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Introduction

As the financial crisis unfolded, regulators looked to strengthen the risk management and corporate governance systems that had been subject to challenge. The scope and complexity of many financial entities made enterprise-wide systems for compliance risk management a necessity for the promotion of a culture of compliance within and across business lines and legal entities, and for capture of the wide range of rules and standards (i.e., safety and soundness, Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and consumer protection) with which the entities must comply.

The regulators focused their attentions on large internationally active financial institutions and on the following areas of compliance risk management and oversight:

- The responsibilities of the Board of Directors and senior management
- Implementation of a firmwide approach, including a framework of policies and procedures and standards to identify, assess, control, measure, monitor, and report compliance risks across an organization, and to provide compliance training throughout an organization
- Staffing considerations, including independence between the business lines and the compliance staff, reporting lines and conflicts of interest, and compensation structures
- Risk assessments, monitoring and testing, and the audit function.

Related regulatory guidance, including the Federal Reserve Board’s (Federal Reserve) Supervision and Regulation Letter 08-8, Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles; the Office of the Comptroller of the Currency’s (OCC) “heightened expectations” for large institutions; those agencies’ individual guidance on the risk management of third parties; and rulemakings related to the Securities and Exchange Commission’s (SEC) corporate governance and enterprise risk management (ERM) initiative under its National Examination Program, have generally set principles-based rather than prescriptive expectations for compliance risk management and oversight, encouraging financial entities to tailor their compliance risk management systems to the scope and complexity of their organizations and specific risk profiles. It is this flexibility that permits the guidance to also be applied broadly within the industry by financial services providers seeking to strengthen their risk management and governance practices.

Comptroller Curry has said the OCC is looking for financial institutions to achieve “excellence” in their audit and risk management functions and for Board members to “take a strong hand in ensuring compliance.” To achieve such excellence, “there must be effective reporting tools to enable the Board to monitor financial metrics and key risks, such as compliance with the Bank Secrecy Act and consumer compliance protection laws,” and there must be a record of the Board monitoring those key risks. The Board is expected to set the tone for enterprise-wide professional standards, corporate values, and integrity.

The focus on compliance risk management systems in the United States has been supported by the advent of the Consumer Financial Protection Bureau (CFPB or Bureau), which has further focused intensity on compliance risk management systems (CMSs). The CFPB considers a “robust and efficient” CMS to be “a critical component of a well-run financial institution” and the Bureau’s responsibility to assess the quality of the CMSs employed by institutions under its supervisory authority to be “one of the most important responsibilities of the CFPB supervisory program.” It states that deficiencies in a CMS may render a financial institution unable to detect its own violations, leaving it vulnerable to regulatory action and reputation risks. Such a statement is equally applicable to safety and soundness and consumer protection compliance concerns.

The focus within AML Compliance as reflected in examinations and recent enforcement orders has been on the effectiveness of the BSA/AML program with particular emphasis on the effectiveness of internal controls and independent testing.

A number of highly public enforcement actions undertaken by the prudential regulators, the SEC, and the CFPB in the past few years serve to reinforce the costs, both direct (penalties and restitution) and indirect (reputation risks), associated with failure to maintain a strong CMS and ERM framework. They also highlight the importance of extending this framework to affiliates and third-party service providers.

“Yet, as we discovered during the financial crisis and in the years since, the ability to manage these functions [risk management and compliance] is every bit as integral to successful banking—and can just as easily become a bank’s Achilles heel—as managing credit risk.”

KPMG’s Compliance Risk Management Survey (CRM Survey) was conducted as a Web-based survey in late 2013 and early 2014. It consisted of 46 questions focused on six critical components of a Compliance Risk Management Program:

- Governance and culture
- Policies and procedures
- Compliance management processes
- People and skills
- Monitoring and testing
- Information reporting and technology

Survey respondents were asked to rate key aspects of their CRM programs for each of the six components using a maturity scale of 1 to 5, where “1” indicated “not documented/evidenced” and “5” indicated “fully integrated.” Respondents were also asked to rate, based on their personal perceptions, those same aspects for the CRM programs used by the financial services industry as a whole. For purposes of the CRM Survey, the CRM program was defined to include all three lines of defense (i.e., the business lines, Compliance and Enterprise Risk Management, and Internal Audit/independent oversight functions).

Survey respondents included Chief Compliance Officers from 19 domestic and foreign institutions representative of the top 25 bank holding companies (Retail Banks) and other large financial institutions (Other Banks – including investment banks, insurance companies, and other financial services firms).

Highest rated component: Governance & Culture
The subcomponent “involvement of Board…” had the highest industry benchmark rating of 4.1.

Lowest rated component: Information Reporting & Technology
The subcomponent “automated compliance monitoring and testing processes” had the lowest industry benchmark rating of 2.4.
CRM survey

Against this backdrop, KPMG conducted the CRM Survey to give respondents insights into the current state of development of the CMSs and enterprise-wide CRM programs in place among their peers and the broader financial services industry. The CRM Survey also provides a gauge by which those respondents can assess their positioning against evolving industry practices in compliance risk management.

Key findings

As noted in the following Survey results, the priorities of the regulatory agencies and the issues highlighted by them through public regulatory actions are factored into the respondents’ ratings:

- Governance and Culture was the most highly rated of the CRM program components, demonstrating, in large part, the survey respondents’ response to the regulatory guidance and public actions of the CFPB and prudential regulators to hold the Board and senior management responsible for establishing and driving, “from the top,” a culture of compliance and for overseeing the enterprise-wide risk management process that is intended to assure compliance.

- The most difficult piece in the development of integrated CRM programs has been working through the multiple pressures to retool and modify Information Reporting and Technology in support of this heightened emphasis on compliance management, including requirements related to enhancing governance frameworks with new reporting lines and responsibilities, managing risks across the enterprise and over an entire product or service life cycle rather than through a siloed approach, and implementing new statutory requirements mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act and other laws (i.e., regulatory change management).

- Broadly, the Survey results indicated that individual institutions generally perceived their own CRM programs to be more developed than others in the industry across all of the critical CRM program components except Information Reporting and Technology, where individual respondents perceive the industry to be farther along.

- Survey respondents in the Retail Bank category (i.e., domestic and foreign institutions representative of the top 25 bank holding companies) generally perceived their CRM programs to be less fully integrated than did respondents in the Other Bank category (i.e., other large financial institutions, including investment banks, insurance companies, and other financial services firms). However, within the Other Bank respondents, different types of financial entities reported widely different perceptions and experiences. As a group, Retail Bank respondents rated the development of their CRM programs more highly than the Other Bank respondents in two components—Monitoring and Testing and Information Reporting and Technology.

- Based on the Survey results, respondents perceived their CRM programs to be less developed in areas that have received heightened regulatory attention, such as risk assessments; risk appetite development; third-party risk management; and the related roles, responsibilities, and reporting lines. The regulators’ “heightened expectations” for risk management would appear to have increased the expectations of industry participants such that they no longer perceive their CRM programs to be as integrated as they would like.

In September 2013, CFPB Director Richard Cordray said, “Our supervision and enforcement work is driving cultural change that places more emphasis on compliance and treating customers fairly” adding that institutions are also “building into their compliance management systems an increased attention to the broader trends revealed by their analysis of consumer complaints.”

Summary results

From a more detailed perspective, the CRM Survey results generally indicate that Retail Bank and Other Bank respondents have made strides toward fully integrating the following into their CRM programs:

- Involving the Board or Board committee in the compliance processes and structures
- Creating an organizational structure to support a culture of compliance throughout the business and operational processes
- Monitoring for significant consumer complaints and general trends related to legal, regulatory, and ethical issues
- Maintaining updated inventories of laws and regulations, and implementing required changes
- Taking a centralized, or “one business,” approach to exam preparation
- Communicating key compliance policy requirements through training
- Monitoring and testing processes to escalate issues and risks, and to incorporate risk assessments and regulatory and internal audit findings.

Additional work is needed in the areas of:

- Building adequate, qualified staffing levels across all three lines of defense
- Monitoring compliance for third parties/vendors
- Integrating standardized key risk indicators and key performance indicators into compliance monitoring and testing
- Utilizing risk assessments as a tool for strategic planning and compliance activities
- Assessing cross-enterprise implications
- Integrating compliance surveillance systems
- Automating monitoring and testing processes.

The financial services industry is now operating in an era of heightened regulatory expectations. Retail Banks and Other Banks should be striving to achieve fully integrated CRM programs that are also incorporated into governance efforts such as ERM and GRC (governance, risk, and compliance) initiatives. For purposes of this CRM Survey, high levels of integration would be reflected as ratings of 4 and 5 across all components and the underlying subcomponents.
### Compliance Risk Management Survey – A Point of View

**Maturity**

<table>
<thead>
<tr>
<th>Component</th>
<th>Not Documented/Evidenced</th>
<th>Fully Integrated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governance &amp; Culture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Policies &amp; Procedures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Compliance Management Processes</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>People &amp; Skills</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Monitoring &amp; Testing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Information Reporting &amp; Technology</strong></td>
<td></td>
<td></td>
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</tbody>
</table>

**Components**

<table>
<thead>
<tr>
<th>Component</th>
<th>Industry Benchmark</th>
<th>Industry Perception</th>
<th>Industry Benchmarks for:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.9</td>
<td>3.4</td>
<td>3.8 4.0</td>
</tr>
<tr>
<td>Governance and Culture</td>
<td>3.7</td>
<td>3.3</td>
<td>3.4 4.0</td>
</tr>
<tr>
<td>Policies and Procedures</td>
<td>3.6</td>
<td>3.2</td>
<td>3.5 3.7</td>
</tr>
<tr>
<td>Compliance Management Processes</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3 3.5</td>
</tr>
<tr>
<td>People and Skills</td>
<td>3.6</td>
<td>3.5</td>
<td>3.9 3.4</td>
</tr>
<tr>
<td>Monitoring and Testing</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9 2.7</td>
</tr>
</tbody>
</table>

**Industry Benchmark**: Average of respondents’ self-assessments

**Industry Perception**: Average of respondents’ perception of the CRMs within the industry

**KEY**: ▼ Industry Benchmark ▼ Industry Perception
Overview of survey findings for each of the six CRM program components

Governance and culture

Since the financial crisis, the CFPB and the prudential regulators have reiterated and reinforced their expectation that financial institutions must “set the tone from the top” as part of a well-developed CRM program and ERM framework. This early and ongoing attention to Board and senior management oversight is reflected in the survey results, which highlight the respondents’ perception that Governance and Culture is the most developed component of their CRM programs.

<table>
<thead>
<tr>
<th>Components</th>
<th>Industry Benchmark</th>
<th>Industry Perception</th>
<th>Industry Benchmarks for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>GC1</td>
<td>4.1</td>
<td>3.6</td>
<td>3.9 88% 4.3 73%</td>
</tr>
<tr>
<td>GC2</td>
<td>3.8</td>
<td>3.3</td>
<td>3.8 75% 3.9 73%</td>
</tr>
<tr>
<td>GC3</td>
<td>3.9</td>
<td>3.4</td>
<td>3.9 75% 3.9 73%</td>
</tr>
</tbody>
</table>

*percentage of respondents rating this question a 4 or 5
**Notable survey points:**
- Only 13 percent of Retail Bank respondents rated Board involvement 5 compared to 55 percent of Other Bank respondents.
- No Retail Bank respondents assigned a 5 rating to the ability of their organizational structure to support a culture of compliance as an integral part of the business though 27 percent of Other Bank respondents did.
- The insurance company and investment bank respondents, a subset of the Other Bank respondents, rated this component more highly than either the Retail Banks or others in the Other Bank category.

**Industry considerations:**
- Board and Board committee members are at risk of “information overload.” Firms are struggling with determining the best information to convey and how to do so (e.g., top five or ten issues, only critical risks, high-level summary or detail reports).
- Materials presented to Board and Board committee members should focus on risk issues rather than compliance projects or status updates.
- Training programs and materials for Board members should be enhanced to deepen understanding of relevant issues and risks, and the relationship to key risk indicators (KRIs), key performance indicators (KPIs), risk appetite, ERM, and GRC initiatives.
- The industry is challenged to organize committee structures and communications to ensure proper oversight of various categories of risk.
- Some respondents suggested that culture is influenced by compensation structures, and that certain compensation structures can work against the Board directives. Similarly, an acquisition-oriented business strategy will make it more difficult to create enterprise-wide oversight and to embed and maintain a corporate culture.

The importance of, and institutions’ focus on, Governance and Culture is influenced and reinforced by regulatory action including the:
- OCC’s proposed Guidelines to establish “heightened expectations” for a risk management framework for large institutions based on the agency’s “Get to Strong” initiative (which was intended to strengthen the institutions’ governance and risk management practices)
- Federal Reserve’s final rule imposing Enhanced Prudential Standards to implement the requirements of Section 165 under the Dodd-Frank Wall Street Reform and Consumer Protection Act
- Designation of certain nonbanks as systemically important financial institutions by the Financial Stability Oversight Council and the requirement they be subject to supervision by the Federal Reserve consistent with large banks
- Growing international recognition of Conduct Risk as a Risk Governance risk category (which is related more to “culture” and “tone from the top” than specifically about compliance)
- Variety of enforcement actions carried out by the prudential regulators and the CFPB that hold financial firms responsible for lapses in risk management oversight, including the failings of third parties acting on behalf of the firm. Some enforcement actions have also held Board and senior management personally responsible for shortcomings. (One respondent referred to this as “the environment of fines and penalties.”)
Policies and procedures

Survey respondents differed in the degree to which they perceived the maturation of their policies and procedures on an organization-wide basis. For example, 25 percent or so of Retail Bank respondents, which included large diversified retail-oriented financial services entities, rated their Policies and Procedures component as mature (4 or 5), whereas 75 percent of Other Bank respondents, which included monoline and other financial services companies, perceived their Policies and Procedures component to be mature.

<table>
<thead>
<tr>
<th>Components</th>
<th>Industry Benchmark</th>
<th>Industry Perception</th>
<th>Industry Benchmarks for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies and Procedures Overall</td>
<td>3.7</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>PP1: Proactive, organization-wide compliance standards and procedures</td>
<td>3.7</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>PP2: Organization-wide compliance standards that reflect regulatory and</td>
<td>3.7</td>
<td>3.1</td>
<td>3.5</td>
</tr>
<tr>
<td>organizational changes</td>
<td></td>
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<td></td>
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</table>

*percentage of respondents rating this question a 4 or 5

Notable survey points:

- Retail Bank respondents and certain Other Bank respondents perceived the policies and procedures in place across the industry to be generally equal to or ahead of their own programs. In contrast, Other Bank respondents as a group perceived themselves to be ahead of the industry and the investment bank and insurance company respondents together perceived their own programs to be significantly ahead of the industry (average rating of 4.3).

- The organization and maintenance of Policies and Procedures continues to be a significant challenge due to the velocity, and the breadth and depth, of regulatory change activities.
Compliance management processes

The Compliance Management Processes component of the CRM Survey contained 19 subcomponents organized into the following five categories:

- Risk Assessment
- Issues Management
- Change Management
- Complaints Management
- Exam Management

<table>
<thead>
<tr>
<th>Components</th>
<th>Industry Benchmark</th>
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<th>Industry Benchmarks for:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Retail</td>
<td>%*</td>
<td>Other</td>
</tr>
<tr>
<td>Compliance Mgmt Processes Overall</td>
<td>3.6</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Risk assessment</td>
<td>3.5</td>
<td>3.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Issues management</td>
<td>3.5</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Change management</td>
<td>3.7</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Complaints management</td>
<td>3.8</td>
<td>3.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Exam management</td>
<td>4.1</td>
<td>3.3</td>
<td>4.0</td>
</tr>
</tbody>
</table>

*percentage of respondents rating this question a 4 or 5

KEY: ▼ Industry Benchmark ▼ Industry Perception
It is encouraging to see that in all but one instance more than half of all Retail Bank and Other Bank respondents rated the maturity levels for each of the five categories of their CRM program Compliance Management Processes as a 4 or 5. However, it is notable that more than 25 percent of Retail Bank respondents rated the following subcomponents a 1 or 2, indicating substantially more work to be done:

- **Risk assessment.** Particular areas of concern include dynamic evaluation of inherent risk, evaluation of control environment, organization-wide analysis, employing risk assessments as a tool for evaluating and conducting oversight, as well as strategic planning.

- **Issues management.** Particular areas of concern include self-identification of compliance deficiencies, frequent analysis of risk and issues, and assessment of cross-enterprise implications.

Similarly, more than 25 percent of Other Bank respondents rated the following subcomponents a 1 or 2:

- **Risk assessment.** Areas of concern include organization-wide analysis, employing risk assessments as a tool for evaluating and conducting oversight, as well as strategic planning.

- **Complaint management.** Areas of concern include monitoring complaints against vendors or considering the complaints management process used by vendors.

**Industry considerations:**

- Survey respondents indicated that risk assessments are an evolving practice that requires participation and coordination across the first and second lines of defense. Risk assessments should be related to the Board’s risk appetite and consideration should be given to escalation triggers.

- Some survey respondents indicated the approach to the risk assessment process can be granular and, in some cases, may not yet be fully automated; the basis for assessments can differ (e.g., by rule, product, function, or category) across a firm. Third-party vendor relationships must be factored into the risk assessment process. Survey respondents noted that consolidation among vendors is increasing the risks associated with outsourcing.

- The CFPB has used its complaints database to drive investigations and enforcement actions. Firms are expected to show that they have considered and addressed consumer complaints received directly, indirectly through the CFPB, and indirectly through public sites (e.g., social media). Firms are also expected to have a similar level of understanding regarding complaints activity against their vendors. Interestingly, 54 percent of Retail Banks perceive their complaints management processes to be mature compared to 67 percent of Other Bank respondents. Nonbank financial entities that have not previously been subject to federal supervision have generally been especially challenged by complaints management.

- Institutions have significant efforts underway to enhance, automate, and manage complaint identification and resolution.

- The increasing scale and scope of third-party vendor relationships is complicating the oversight of vendor activities and the industry is challenged to develop effective oversight programs.
People and skills

Most survey respondents indicated they are challenged by constraints on staffing resources. Only 14 percent of the Retail Bank respondents and 27 percent of the Other Bank respondents rated staffing levels a 4 or 5.

An effective CRM program cannot be operationalized and maintained if the Compliance function is not carried out by personnel with the appropriate skills and regulatory knowledge necessary to complete their responsibilities and to satisfy the enhanced risk management imperatives. Ongoing training for and awareness of laws, regulations, enforcement actions, and regulatory expectations is necessary at all levels of the organization, including the Board.

<table>
<thead>
<tr>
<th>Components</th>
<th>Industry Benchmark</th>
<th>Industry Perception</th>
<th>Industry Benchmarks for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>PS1: Personnel understand compliance risks and applicable laws, rules, and regulations for their areas while readily adapting to changing conditions</td>
<td>3.6</td>
<td>3.4</td>
<td>3.3 99%</td>
</tr>
<tr>
<td>PS2: Compliance training communicates key compliance policy requirements applicable to the individual and/or organizational areas</td>
<td>3.8</td>
<td>3.6</td>
<td>4.1 100%</td>
</tr>
<tr>
<td>PS3: Enough right resources within the 1st, 2nd, and 3rd lines of defense</td>
<td>2.9</td>
<td>2.9</td>
<td>2.6 14%</td>
</tr>
<tr>
<td>PS4: Compliance roles and responsibilities are understood and enforced</td>
<td>3.6</td>
<td>3.3</td>
<td>3.4 43%</td>
</tr>
<tr>
<td>PS5: Compliance input is leveraged in compensation decisions for those subject to control requirements</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1 29%</td>
</tr>
</tbody>
</table>

*percentage of respondents rating this question a 4 or 5
Notable survey points:

• All Retail Bank respondents perceived their CRM programs to have compliance training programs that communicate key compliance policy requirements to individual areas and across the organization, rating this subcomponent a 4 or 5. In contrast, only 45 percent of Other Bank respondents perceived their compliance training programs to have reached the same level of integration.

• Reaching adequate levels of qualified staff across all three lines of defense is critical to implementation of the CRM program.

• Survey respondents perceived they had more work to do to integrate compliance results into compensation decisions. Notably, 29 percent of Retail Bank respondents rated this subcomponent a 1 or 2 and 43 percent rated it a 3. With respect to Other Bank respondents, 27 percent rated this subcomponent a 1 or 2 and another 27 percent rated it a 3. (As noted earlier, some survey respondents acknowledged there is a relationship between compensation structure and culture. Compensation strategies must align with the firm’s risk appetite or they can work against the business strategies.)

• Again, insurance company and investment bank respondents, as subsets of the Other Bank respondents category, generally rated all elements of the People & Skills component for their CRM programs higher than either the Retail Bank or remaining Other Bank respondents, averaging at least a 4.0 rating across most subcomponents.
### Monitoring and testing

<table>
<thead>
<tr>
<th>Components</th>
<th>Industry Benchmark</th>
<th>Industry Perception</th>
<th>Industry Benchmarks for:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Retail</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>MT1: Data sources and controls testing</td>
<td>3.7</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>MT2: Risk assessment testing results</td>
<td>3.8</td>
<td>3.5</td>
<td>4.2</td>
</tr>
<tr>
<td>MT3: Adjustments to testing plans based on risk assessments</td>
<td>3.8</td>
<td>3.5</td>
<td>4.2</td>
</tr>
<tr>
<td>MT4: Compliance monitoring for third-party vendors</td>
<td>2.9</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>MT5: Management information, reports, and controls</td>
<td>3.3</td>
<td>3.4</td>
<td>3.0</td>
</tr>
<tr>
<td>MT6: Compliance surveillance systems</td>
<td>3.1</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>MT7: Monitoring results into risk assessments</td>
<td>3.5</td>
<td>3.3</td>
<td>4.2</td>
</tr>
<tr>
<td>MT8: Adjustments to monitoring plans based on risk assessments</td>
<td>3.4</td>
<td>3.4</td>
<td>4.0</td>
</tr>
<tr>
<td>MT9: Processes for escalation of issues and risks</td>
<td>3.9</td>
<td>3.6</td>
<td>4.3</td>
</tr>
<tr>
<td>MT10: Regulatory findings</td>
<td>4.2</td>
<td>3.9</td>
<td>4.8</td>
</tr>
<tr>
<td>MT11: Internal Audit findings</td>
<td>4.2</td>
<td>3.8</td>
<td>4.7</td>
</tr>
<tr>
<td>MT12: External Audit/third-party findings</td>
<td>3.5</td>
<td>3.3</td>
<td>4.2</td>
</tr>
</tbody>
</table>

*percentage of respondents rating this question a 4 or 5

Monitoring programs should be designed to identify control weaknesses that could permit compliance deficiencies. Testing programs should validate that key assumptions, data sources, and procedures utilized in measuring and monitoring compliance risk can be relied upon on an ongoing basis. With few exceptions, the Retail Bank and Other Bank survey respondents rated the maturity of their Monitoring and Testing subcomponents differently.
Industry considerations:

- Compliance monitoring for third-party vendors is an area needing additional work for both Retail Bank and Other Bank respondents.

- The regulatory focus on third-party risk has directed the industry to review oversight processes for the activities and products performed by third-party vendors and service providers. The increasing scale and scope of third-party relationships has challenged oversight management and caused some industry participants to consider establishing dedicated groups to conduct vendor administration (with direct reporting to the CFO and a focus on contract reviews, adherence to rules and regulations, compensation structures, and on-site visits).

- Prudential regulators consider affiliates as third parties and activities, including BSA/AML compliance activities (e.g. Know Your Customer Due Diligence, transaction monitoring, etc.), must be subject to similar oversight as non-affiliates.

- Fewer Retail Bank and Other Bank respondents rated subcomponents for management information reports and controls and compliance surveillance systems as mature (4 or 5), and nearly one-third of both Retail Bank and Other Bank respondents rated the compliance surveillance systems a 1 or 2. Insurance company and investment bank respondents, however, generally rated this subcomponent very high (4.3).

- Overall, Retail Bank respondents perceive their CRM programs to be more fully integrated with respect to this component. Insurance company and investment bank respondents generally rated their CRM programs more highly than did the remaining Other Bank respondents.
Information reporting and technology

Both Retail Bank and Other Bank survey respondents indicated that multiple and sometimes competing pressures to retool and modify their information reporting and technology systems in support of the heightened emphasis on compliance management presents the greatest challenge to reaching fully mature CRM programs. These pressures include requirements to enhance governance frameworks with new reporting lines and responsibilities, manage risks across the enterprise and over an entire product or service life cycle, and implement new statutory requirements. This is particularly evident in the area of model risk management.

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<thead>
<tr>
<th>Components</th>
<th>Industry Benchmark</th>
<th>Industry Perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Reporting &amp; Technology Overall</td>
<td>2.8</td>
<td>2.9</td>
</tr>
<tr>
<td>IRT1: Information gathering through various functions (monitoring, testing, relevant laws) – effectively gathered, available, and utilized</td>
<td>3.0</td>
<td>3.2</td>
</tr>
<tr>
<td>IRT2: Standardized key risk indicators (KRIs) and key performance indicators (KPIs) are integrated into compliance monitoring and testing</td>
<td>2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>IRT3: Automated compliance monitoring and testing processes</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>IRT4: Results of KRIs/KPIs integrated into governance, risk, and compliance (GRC) efforts at the organizational level</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>IRT5: Standard risk definitions and process taxonomies across the 1st, 2nd, and 3rd lines of defense</td>
<td>3.1</td>
<td>2.9</td>
</tr>
</tbody>
</table>

*percentage of respondents rating this question a 4 or 5
Notable survey points:

- 67 percent of Retail Bank respondents and 45 percent of Other Bank respondents rated their automated compliance monitoring and testing processes a 1 or 2.

- Survey respondents indicated the maturity of the Information Reporting and Technology component is critical to successful coordination of the CRM programs across lines.

- Systems can impose limits to integration (such as the need to modify available data to create “useful” reports, implement changes to reports, and obtain additional information from other sources). Systems capabilities can be limited by factors such as resource allocations (e.g., people, funding, or capacity), original intent (systems built for a specific purpose, or “owned” by a specific group), or other pressing regulatory demands (such as response to new rules, or findings of noncompliance). New requirements expect enterprise-wide coordination and many systems were not built to facilitate this approach and need to be retooled.
Summary

Regulatory agencies acknowledge that risk management and compliance are integral features of a successful banking business model and they have turned their full attentions toward raising the standards across the financial services industry for corporate governance and risk management systems.

The CRM Survey shows that Retail Banks and Other Banks are responding to regulatory concerns and are making strides toward developing mature, integrated, enterprise-wide CRM systems across the six critical components. It also shows, though, that they will need to continue to work on building up staffing resources, automating monitoring and testing processes, and enhancing systems capabilities to facilitate reporting requirements and integration of the components on an organization-wide basis. Continuing effort is also needed to better integrate KRIs, KPIs, and risk assessments into Board-level reporting, strategic planning, and compliance activities.

For some institutions, efforts to move forward with CRM programs will likely be challenged by the need to meet competing regulatory demands such as those posed by the OCC and Federal Reserve rules and guidance addressing heightened risk governance standards, third-party risk management guidance, and change management processes to address new statutory requirements and implementing regulations. Others may also be challenged by more organization-specific factors that can affect enterprise-wide coordination such as the complexity of the business structure, business growth strategies, or the mix of products and services offerings.

The KPMG CRM Survey results are encouraging as they confirm the industry is continuing efforts to reach fully integrated CRM programs that are incorporated into ERM and GRC initiatives and meet heightened regulatory expectations. Nonetheless, as also shown in the Survey results, the focus on risk management has set a higher “bar,” leaving the industry with the perception that what they may have previously thought to be a strong CRM program no longer meets the level of integration they, or the regulators, would like to achieve.

1 OCC proposed rule and guidelines establishing heightened standards for certain large insured national banks, insured federal savings associations, and insured federal branches (generally those with total assets in excess of $50 billion) were released in February 2014 along with minimum standards for oversight of the Framework by the Boards of Directors of the large banks. http://occ.gov/news-issuances/bulletins/2014/bulletin-2014-1a.pdf


3 Thomas Curry, November 15, 2012 speech.
