the regulations and understanding the operations and controls that address the regulations.

Knowing the Bank's Business and Strategy

The COs emphasized that it is important that everyone in compliance must put forth the effort to understand the bank's business and strategic vision. In other words, compliance needs to be a student of the bank's business. Understanding the bank's strategy helps to be prepared for changes at the bank so compliance can be involved early in the process. Joel Ramos, the executive vice president and chief compliance officer at Busey Bank, adds, "having the accounting and finance skills to read and understand the financial statements and key financial ratios of the bank gives me insight on how the bank's strategy may change to drive financial performance. These skills allow me to invite myself to the party, rather than letting compliance be invited late to the party. Compliance and financial performance can be aligned on strategic goals."

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Written Policies and Procedures

COs are charged with developing effective compliance policies and procedures. To accomplish this goal, COs need to interact with a wide range of departments and organizations. The policies and procedures that must be implemented for various regulations must be customized and tailored specifically to the organization.

As with any implementation, a thorough analysis must be prepared and the cost/benefit of each process and procedures must be assessed. There are many stakeholders affected by these regulatory updates, each with their own perceptions and recommendations on how the regulations should be implemented.

The implementation of new regulations or regulatory updates requires teamwork, collaboration, negotiation, listening, and problem solving. The bank's compliance culture and tone at the top are necessary in assuring that the COs can accomplish their goals. But even with the strongest compliance culture and support from executive management, the task of implementation is not simple. It requires the ability to work effectively with management and employees across the organization. Operations management will inquire as to:

- How will this affect bank customers?
- What additional resources are needed to comply?

- How will this affect the employees in the department?
- How will profitability of the operation be impacted?
- What are the consequences for non-compliance?

These are tough questions and need to be addressed properly. The COs pointed out that compliance cannot be so rigid that the new procedures are difficult for the organization to implement. On the other hand, they must be firm enough to assure effective compliance with laws and regulations. The proper approach requires a positive attitude, emphasizes flexibility and provides confidence that there's a workable solution that will win management trust. One CO said, "I strive to demonstrate that the compliance team is highly invested in the success of the business lines."

As procedures and policies are being developed, the compliance officer should collaborate and negotiate with the parties involved to assure there is sufficient buy-in for a successful implementation. This requires being a good listener and understanding the issues that could result from changes. Without this buy-in, the best procedures will fail if the owners of the procedures do not understand them or do not embrace them. Of course, unexpected issues may occur throughout the process, so excellent problem-solving skills are always necessary.

Monitoring Skillset

The responsibility for monitoring activities as the second line of defense also draws on many of the skillsets previously addressed. To execute these responsibilities, the compliance team conducts various meetings with the business lines to discuss the scope of review, potential findings, and recommendations for corrective action. In addition, each member of the compliance team should possess strong analytical skills. In other words, they need to ask the right questions. This

will allow them to understand the root cause of the issue and be able to work with the lines of business to find a solution that addresses the issue.

The compliance team must be effective in verbal and written communications. This is an area where the "us versus them" can become apparent. This can only be addressed by working well as a team. An excellent indicator of strong teamwork is when business lines are not afraid to share and raise issues with the compliance team. As one CO said, "There is no reason to hide things, because this is all about being on the same team and correcting issues before they become significant problems for the bank."

Networking Skills

The COs recommended that they and their teams should always be networking. Being visible in the compliance community and financial services industry has many benefits including enhancing the compliance professional's reputation as an expert and thought leader in the profession and helping to attract new talent. Being active in industry and state banking associations, as well as local compliance networking groups, is another way to help a CO expand networks. This involvement also provides opportunities to keep current on the latest compliance issues, provide training for the compliance team, and interact with other professionals. Many best practices come from these professional associations. These associations also provide significant opportunities for their members by participating on committees and presenting at conferences and seminars that allows them to continue to improve their technical and soft skills.

Building a Compliance Team

When building a team of compliance professionals, hiring, and attracting well qualified candidates is critical. Some COs felt that having a compliance background, while important, was not as critical as a candidate possessing or being capable of developing all the other skills discussed in this

article. One CO of a large regional bank noted that candidates with an internal audit background have many of the skills desired by compliance, such as verbal and written communication skills and an understanding of risk and controls. It was pointed out that there is a big difference between just knowing regulations and understanding the associated risk of the regulation with the corresponding controls.

In today's competitive environment, compliance professionals are very much sought after by many organizations. Being able to screen and interview candidates effectively is very important. Also, it is important to market the position well to get the candidates excited about the opportunity. The new hires should embrace the compliance culture of the bank and the compliance officer's vision. Susan Rich, executive vice president and chief compliance officer/CRA officer/audit liaison of One Bank Florida says, "Attitude is the attribute I look for in hiring."

But just as critical as hiring is the engagement and retention of the existing compliance team. High turnover in the compliance department can negatively impact the bank's CMS. The COs further stated that it is important to be an excellent mentor to each employee. Susan Rich further states, "I challenge each member of the team to get out of their comfort zone to develop new skills. When I am assigning a task, I present the starting point then explain what is wanted and needed. It is up to the individual to determine the path to achieve the desired result. My goal is to make compliance fun for everyone at the bank."

These COs expect compliance professionals to hone their technical and soft skills continuously. Establishing an employee development and mentoring program is crucial to achieving this goal across their compliance department. In addition, each member of the compliance team should possess strong analytical skills. In other words, they need to ask the right questions. This will allow

them to understand the root cause of issues and provide solutions.

Conclusion

Possessing strong knowledge of banking regulations is just table-stakes in performing the compliance officer role. All the other skills discussed in this article are just as, if not more, important for being a highly effective CO. By honing these skills, COs will add more value to their banks by effectively managing change, solving problems, and formulating business strategies.

ABOUT THE AUTHOR

JIM JORGENSEN, CPA, CIA, CISA, is the president and chief executive officer of CrossCheck Compliance LLC. He has over 40 years of experience in the internal audit and accounting profession. In 2008 he founded CrossCheck Compliance LLC, a regulatory compliance and risk management consulting firm focused on banks and lending organizations. Jim is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Information Systems Auditor (CISA). He can be reached at: jjorgensen@crosscheckcompliance.com.