



## Closing The Gap

# Advancing the Next Generation of Compliance Leaders

BY Jim Jorgensen, CPA, CIA, CISA

## Introduction

**H**IGHLY SUCCESSFUL compliance officers (COs) have the skills and resources necessary to oversee an effective compliance department and foster a strong compliance culture in their banks. Does this mean that everything is fine in a compliance department led by a highly successful compliance officer? Not necessarily. Environments are never static and as such, change is inevitable, including retirement of the more experienced senior team. As personnel changes occur in the compliance department, the junior staff needs to be ready take on new challenges and responsibilities.

Are they ready? If not, what is the gap? How can they be ready to take on the responsibilities expected by the board and senior management and for the bank to meet regulator expectations? To address this issue, we spoke to several COs from community banks to large regional banks to get their insights on how they advance the next generation of compliance executives at their banks.

## Preparing Junior Staff for Senior Roles

It all begins with identifying the gap. Many folks become the senior compliance officer by being at the right place at the right time, and may feel that they were not ready for the position. However, there is a difference between natural self-doubt, and an actual deficit in skillset.

As we discussed in the Highly Successful Compliance Officers: Going Beyond the Regulations in the January–February 2022 issue of ABA Bank Compliance, there are many skills that compliance professionals must possess, in addition to an extensive knowledge of the regulations. These skills take time to develop and include not only technical expertise, but also knowledge of the bank’s business lines, effective working relationships with the business lines, and leadership skills such as change management. In addition, executive management expects to be kept informed of any compliance issues with clear and concise communication. Therefore, it’s possible that some junior staff members may simply not be ready to step in to fill the gap when a senior compliance officer exits the bank or takes a new position within the bank.



What are the ways that the senior staff can close the gap?

- **Enhance communication skills and relationships.** The COs we spoke with noted that deep compliance experience, expertise, and knowledge can be typically limited to just a few senior level individuals at a given bank. On the other hand, the junior staff may not be equipped to handle many of senior level responsibilities in compliance. The COs felt that the junior staff usually dedicate most of their time to being current on specific regulations and leaving little time to hone the other skills that are needed to become leaders in their profession. For example, to be successful as a senior level compliance professional, it is critical to possess the ability to establish effective relationships throughout the bank. While junior staff may be more comfortable communicating through email and texting, it is important that they get out of their comfort zone by building rapport through face-to-face communication. If the meeting is being conducted remotely by video, junior staff should have their cameras on.
- **Improve report writing.** "Most junior staff members have not had the opportunity to develop descriptive and actionable compliance report-writing skills," said Lisa Furman, SVP, Compliance Risk Manager, Washington Federal Bank. "This is difficult to teach," added Furman. It requires one to identify and articulate the root cause of issues so that bank management can take appropriate corrective actions. Some banks may offer courses that can help with clear, concise, business writing. Senior Compliance Officers can also provide junior staff the opportunity to prepare the initial draft

of key deliverables to provide important feedback and coaching tips.

- **Formalize succession planning and training development.** How do we get the next generation of staff ready to take on critical senior level responsibilities? Succession planning is all about training, mentoring, and exposure to the business environment.

The staff needs the foundational subject matter knowledge so they can be ready to absorb the additional knowledge and experience that the CO passes on. The CO and the senior staff can formalize this process through effective mentoring and implementing management succession and talent development plans. In other words, the senior staff must take the time and commit the resources to pass on their knowledge and experience to the junior staff.

- **Prepare the staff through certification and industry exposure.** Training is key to their preparation. As such, participation in the professional association compliance schools and training programs is extremely helpful. "Studying for and attaining the Certified Regulatory Compliance Manager (CRCM) certification is also an excellent method of gaining the technical regulatory expertise" said Melanie Spencer, SVP, Port Washington State Bank. In addition, these professional associations provide excellent networking opportunities where they can meet other colleagues and hone their business relationship skills.

Spencer added, "I advise my junior staff to make time each day to read and absorb compliance information and publications. I tell them, 'Be a student of the profession.' In

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## **Exposure to Examiners**

To prepare the junior staff for senior level roles, one CO said that she feels it is important to give junior staff exposure to exams and examiners. Senior compliance officers have significant experience in interacting with examiners; however, there can be a tendency to isolate junior compliance professionals from examiners. This may be due to junior staff's lack of experience in broader topics and CO concerns about missteps in front of examiners. But this isolation only holds back junior staff's development toward becoming a senior level compliance professional.

The junior staff's interaction with examiners can be effectively managed and organized to achieve the goal of gaining experience. Initially, the junior staff can be invited to meetings with examiners where they are just observers of the process. They can witness how the CO communicates with the examiners and gain an understanding of how the examination process works. As a next step in developing effective communication with examiners, one CO we spoke to suggested letting the junior staff attempt to answer examiner questions in writing. This allows the CO to review the junior staff's responses and provides an opportunity for the junior staff to see how the CO responds to examiners' questions.

## **Exposure to Business Operations**

Just as important as having exposure to examiners is getting exposure to bank operations and understanding the bank's strategy. One easy way to gain this experience is by transferring business operations staff into the compliance department.

But this is not always possible, so it is important to allow the junior compliance staff to interact with the business operation personnel. An excellent way to get the business operation and compliance staff working together is to have them jointly develop the operational and compliance controls and perform compliance risk assessments. As the compliance staff becomes more in touch with business operations and strategy, they will be better prepared for changes at the bank, which will allow compliance to be effectively involved early in the change process. For example, without a good understanding of the bank's mortgage operations, it would be difficult to implement and address changes to Regulation Z—Truth in Lending or do a thorough root cause analysis for an issue or complaint.

## **Assessing Readiness of the Junior Staff**

Another CO suggested that we view the compliance department as horizontal and less vertical in structure. This promotes the culture that compliance staff need to be able to step into the roles of their senior team. As this CO put it, "if I walk out the door, everything will be fine because they will be ready to take on my role." This process of grooming the junior staff to be ready for senior roles starts by allowing the junior staff to make some decisions. A successful CO lets the junior staff go far enough to learn from their actions. For example, operations may ask the compliance department for advice regarding regulations related to a new product or procedure. The junior staff might not feel the new product or procedure can be done in a compliant manner. But they need to learn that rather than saying "no," it is important to find solutions to meet the bank's goals.

COs need to determine if the compliance team is ready and willing to take on additional responsibilities. To gauge this, they need to assess the experience gap between the senior compliance executives and their junior staff. COs should discuss with the junior staff the needs of the organization as compared to the needs of the junior staff. Understanding the goals of each member of the

junior staff is critical to developing a plan to prepare the next generation to be ready for senior compliance responsibilities.

One way to determine if the development of the junior staff is working effectively is to understand how busy and bogged down the senior staff is. If the senior staff is overworked, it is likely that the junior staff may not be ready to take on more responsibilities and/or the senior staff may not have the time to effectively delegate responsibilities and assess current capabilities.

## Understanding Motivations of Junior Staff

COs also noted that "baby boomers" are retiring, and their skills are leaving with them. Junior staff motivations may be different than those of the current leadership at the bank. Not all the junior staff are entirely motivated by promotions and moving up in the organization. Rather, some might be satisfied with their current role and less attracted to taking on the added pressure that comes with leadership positions. The work from home option has allowed staff to work remotely and live in desirable locations, which is quite attractive to many. Working overtime and extensive traveling may not appeal to many staff, even if it is required to advance. Having the ability to enjoy personal time is very important, and staff do not want their personal time to suffer because of work. They desire a balance between work and personal time. As such, it is important that the CO understand the goals and needs of all the CO's staff.

## Turnover

Staff turnover can be frustrating for COs, especially when they have put forth a lot of effort to prepare the junior staff for senior roles. Many times, staff may be leaving for higher compensation. If the junior staff see the bank as the employer of choice, they are more likely to stay at the bank. Job hopping may provide some short-term gains, but it may not be best for long-term career advancement. The CO needs to clearly

communicate each person's development plan and how it is preparing them for advancement to senior level positions, including the CO role. Junior staff will not be ready for the challenges that COs face without a well-coordinated development plan and strategy.

One CO said that to limit turnover, her bank has created an environment where people are first. Everyone has different needs and objectives, and the CO needs to know this. People want to feel that management cares about them. This is especially true for fostering a diverse workforce, where it is important to help everyone feel like they are valued and appreciated.

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## Recruiting

In this job market, where compliance talent is not readily available, it is not easy to add talent to compliance departments. If there are insufficient compliance resources, then recruiting becomes necessary. External recruiting can provide an opportunity to further diversify the workforce, and bring in new ideas, perspectives and experiences from other institutions. An excellent source of compliance candidates can also come from within the bank, from individuals possessing operational, risk and control, regulatory, or legal backgrounds.

When assessing candidates, Lisa Furman said, "It is important to determine if the candidates are able and willing to conduct the deep research necessary in compliance." She added, "the skill of effectively researching a topic does not come easy for many junior level staff." Also, both verbal and written communication skills need to be assessed.

Candidates need to be able to multitask as there are many issues occurring daily. Of course, it is important to determine if they possess a foundation of leadership skills necessary for senior level roles. These include effective communication, presentation, facilitation, change management, and mentoring. But no matter where you source the talent, whether within or outside the bank, each new hire will still require effective succession planning to be ready as a next generation compliance executive.

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## Federal Regulatory Guidance

The federal regulatory agencies have also weighed in on preparing the next generation of compliance executives in their guidance. The Office of the Comptroller of Currency (OCC) in their Fiscal Year 2023 Bank Supervision Operating Plan states, "examiners' review of bank governance should assess the effectiveness of talent recruitment, training, retention, and succession management processes. Weakness in talent management processes could lead to control breakdowns, untimely completion of material audits or other reviews, or failure to comply with rules and regulations that lead to customer impacts." The report further says, "examiners should also focus on evaluating compliance staffing, by assessing staff numbers, expertise, training, changes to staffing models, and the extent to which the compliance function is supported by third parties." (See [https://www.occ.gov/news-issuances/news-releases/2022/nr-occ-2022-124a.pdf](https://www OCC.gov/news-issuances/news-releases/2022/nr-occ-2022-124a.pdf).)

The FDIC's Supervisory Insights state, "in hiring and retaining a qualified senior management team, the board of directors is ensuring that the right people are in place to carry out the board's vision, policies, and strategic plan. Directors should ensure that senior management officials possess the experience and knowledge necessary to fulfill the obligations of each key position and monitor and evaluate senior management's performance in effectively carrying out their assigned responsibilities."

The FDIC further states "A management succession and talent development plan is a valuable tool to build bench strength and maintain continuity in the chief executive and other key senior management positions. The succession and talent development plan should start with an assessment of potential successors who may be groomed from within, along with training, mentoring, and development of resources needed to do so. Sound planning also addresses the process of identifying potential successors from outside the organization, when necessary. A management succession and talent development plan should generally cover at least a three-to-five-year horizon." (See [www.fdic.gov/regulations/examinations/supervisor/insights/sise16/si-se2016.pdf](http://www.fdic.gov/regulations/examinations/supervisor/insights/sise16/si-se2016.pdf).)



## Looking Ahead

As COs contemplate how to prepare the next generation, they need to look ahead to determine what will be the most important skills five to ten years from now. Possessing technology skills and understanding the use of big data will continue to

be critical and even more so in the future. Technology will be called upon to perform the heavy lifting of compliance review, testing, monitoring, and analysis. Systems will have to be redesigned to effectively manage big data. These systems will need to be built and designed to communicate effectively with compliance, business operations, regulators, and vendors. The next generation of compliance executives need to be able take a leadership role in the implementation of new technology and its use.

## Conclusion

Bank stakeholders, whether the board, executive management, business operations, etc., expect the current compliance team and the next generation of compliance leaders to keep the bank in compliance to avoid embarrassing business practices and the significant fines and penalties that can be imposed by regulators. These stakeholders want to be informed about any potential high risk areas and activities in a clear and concise manner. In other words, the CO and the CO's team need to be an integral part of the bank management team. It is up to today's compliance leadership to make sure the next generation of compliance leaders are ready to take on these crucial responsibilities.

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## ABOUT THE AUTHOR

**JIM JORGENSEN** 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](mailto:jjorgensen@crosscheckcompliance.com).

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## ABA MEMBER RESOURCES

Certification: Certified Regulatory Compliance Manager (CRCM)

[aba.com/CRCM](http://aba.com/CRCM)

ABA Risk and Compliance Conference

[aba.com/RCC](http://aba.com/RCC)