Banking's Biggest Growth Area: Compliance

by Charles B. Wendel

An article in this week's *BAI Banking Strategies* chronicles the cost of compliance for financial institutions: "The cost of compliance for the industry is already staggering—upwards of $250 billion per year, by most estimates. And still, it's rising: A survey from Duff & Phelps forecasts that financial institutions could spend as much as 10 percent of their total revenue on compliance by 2022."

Here's an idea to improve your bottom lines: **Don't let that happen!** Can banks survive with big increases in compliance costs as, at the same time, they suffer from lower NIM, higher losses**,** slower revenue growth, and increased demands to support various community initiatives?

The *BAI* article suggests the need for a "culture of compliance," a potentially frightening term: "You hear the term "culture of compliance" tossed around a lot—it usually means a tone or an attitude about compliance that's set at the top of an organization, and it means a lot. Getting true buy-in at the top about the importance of staying current with the rules and the trends—how it protects the bank and its customers and employees—this is critical." Some banks may have already replaced a sales culture with one in which compliance is King, not a sustainable economic model.

Of course banks need to comply with the myriad of rules thrown at them by local, state, and federal governments as well as new demands from various others. And, yes, meeting compliance requirements is not an option. The article correctly points out: "Compliance is a necessary spend, but there's also a payoff. Banks and credit unions profit when they avoid fines for violations and when they reduce fraud—this amount can be much more than their compliance costs." No choice but to comply.

In recent years, however, at many banks compliance people have gotten too big a seat at the table (remember meetings across tables?) and as banks work to rebound from the virus, once again compliance and legal are asserting themselves into decisions that may need to belong with the line. Compliance people bring essential expertise, but what they may lack is an MVP mindset, what is the minimum viable action that we can take to satisfy regulatory requirements, avoid fraud issues, satisfy CRA rules, etc. How can we corral the cost of compliance?

Rather than a culture of compliance in which staff personnel often call the shots we need a culture of **cooperative compliance** where compliance and legal staff operate with a solutions orientation rather than simply holding up a STOP sign. At many banks this happened during the PPP event. Time was short, the pressure was great, the customer need was huge, and the risk of failure substantial. Barriers broke down; individuals known for raising roadblocks either did not raise them or helped to resolve them. Many bank managers we've talk with recount their PPP work with exhaustion but mainly with a sense of pride. Many banks have not experienced such a positive spirit in years.

But, we've seen clear signs that rather than PPP being a transformational learning experience, many banks are back to their former way of operating. Returning to bank offices post-virus involves multiple logistical, medical, regulatory, organizational, and emotional issues. Some employees are scared; banks want to keep employees and customer safe and avoid the inevitable lawsuits from negligence attorneys. Compliance-related issues are increasing in number and complexity, but these multiple issues need to be addressed with a cross-bank approach.

One example: the return to the office. Line and support groups need to rethink the work environment while the health environment remains in turmoil and the disease spreads in some locations. Yet, we hear many bankers wanting to get their employees back in their big buildings as soon as possible despite the health risks and the reticence of many employees. Why return to the office?

Remember great newspaper movies like *All the President's Men* or, more recently, *Spotlight*? The office emits intensity as reporters meet and brainstorm and solve puzzles leading to important discoveries they would never have made without constant interaction. Well, McClatchy Newspapers just announced all reporters will work remotely, maybe forever.

Should banks emphasize at-home workers and limit office visits? Who can stay at home? How often? For how long, if not permanently? How should the bank prepare for those employees who want or need to be in the office? What are the real estate implications of this? How is all this done at the lowest possible cost and with the greatest flexibility? After all, there will be a vaccine one day, right? The list of questions seems never ending.

Banks and credit unions need to bring the same intensity and internal organizational openness that they brought to PPP to this issue as well as similar virus-related questions This crisis is different from others, and financial institutions are operating in a new world, one in which uncertainty may be at an all-time high. Cooperative compliance in which consideration of regulations, safety, costs, customers (remember them?), and revenues receive consideration may be essential if banks are to survive in the new world.