

# COMPLIANCE MANAGEMENT SYSTEM

Ensuring Your Bank Meets  
Regulatory Standards



# Overview of Compliance Exams

- Examination Purpose:
  - Assess the quality of an institution's compliance management system (CMS) for implementing federal consumer protection statutes and regulations;
  - Review compliance with relevant laws and regulations;
  - Initiate appropriate and effective supervisory action when elements of the CMS are deficient or significant violations of law are found.
  - Protects consumers and banks from reputational, legal, and financial risks.



# Overview of Compliance Exams

- Examination approach:
  - Risk-focused – direct resources to those operational areas that present the greatest consumer protection risk.
  - Process-oriented – concentrate on internal control and monitoring of infrastructure used to ensure compliance.



# Overview of Compliance Exams

- Examination approach recognizes that the Board of Directors and management are ultimately responsible for an institution's compliance with all federal consumer protection and fair lending laws and regulations and the Community Reinvestment Act.
- Expectation that the Board and management have a system in place to effectively manage compliance risk, consistent with size of bank and product mix.
  - Formality and complexity will vary.



# Compliance Management System

- A CMS is how an institution:
  - Assesses its consumer protection, fair lending, and CRA responsibilities;
  - Ensures that employees understand these responsibilities;
  - Ensures that requirements are incorporated into business processes;
  - Reviews operations to ensure responsibilities are carried out and requirements are met;
  - Takes prompt corrective action and updates materials, i.e. disclosures, training, etc. as necessary.



# Compliance Management System

- Financial institutions are required to comply with federal consumer protection and fair lending laws and regulations and the CRA.
- Ultimately responsible for compliance *even if* third party providers are used.
- Noncompliance may result in litigation, reputational risk, and formal enforcement actions including restitution, monetary penalties, and Consent Orders.



# Compliance Management System

- Effective CMS is comprised of three interdependent elements:
  - Board and management oversight;
  - Compliance program;
  - Compliance audit.



# Board and Management Oversight

## ■ Key Actions:

- Demonstrate clear and unequivocal expectations about compliance within the institution and to third-party providers;
  - Discuss compliance topics.
  - Incorporate compliance matters in communications and meetings.
  - Staff should have clear understanding that compliance is important.
- Adopt clear policy statements;
  - Provides clear communication to management and employees of the Board's intentions toward compliance.
  - Framework for procedures throughout all operations.





# Board and Management Oversight

- Appoint compliance officer with authority and accountability;
  - Must have sufficient authority and independence.
    - Alternative may be compliance committee (may include representatives from various departments, members of senior management or Directors.)
  - Must have knowledge and understanding of all consumer protection and fair lending laws and regulations and CRA.
  - Must interact with all departments and branches to keep abreast of changes that may require action due to perceived risk (new products, personnel turnover, change in services, etc.)



# Board and Management Oversight

- Allocate resources to compliance functions commensurate with the level and complexity of operations;
  - Ongoing training
  - Sufficient time
  - Adequate resources.
- Conduct periodic compliance audits;
  - Independent
  - Complements internal systems
  - Provides for follow-up for corrective action.



# Board and Management Oversight

- Best Practices:

- Compliance is everyone's responsibility.
- All policies include compliance component.
- Appoint qualified compliance officer or choose appropriate third-party.
- Ensure adequate training, including outside training.
- Include compliance officer in planning, development, and implementation of business propositions.
- Provide for recurrent reports by the compliance officer to the Board.



# Board and Management Oversight

- Examiner review:
  - Board and committee minutes
    - Extent of involvement;
    - Training regarding compliance and fair lending;
    - Rationale for new or modified policies;
    - Consideration of new products or contracts;
    - Review of audit and monitoring reports, including corrective action.
  - Business strategy
  - Allocation of resources to compliance
  - Response to consumer complaints



# COMPLIANCE PROGRAM

- Policies and Procedures
- Monitoring
- Training
- Complaint Resolution



# COMPLIANCE PROGRAM

- Policies and Procedures
  - Ensure consistent operating guidelines.
  - Provide standards to review business operations.
  - Written, approved annually by Board.
  - Include goals, objectives, and procedures reflective of bank practice.
  - Detail varies with complexity.



# COMPLIANCE PROGRAM

- Policies and Procedures Examiner Review
  - Risk profile of institution
  - All compliance related policies and procedures
    - Proper goals and objectives
    - Effective guidance
    - Responsibility assigned
    - Periodically reviewed and updated
  - Discussions with compliance officer, senior managers, and other personnel
  - Unwritten policies and procedures



# COMPLIANCE PROGRAM

- Monitoring:
  - Proactive approach to identify procedural or training weaknesses in an effort to preclude violations.
  - Regularly scheduled reviews ensures timely identification of issue.
  - “Spot” transaction level reviews on a regular basis ensures accountability of staff.





# COMPLIANCE PROGRAM

- Monitoring – Examiner Review
  - Procedures and/or schedule for various functional areas
    - Encompass all applicable regulations?
    - Include third party activity?
    - Level of transactional review?
  - Results of monitoring
    - How are errors corrected?
    - Appropriate follow-up?
  - Discussions with compliance officer, manager, etc.



# COMPLIANCE PROGRAM

- Training:
  - Applies to Board, management, and staff
  - Staff – specific, comprehensive training in laws and regulations, and internal policies and procedures.
  - Establish regular training schedule.
  - Periodically assess knowledge and comprehension.
  - Frequently updated.



# COMPLIANCE PROGRAM

- Training – Examiner Review
  - Product – electronic, power points, etc.
    - Appropriate?
    - How updated?
  - Records – who attends? how evaluated?
  - Schedule – frequency?
  - Comprehension – Are personnel tested?
  - Effectiveness – Are needs being met?



# COMPLIANCE PROGRAM

- Complaint Resolution:
  - May be indicative of a weakness.
  - Establish written procedures:
    - Designate responsibility to knowledgeable individual;
    - Maintain a list, including oral complaints;
    - Report periodically to Board;
    - Include procedures for monitoring complaints to or about third parties.



# COMPLIANCE PROGRAM

- Complaint Resolution – Examiner Review
  - Policy or written procedures
    - Compliance with regulatory requirements? Include appropriate time limits?
  - Information on receipt and resolution
    - FDIC automated tracking
    - Sometimes State Banking Authority records
    - Institution's files
  - How evaluated? Weakness identified?



# COMPLIANCE PROGRAM

## ■ Best Practices:

- Include information needed to perform business transaction in policies or procedures.
- Use checklists that include second reviews (i.e. recalculating an APR, testing for adequate flood coverage).
- Schedule monitoring based on risk – may be daily, weekly or monthly, etc.
- Establish regular training based on job description.
- Take even one complaint seriously – what caused the issue? May need to look beyond the stated issue.



# Compliance Audit

- Independent review.
  - Ensures ongoing compliance with consumer protection and fair lending laws and regulations and CRA.
  - Ensures adherence to internal policies and procedures.
  - Complements monitoring system.
- Board should determine scope and frequency of audit.
- One size does not fit all – Audit function may not be necessary in very small non-complex institutions.



# Compliance Audit

- In-house
  - Must ensure independence.
- External
  - Ensure auditor is knowledgeable;
  - Program is current;
  - Scope is comprehensive;
  - Contracted work is completed.





# Compliance Audit

- Findings reported directly to Board or to committee of Board.
- Written report:
  - Scope of audit (dept., branches, product type, etc.);
  - Deficiencies identified;
  - Isolated or systemic;
  - Number of transactions sampled;
  - Description of corrective action and time frame for follow-up.



# Compliance Audit

- Examiner Review
  - Audit policy, external audit agreement
    - Is auditor independent?
  - Risk assessment
  - Audit committee minutes
  - Internal and external audit reports and follow-up
    - Appropriate scope?
    - Identify name and circumstance of exception
    - Cause determined? Action taken?
    - Sufficient follow-up?
  - Audit schedule – appropriate?



# Compliance Audit

- Best Practices:

- Establish follow-up procedures to verify corrective action was effective.
- Ensure compliance officer receives copy of audit reports; deficiencies may require change of procedures or additional training.
- Maintain matrix of issues to track correction, responsibilities, verification, etc.



# Case Studies #1

- You have been reading about a change in a regulation that will become effective in a short time. The industry seems to think it's a fairly big deal. What do you need to do to make sure that it is implemented correctly?



# Case Study #1

- **Understand** the change and how it affects your bank.
- Plan to **implement**. Ensure completed within applicable time frames.
- Understand and **monitor** the implementation process.
- Ensure **testing** is conducted, including bank systems working in various scenarios.
- Ensure **policies and procedures** are updated.
- Ensure **training** is provided on bank procedures.
- Ensure **monitoring** procedures are developed and implemented.
- Ensure **audit** treats as high risk area due to revised regulation.



# Case Study #2

- The marketing officer just provided you with a presentation of a new product that would be handled by a third party and really wants the Board to approve it. What information should you gather?



# Case Study #2

- Risk Assessment
- Due Diligence
- If you decide to offer the product:
  - Contract structure and review
  - Oversight
  
- *Reference: FIL-44-2008 (Guidance for Managing Third-Party Risk)*



# Case Study #3

- The bank's long term internal auditor decides to retire and there is no other qualified individual within the institution to handle the compliance audit function. What should you consider in ensuring the audit function is handled appropriately?





# Case Study #3

- Ensure independence.
- Compliments the compliance program, including the monitoring.
- In-house or out-sourced?
- Oversight of audit at Board level.
- Board determines the scope and frequency.



# Case Study #4

- A new Board member joins the Board and is curious about her role, including the compliance risk she recently heard about at a Directors College. What information would you give her?



# Case Study #4

- Develop and administer a CMS that ensures compliance with consumer protection and fair lending laws and regulations.
- Actions must set a positive climate for compliance.
- Demonstrate clear & unequivocal expectations about compliance, not only within the bank, but also to third party providers.
- Adopt clear policy statements.
- Appoint a compliance officer with authority, accountability, and independence.



# Case Study #4

- Allocate resources to compliance functions commensurate with the level & complexity of the bank's operations.
- Ensure appropriate monitoring is being completed.
- Conduct periodic compliance audits.
- Provide for recurrent reports by the compliance officer to the Board.
- Maintain knowledge through consistent training on compliance.



# Directors College 2012

Thank you for your attention.

Any questions or comments?

