



Compliance Management- Need, Scope & Importance

CA Jyotin Mehta, GM & Co. Secy.

ICICI Bank Limited

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Agenda

- **Introduction to regulatory compliance**
- **Compliance framework at ICICI Bank**
- **Role of employees**

Origin & Significance

- **Business to operate within legislative framework**
- **Controlled environment was stifling but ensured that no business activity would fall outside legal framework – Licensing and Permits Raj!**
- **Business was essentially local and legal framework not so complex**
- **Inspections and audits were perhaps considered adequate**
- **Stakeholder activism was not as aggressive**
- **Most important – Media was primitive and communication and dissemination of information very much restrained and controlled**

Things have changed..

- **Globalisation and breakdown of barriers**
- **Liberalisation has passed on the responsibility of compliance to Business**
- **Media is technology driven and dissemination instantaneous across the world**
- **Regulators are better equipped and agile**
- **Stakeholders proactively seek information and are better informed**
- **No hesitation in punitive actions, both by regulators and by stakeholders**
- **Non compliance seen as unpardonable and can have far reaching implications..even closure!**

Compliance & Clause 49

- **CEO CFO Certification covers review of financial statements and cash flow statements for the year and confirms adherence to accounting standards, applicable laws and regulations**
- **Confirms no transactions are fraudulent, illegal or violative of company's code of conduct**
- **Existence/maintenance of effective internal controls**
- **Additional requirement for Board to review compliance reports for all laws applicable to the company and rectify any instances of non-compliance**
- **Hence the need for good framework and awareness on legal compliance**

Backdrop

- Risk is an inherent part of Business activity
- Recent survey of leading Indian companies by Ernst & Young shows compliance risk amongst the Top 3 risks
- The surge in global aspirations of Indian companies
- Increasing use of technology
- High profile cases of non-compliance since 2001 across the globe
- Increased spotlight on responsibility of the CEO for compliance
- ★ Business is primary owner of the risk and its management

Overview of Compliance

- **Compliance risk**
 - Risk of legal or regulatory sanctions, financial loss or “**loss to reputation**” an organisation may suffer as a result of its failure to comply with applicable laws, rules and standards
- **Compliance function - Voice of the Regulator**
 - Independent function that identifies, assesses, advises, monitors and reports on the organisation's Compliance risk
- **Compliance involves**
 - Statutory compliance
 - Regulatory compliance

Understanding regulations

- Companies operate with public money
 - Accountability to stakeholders
- Regulations focus on the safety, transparency and soundness of the companies to ensure that
 - Companies are not unduly exposed to concentration risk
 - Companies are viable in the long run in terms of liquidity and profitability
 - Public money is being handled appropriately
 - Operations are undertaken in a prudent manner

Regulations, therefore, need to be seen as facilitators of prudent business – rather than as restrictions to business growth

Risks of non-compliance

- **Regulations represent the critical norms to be followed in day-to-day business**
- **Non-compliance leads to penal actions by regulator**
 - **In international scenario penalties are significant**
- **Compliance risk leads to reputation risk**
 - **Regulatory actions are visible in public domain**
- **Compliance risk leads to annihilation risk**
 - **Raises the question of integrity of a company**
 - **May lead to closure of business**
 - **Impacts the business plan and strategy**

Common compliance red flags

- **Rapid growth / new locations / mergers**
 - **Mere replication of earlier process for new locations / business**
- **Employee turnover**
- **Frequent customer service issues**
 - **Indicator of reputation risk leading to Compliance risk**
- **Regular statutory/regulatory notices**
 - **Direct indicator of Compliance risk**

Tools for effective Compliance

- **For employees for ongoing compliance**
 - Well defined policies to cover compliance aspects
 - Written procedures covering compliance aspects
 - Compliance matrices viz.,
 - Usage of checklists in predefined flow at the respective departments
 - Delegation of financial powers
 - Intranet support
 - E-circulars for dissemination of instructions
- **For Compliance Officer for monitoring**
 - Compliance evaluation framework
 - Periodical training & advisory visits from Corporate Office

Structural framework

- **Audit Committee**
 - **Oversight on the Compliance & Anti Money Laundering functions**
 - **Detailed review of RBI Inspection reports**
- **Compliance Committee**
 - **Reviews audit & inspection reports and monitors compliance**
 - **Reviews systems & procedures and branch ratings**
- **Compliance Officer of the Bank**
 - **Responsible for putting in place a framework for day-to-day monitoring of compliance**
 - **Co-ordination of Supervisory Inspection process (RBI)**
 - **Compliance Certification System**



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Structural framework

- **Compliance Group**
 - **Policy formulation – Credit & AML related**
 - **Review of compliance aspects in other policies/procedures of the Bank**
 - **Advise on applicability of RBI regulations**
 - **Oversight on compliance function at overseas branches and representative offices**
- **SBU level Compliance functionary**
 - **Ensure Compliance within the respective SBU**
 - **Co-ordination with Compliance Group**

Policy framework for compliance

- **Group Compliance Policy**
 - **Compliance Philosophy and framework**
- **Compliance Policy of the Bank**
 - **Specifies the compliance structure**
 - **Adopts a two-tier structure with Compliance Group at the top and the compliance officers at the SBU level**
 - **Provides for monitoring and audit of compliance**
 - **Through the Compliance Certification system**
 - **Compliance function subject to internal audit**
- **Compliance framework approved by Committee of Directors**

Compliance philosophy of the Bank

- **ICICI Bank will at all times comply with all applicable laws and regulations in all jurisdictions**
- **Compliance function in the Bank is an independent function and has unlimited access to all information**
- **Regulatory information is submitted on time**
 - **Duly supported by a pre-defined calendar of returns**
 - **Periodic regulatory interactions**
 - **Co-operation with the regulators during inspections**



Operational framework

- **Compliance aspects for day-to-day operations covered under**
 - **Policies and procedures**
 - **Product / process notes**
- **Approval mechanism**
 - **Policies and procedures – Board / Committees of the Board / Committee of Directors**
 - **Product / process Notes – Product / Process Approval Committee**
- **Compliance function reviews these at the time of approval**
 - **Ensures that regulatory requirements are adhered to**
 - **Framework for ongoing compliance is laid down**

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Role of the Compliance Officer

- **Focal point of contact for regulatory compliance**
 - **Repository of regulatory guidelines**
- **Ensures formulation of policies / procedures / systems / controls**
 - **Covering regulatory requirements**
 - **Undertaking periodical reviews of the same**
- **Preparing / approving checklists for applicable regulations**
- **Vetting of product / process notes / credit proposals from compliance perspective**
- **Monitoring of day-to-day compliance**
- **Handling regulatory interactions including regulatory inspections / scrutinies**

Role of the employees

- Understand the regulatory implications in the business activities involved
- Adhere to the conditions stipulated in the internal policies and procedures
- Deviations from the policies and procedures
 - Restrict only to the exceptional circumstances
 - Based on assessment of compliance risk involved
- Keep the Compliance Officer informed about the activities being undertaken on a periodical basis
- Maintain appropriate documents for key decisions involving compliance consequences

And in case of doubt, seek clarifications from the Compliance Officer



Reinforcing Compliance Culture

- **Compliance risk management is an integral part of the risk management strategy and structure**
 - **Be all and end all of all other risks**
- **Compliance begins at the top level**
 - **Needs to be implemented at the execution level**
- **Compliance is a part of culture of the organisation**
 - **Not a responsibility of a specialist compliance staff**
- **Compliance principles to be embedded into the day-to-day functioning of employees**
 - ***Evaluated at the time of performance appraisal***

In nuts hell....

- **Know Your Customer (KYC) - who deals with you**
- **Know Your Counter-Parties (KYCP) - through whom they deal with you**
- **Know Your Customer's Customer (KYCC) - does anybody deal through them**
- **Know Your Business (KYB) – and the laws/regulations that govern your business**
- **Know Your People (KYP) - because they deal on behalf of you (employees/agents)_**

Benefits and Beneficiaries

- Legal compliance helps business to remain on track and focus on business!
- It is all about attitude and approach
- Biggest beneficiary is Business itself
- Other stakeholders and society also benefit
- Building up reputation for Corporate India

Compliance is a business enabler and not a burden!

Thank you

