



COMPLIANCE RISK STUDY 2022 REPORT

Find calm in every compliance storm

A range of unforeseen events have combined to create the perfect storm for compliance officers. But there are a number of ways you can navigate your way to a place of greater safety

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Introduction:

Can compliance keep up with warp-speed change?

The roots of today's compliance challenges extend back many years. One starting point would be the 2008 financial crisis and "Great Recession." It was a nerve-racking and trying experience but taught us all the importance of maintaining financial stability and resilience.

Over the ensuing years, an increasingly complex global regulatory and enforcement agenda has raised the importance, across industries, of appropriate corporate regulatory behaviors and actions, with companies penalized for their compliance failures. A growing global focus on consumer privacy and data protection, as well as new environmental laws and frameworks, is further demonstrating the importance of compliance in supporting operational and environmental resilience.



With the uncertain and rapidly shifting situation in Ukraine, evaluating, managing and mitigating cyber and environmental, social, and governance (ESG) risks are becoming a critical priority.

This increasingly broad, complex, and ever-evolving regulatory and compliance landscape also reconfirms the vital role played by the Chief Compliance Officer (CCO) and the need for compliance departments to be highly integrated and agile. Having compliance represented at the C-suite table is key to guiding companies on how best to mitigate risks, create a firm-wide compliance culture, make sound compliance technology decisions, and build resilience across the business.

Today, the compliance function and its executives face a new challenge: Dealing with multiple strands of complex change,

happening simultaneously across the enterprise, and at warp speed. Five-year plans are becoming one-year plans as companies race to create new value and growth. The scope and speed of many enterprise transformations put additional stress on the compliance function.

As new processes are put in place, and data and insights are made available to people across the business, the compliance team needs to quickly assess if these changes pose risks to complying with a shifting regulatory and enforcement agenda.





Accenture’s latest Compliance Risk Study – 2022 Edition (see “About the Research”) surveyed the sentiments of compliance leaders in the banking; capital markets; energy; health and public services; insurance; life sciences; software and platforms; telecommunications; utilities; and travel and hospitality sectors. Our findings confirm that compliance functions across the globe are feeling the heat of accelerated transformation and the need to respond to an expanding compliance agenda:

- **Geopolitical tensions** and conflicts are creating unpredictability in international trade policies and agreements
- **Stronger tech adoption** among regulators and law makers is increasing the demands and expectations they place on companies

- **New, complex, and multi-dimensional risks**—from cybersecurity and privacy, to environmental, social, and governance (ESG) concerns—require new skills and a holistic response
- **Changing business models** are redefining how industries and companies operate, creating new issues
- **Compliance staff** are overstretched, as they cope with talent shortages and constrained budgets

CCOs, Chief Risk Officers (CROs) and other heads of compliance know they need to pivot to new mindsets and approaches and focus on building a more agile foundation of automated processes and cloud-based technologies. Welcome to the new face of compliance, one that is adaptable, data rich and tech driven.



The new face of compliance

Compliance functions are rethinking how they deliver enterprise-wide services to be more responsive to rapidly shifting business needs. Our study respondents highlighted several developments.

1

Becoming more proactive

Compliance functions are maturing, shifting from a reactive and advisory role to a proactive partner to the business. Such a partner works closely with other enterprise-wide functions and is highly attuned and responsive to business, market, and regulatory developments. Many companies are upscaling their regulatory practices by leveraging data-driven insights to address new and updated rules and regulations.

According to our Compliance Risk Study, regulators and governments are the groups posing the greatest compliance challenges since 2019 and they are expected to continue to do so through 2023.



2

Using advancements in tech and data

Over half of study respondents say they are using advanced technologies to strengthen their compliance function. Although companies are in different stages of tech adoption, leading practices now include adding/upskilling compliance tech personnel and operations and leveraging artificial intelligence (AI) and machine learning (ML) for compliance mapping, testing, and monitoring. For some companies, a cost-effective approach to accessing the latest technologies and skilled resources is through ecosystem third-party vendors.

3

Responding to cost pressure

Despite the need to invest in tech and upscale the infrastructure and tools necessary to support compliance risk management, compliance leaders are challenged to deal with rising compliance costs when enterprise-wide, cost-cutting measures are taking place. Our study finds that there are a variety of approaches being used to balance these contradictory forces. One leading trend is to use new sourcing approaches to reduce the costs of compliance.

Although change is a constant, and the compliance landscape is more complex than ever, there are considerable rewards for building a strong and responsive compliance function.

90%

of compliance leaders expect evolving business, regulatory, and customer demands to increase compliance-related operating costs by up to 30%



Dealing with the 'riskiest risks'

Of the top compliance risk areas we identified, three stand out among compliance executives: cybersecurity, ESG and privacy.



Compliance leaders play a pivotal role in how their companies manage and communicate about these and other risk areas. This entails demonstrating to investors, customers, and other internal and external stakeholders that data protection, climate change and social responsibility are core corporate values.

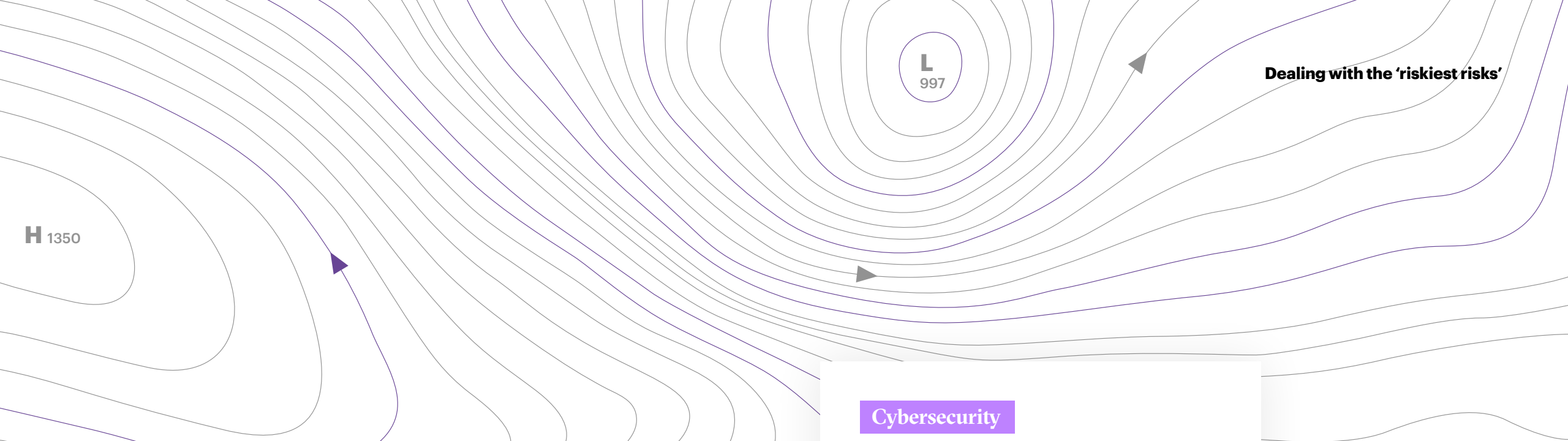
Cybersecurity

Respondents to our study across all sectors stressed the heightened challenge of managing cybersecurity risks, as the working world has shifted from being fully onsite to a hybrid onsite/offsite environment. As employees and third-party vendors are now accessing a company's systems via remote networks from locations around the world, the security of a company's data has become an ongoing concern for CCOs as well as Chief Information Security Officers (CISOs), requiring constant monitoring and updating.

Cyberattacks are also on the rise as criminals use the Ukrainian conflict as a cover for their actions. We expect both direct and indirect cyberattacks to spill into major areas across the globe, creating additional challenges and pressures for compliance functions.¹

Data protection

For one telecom company challenged in managing its sensitive data across business units, we helped them establish an integrated data discovery process to identify and manage vulnerabilities from onboarding to completion. Through the actions taken, the company was able to avoid \$1.2 billion in breach risk.



Dealing with the 'riskiest risks'

Cybersecurity

For a health IT company providing cybersecurity services in support of a European country's national service programs, addressing security challenges around connected ecosystems was critical. We helped them build a data and cybersecurity program to respond to cyberattacks in hours. The program also helped foster a security-minded culture among the country's 2.8 million health and social care staff.

Banking, health and public services, insurance, and software and platform respondents cited cybersecurity as one of the top two compliance challenges they face today.

ESG

ESG is also an increasing focus of compliance leaders. From climate change to greenhouse gas emissions, from workplace safety to human rights, and from board diversity to executive compensation, global regulations are multiplying. For example, many expect U.S. regulators, including the Securities and Exchange Commission, Department of Labor, Environmental Protection Agency, and Federal Energy Regulatory Commission to issue ESG rules that may impact all sectors of the U.S. economy.²

In Europe too, governments and standard-setting groups, including the International Financial Reporting Standards (IFRS), have established a new International Sustainability Standards Board (ISSB). They are attempting to create a global baseline of sustainability disclosure standards and to mandate disclosures by public companies.³ The ESG area, perhaps more than any other, requires compliance functions to have continuously relevant, adaptable, and tech-driven regulatory change and related risk management programs.

78% of respondents to the Accenture ESG Measurement Study seek to understand the financial risk associated with ESG.⁴



Privacy

Our Compliance Risk Study revealed that, over the past two years, data privacy has been the single greatest challenge faced by respondents across all sectors. Looking to 2023, respondents noted that they expect it to remain one of their top compliance challenges. Further, data privacy leaders acknowledge that inaccuracy and/or non-maintenance of consumer data complicates their

compliance efforts. This is not surprising given the pace of U.S. federal and state regulatory changes in data privacy and consumer protection. Also challenging are new global policies—e.g. China’s Personal Information Protection Law, and Europe’s Digital Services and Digital Markets Acts. There are few compliance areas that saw as many developments as privacy in 2021, and we expect even more change in 2022.

Privacy risk management and violations of consumer privacy rights are seen as the top privacy compliance priorities among our surveyed data privacy leaders.

Data privacy

For one large consumer goods company looking to comply with California Consumer Privacy Act (CCPA) requirements, we helped them streamline their data mapping, governance, systems, and vendor remediation processes. Over 5,600 internal systems, 10,000+ vendor contracts, 6,600+ databases and more than 1.6 million pieces of personally identifiable data have been processed.



Responding to headwinds

Compliance needs to have C-suite-level and cross-enterprise participation to make sure the organization is poised to grow with a proactive regulatory change management program.



Build cross-enterprise collaboration and nurture a culture of compliance

Compliance departments are increasingly active in firm-wide risk management activities and efforts to align risk processes across the organization. Enterprise-wide, data-driven risk assessments can provide the transparency and confidence that corporate leaders need to assess business's compliance exposure and vulnerabilities.

Our study reveals that there is an increased commitment to establishing a culture of shared compliance responsibility across the enterprise. To that end, our study shows that nearly half of our respondents plan to upskill their compliance staff to drive a culture of compliance across the enterprise. And about 40 percent plan to invest in new tech to achieve this goal.

What's more, 90 percent of respondents agree or strongly agree that some responsibilities previously performed only by the compliance function are shifting to other business groups. Over half of compliance leaders claim that in two years they expect their risk assessment process to be fully aligned across their business's three lines of defense— and/or levels of control. At present, only 19% say their risk assessment process is fully integrated.

95%
of respondents have built or are building a culture of compliance to share the responsibility across the enterprise

Collaboration also extends to working closely with the business to support new growth opportunities.

For example, when a company turned to the CCO to help fast track go to market innovation, we helped the compliance leader redesign the company's risk assessment framework and methodology management for new projects. This pivot positioned compliance as a true business partner for growth.

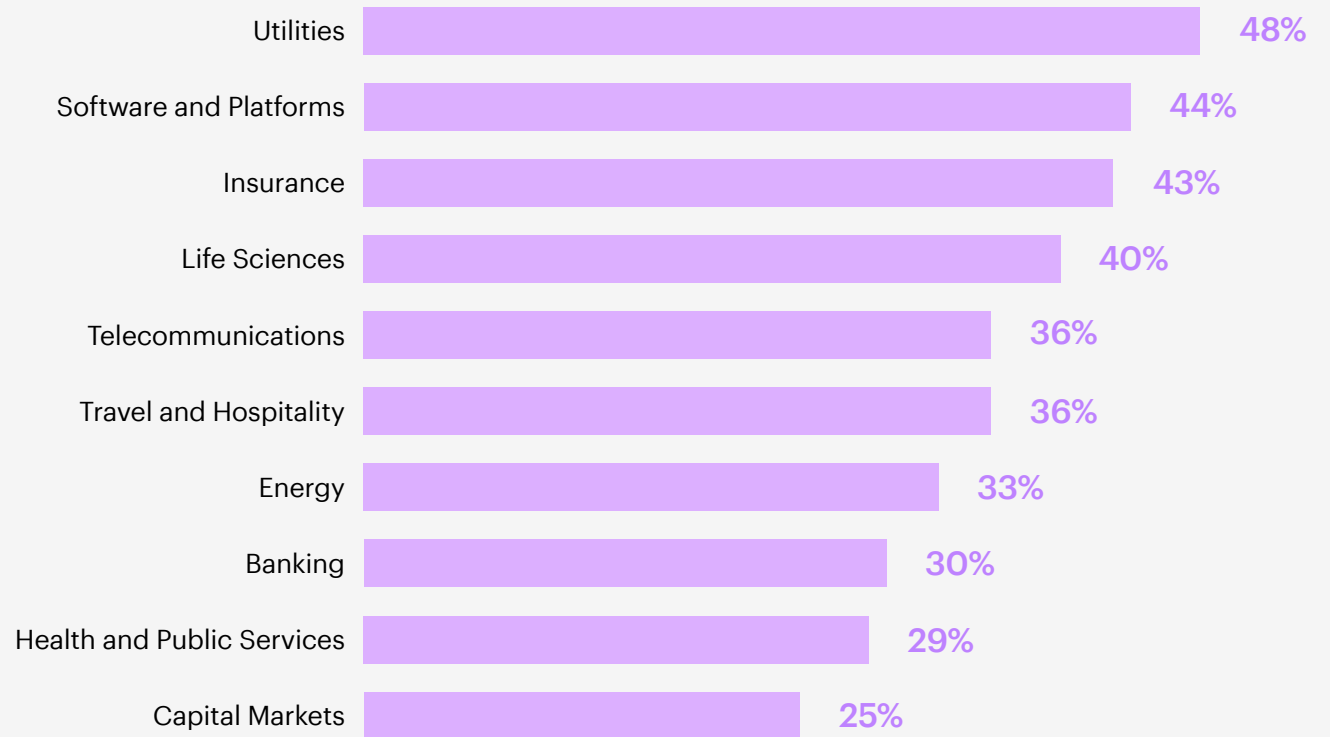
As the compliance function builds these stronger relationships, there is still one challenge remaining, compliance's poor standing within the business. In fact, more than one-third of respondents (36%) claim that the compliance function lacks sufficient organizational stature, a serious impediment to strengthening compliance. Notably, the challenge is somewhat greater in industries that have not been subject to as much regulatory scrutiny as financial services. For instance, almost half (48%) of respondents in the utilities sector, see lack of organizational stature as a major hurdle for strengthening the compliance culture and the function, while only 25% of respondents in the capital markets sector say the same (see Figure 1).

Conduct risk and culture

For an insurer keen on managing conduct risk and protecting their reputation, we helped them assess their risk culture practices across the organization and their conduct culture maturity against industry-leading practices and regulatory expectation. We also helped them identify potential gaps and unintended sub-cultures and provided guidance to leaders on building a sustainable conduct and culture model.

Figure 1.
Compliance function's lack of organizational stature as a barrier to strengthening compliance

Percent of respondents who agree that their compliance function lacks organizational stature and is a barrier to strengthening the function and culture



N= 801 respondents Source: Accenture Compliance Risk Study - 2022 Edition

Leverage data-driven insights for decision-making

The warp speed at which companies operate requires compliance functions to have accurate and complete visibility into the risks and mitigating controls of the business. Visibility that is often missing today. More than half of our study respondents (52%) note the lack of data and information to properly identify and assess business exposure to third-party risks.

Our study reveals that compliance functions across all sectors can achieve real-time benefits by implementing the following practices to address this data and information gap:

- **Capture efficiency gains**, when the business, compliance, and internal audit functions all use the same data sets to conduct risk management, monitoring, and testing
- **Establish a consistent process** for monitoring and challenging the data sets on a like-for-like basis
- **Create a comprehensive view** into compliance gaps and weaknesses by mapping the regulatory obligations to the impacted policies, standards, risks, and mitigating controls

During the pandemic, an increasing number of CCOs we work with assumed responsibility for managing their companies' third-party risk exposure and reputational risk. A role that is expected to grow given the current conflict in Ukraine

48% of respondents are turning to big data and analytics to strengthen their compliance function

Regulatory requirements

For a major gas and utility company, multiple regulatory-related challenges led to a comprehensive review of all aspects of their regulatory compliance processes. We helped them build a model to evaluate their exposure to different types of violations, develop a risk model for categorizing violations and set up a corrective actions program linked to risk valuations.

Harness advanced technologies more effectively

New technologies such as AI and ML can create efficiencies in the regulatory and compliance space that were not previously possible. More than nine in ten Compliance Risk Study respondents (93%) agree or strongly agree that new technologies such as AI, and cloud make compliance easier by automating human tasks, removing human error and making the process more effective and efficient. The investment in a cloud-based

platform can facilitate the alignment of risk processes across the business, while AI can help reduce risk by automating repeatable tasks.

However, companies are facing challenges incorporating technologies into their compliance functions. For many, migrating compliance workloads to the cloud is being held back by poor data quality and management, growing data privacy requirements, and a lack of skills and talent.

In many cases, the challenges are worsened by insufficient technology investments—something noted by one-third (37%) of respondents. This makes it difficult for compliance functions to keep pace with the rapid evolution of business models, cybercrime, business and regulatory expectations and to identify risks and advise the business appropriately. Surprisingly, only 61% of compliance officers expect to increase investment in their compliance function over the next two years.

54%
of respondents say that AI and ML technologies will strengthen compliance



Where compliance leaders have been able to start the journey of modernizing their use of data, advances in data-driven technologies have yielded strong results in improving compliance processes and organizational insights.

For example, among the leading practices we are seeing used across all industries include:

- **Leveraging AI and ML** for compliance mapping, end-to-end regulatory change management, and automated compliance testing and monitoring
- **Aligning these technologies** across the enterprise to increase efficiencies and transparency

As risks have become more complex and interrelated, governance, risk and compliance (GRC) needs have grown in importance. Even with technology and process advancements in the GRC space, it is still challenging for companies

to handle the scale and complexity of their compliance requirements given the constantly evolving regulatory, business, and risk landscapes.

To counter this, it's important for companies to harness a new generation of GRC and regulatory watch tools and solutions that leverage AI and ML to reduce the manual burden of managing compliance risk while providing enhanced analytics capabilities. These cognitive tools and solutions, have become more prevalent and accepted over the last several years, opening the door for their use in driving efficiency, effectiveness, and agility in GRC initiatives.

Overcome the cost challenge

Compliance executives are facing a dual challenge of needing to invest in people, processes, and tools while evolving in an ever-increasing cost pressure environment. Our study clearly shows that the cost equation is a growing challenge for the compliance function. In fact, nine in ten respondents expect evolving business, regulatory, and customer demands to increase both their compliance-related and compliance operating costs by up to 30% over the next two years. At the same time, 72% admitted that their compliance tech budget has not changed in the past year.

Compliance departments are rethinking where they should be investing their finite time and resources—and are considering right-shoring and outsourcing compliance operations and regulatory change services to third parties.

This can significantly reduce costs, offer greater access to highly trained and skilled talent, leverage the latest technology and free up funds to invest in the future. Critically, a company can maintain control and oversight of operations through technology. A large majority (90%) of respondents reported that they have moved compliance resources to lower-cost locations.

In response to growing demands, 41% of respondents say they are already “right-shoring” routine compliance tasks and activities to countries that provide the best efficiency/cost combination. For example, 58% are currently outsourcing consumer requests on data privacy issues to drive compliance efficiencies.

However, based on our discussions with compliance leaders, the push to reduce costs may expose companies

to increased risks. These leaders see their role as carefully weighing and balancing this increased risk exposure to achieving improved outcomes while keeping costs down.

Right-sizing compliance

For one financial institution, the compliance challenge was how to appropriately resource and structure their function. We helped them assess their compliance program and identify key gaps in their monitoring, testing, surveillance and conduct risk management controls areas. It also included developing a detailed target operating model, providing guidance on resourcing and compensation, and developing an implementation roadmap.



Conclusion

Accenture's Compliance Risk Study – 2022 Edition reveals, now more than ever, the need for leaders across all industries to rethink compliance in the face of mounting issues and risks, rapid regulatory change, unforeseen crises, and data complexity.

Demands placed upon the compliance function by internal and external stakeholders—especially in the areas of cybersecurity, ESG and data privacy—compel CCOs, CROs and others to create a more responsive and agile compliance function, even as they deal with rising costs and firm-wide cost-cutting pressures.

In response, here are several leading practices that organizations and leaders may take now to make their compliance functions more adaptable and tech-driven:

- Compliance needs to have C-suite-level participation so that compliance activities are aligned to business strategy—specifically, to make sure the organization is poised to grow with a proactive regulatory change management program. An enterprise-wide data and information-sharing process is needed to allow compliance leaders to integrate

their business monitoring and risk mitigation insights for sharing with senior management and boards of directors

- New technologies such as AI and ML can create efficiencies in the regulatory and compliance space that were not previously possible. Tech investments today by compliance leaders can lead to significant cost savings in the future
- As compliance executives face the dichotomy of needing to invest in people, processes, and tools in the face of ever-increasing cost pressure, right-shoring resources may significantly increase efficiencies and decrease costs. In addition, ecosystem vendor and partner offerings such as regulatory-change-as-a-service and compliance-as-a-service are gaining traction as highly cost-effective options, which leverage leading practices, cloud-based and other innovative technologies and solutions.

About the research

Accenture commissioned McGuire Research Services to carry out a survey-based study of compliance leaders. The Accenture Compliance Risk Study – 2022 Edition research was conducted from August to September 2021. We surveyed 860 compliance leaders including Chief Compliance Officers, Chief Risk Officers, and heads of compliance functions. Study participants were sourced from around the world across 10 sectors: banking; capital markets; energy; health and public services; insurance; life sciences; software and platforms; telecommunications; utilities; and travel and hospitality.

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Tommaso Petrillo
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Garrett Swanberg
Blair West
Shingo Yamamoto

About the authors



Samantha Regan

Samantha is a Managing Director with Accenture CFO & Enterprise Value and leads the practice's North America Risk & Compliance group. Based in New York, Sam has over 20 years of global experience working with C-suite executives and their businesses to strengthen their compliance, risk and regulatory capabilities and functions. Samantha can be reached at: samantha.regan@accenture.com



Jessica McDermott

Jessica is a Director with Accenture CFO & Enterprise Value and leads Accenture's North America Regulatory & Compliance offering group and our Regulatory Change Platform activities. Based in New York, Jessica has over 20 years of experience working with compliance leaders to drive transformational change and resolve regulatory actions, reshape risk and control environments, deliver enterprise-wide policy and technology change, and increase operational efficiency. Jessica can be reached at: jessica.mcdermott@accenture.com



Aaron Mendelsohn

Aaron is a Director with Accenture CFO & Enterprise Value and leads the practice's North America ESG Regulatory team. Based in New York and a former federal prosecutor and financial regulator, Aaron is a lawyer by training and has over 20 years of regulatory compliance and fraud investigation experience. Aaron helps companies across numerous sectors comply with the increasingly complex global and U.S. financial regulatory landscape. He can be reached at: aaron.mendelsohn@accenture.com



Anne Godbold

Anne is a Senior Manager with Accenture Strategy & Consulting. Based in London, Anne has over 10 years of non-financial risk management experience, and works with businesses to strengthen their compliance, risk and regulatory skills, capabilities and functions. Her current focus is helping clients live safely and securely on the cloud and capture the full value of cloud from a non-financial risk and compliance perspective. Anne can be reached at: anne.godbold@accenture.com



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