

EUROPEAN EDITION

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# THE TRUE COST OF NON-COMPLIANCE

The Cost of Business Disruption Can Far Outweigh  
Fines and Penalties



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# INTRODUCTION

Managing compliance can be a costly business. In some organisations, there may be a reluctance to fund compliance programmes – especially in those that haven't experienced regulatory issues or fines first-hand. But with the cost of non-compliance estimated at nearly three times the average cost of complying with industry rules and regulations, and fines in the UK exceeding £310 million between 2016 and 2018, those penalties far outweigh the investment in compliance programmes.

A lack of regulatory censure does not mean your company is managing compliance risk

effectively – in fact, there could be significant issues that simply haven't been detected. Left unaddressed they could cost the organisation far more than the cost of prevention or, at least, detecting them in their earliest stages.

In this paper, we will explore the costs of compliance – and non-compliance – identifying the factors driving up costs and outlining ways companies can be cost-conscious without sacrificing compliance. We ask whether your organisation can afford to be without a RegTech solution in an increasingly regulated and risk averse marketplace.

## REGULATORY RISK COMES WITH A PRICE TAG

Compliance officers and leaders in financial services firms often focus on headline-grabbing regulatory fines when considering the cost of compliance. In the UK in 2018, fines were imposed on players large and small, for transgressions ranging from financial crime, to suspicious client transactions, conflicts of interest, lack of propriety in investment management, unfair treatment of customers and poor complaint handling.

Despite the number and scale of fines imposed on financial services companies in the UK, it would be a mistake to assume that they represent the only cost of non-compliance. The price of business disruption, including opportunity cost, lost productivity, revenue, reputational risk and customer trust combined with the operational expenses of clean-up efforts, can easily exceed regulatory fines and penalties.

## DON'T BE COMPLACENT ABOUT COMPLIANCE

The ever-changing regulatory landscape means that companies cannot afford to become complacent, and yet we see this often because

although a company may have approved a one-time resource expenditure in the past to update its compliance program, new risks evolve

and emerge constantly. There are two key areas where we see complacency in industry players:

- 1. Complexity:** The complexity of the regulatory framework means it can be nearly impossible for firms to keep pace with growth goals while staying on top of applicable requirements. This can be the case even when there's a team of experienced compliance professionals on hand.
- 2. Measurement:** The lack of an efficient way to monitor and manage existing compliance programmes means activities may not be as streamlined as they could be. For example, when review or certification tasks are handled manually or when information is stored in emails and on hard drives. This creates a greater risk that compliance issues are present but undetected.

## COSTS AND BENEFITS OF REGTECH

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In some companies, costs have risen as firms have recognised the need to implement regulatory technology tools to make compliance more efficient and effective. Although there is a cost associated with implementing a compliance technology platform, RegTech can help firms

improve compliance and stay one step ahead of the regulator. RegTech is most effective when team members across all levels of the organisation are well-trained and committed to using the resources.

## BEST PRACTICES FOR LOWERING THE COST OF COMPLIANCE

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A December 2017 study by Ponemon Institute and Globalscape ("Ponemon Study") revealed that the costs associated with business disruption, productivity and revenue losses, fines, penalties, and settlement costs that come with regulatory issues add up to 2.71 times the cost of compliance. Although this study was

carried out in the US amongst multinational players, the 12 best practices identified in that study are most definitely relevant to companies operating in the UK and EMEA – in fact in any market. These best practices have been proven to lower the cost of compliance.

The Ponemon Study identified the following twelve best practices that can lower the cost of compliance, and the savings that each best practice can bring:



Source: Globalscape

## BE COST-CONSCIOUS WITHOUT SACRIFICING COMPLIANCE

We have over 20 years' experience in compliance, and we're relentless in our pursuit of innovative technology and a great user experience. By listening to our clients and working with the industry, we've identified the best ways to implement cost-effective compliance programmes that develop and adapt with our clients' businesses and the financial services industry. Four key considerations are:

1. Centralise the compliance function - or at least standardise the way leadership in different divisions and departments comply. This can deliver the biggest rewards by lowering compliance expenses and making the idea of non-compliance even less appealing.
2. Standardise the audit function. Make audits ongoing rather than an annual drill, which can reduce risks and costs. When companies possess the tools to conduct effective internal audits, they can identify and address potential problems before they grow into more significant and costly issues.
3. Train for success. It's important that everyone, at all levels of the company, understands their obligations and expectations for compliance. When companies use enterprise-wide compliance systems and provide training for all employees they're likely to have higher adoption and usage, which in turn should result in reduced risk and increased compliance. Put simply, effective compliance training delivers cost-savings.
4. Create a culture of compliance. Achieving buy-in and creating a strong culture of compliance lowers the risk of non-

compliance, helping firms avoid unnecessary expenses when otherwise preventable issues are raised. Although “compliance culture” is difficult to measure or quantify, it can be bolstered by making the CCO a member of the organisation’s senior leadership team and through dedication to a strong tone from the top.

## DON'T RISK PAYING THE PRICE FOR NON-COMPLIANCE

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With the cost of non-compliance estimated at nearly three times the average cost of meeting industry rules and regulations, there shouldn't be any question about the value of having an effective internal compliance programme. Strong leadership, thorough training programmes, regular audits, regulatory technology to monitor vast amounts of information, streamline oversight and reporting functions, should all

combine to lower the risk of costly regulatory breaches.

**Ready to take control of compliance? At ComplySci, we create tools that allow you to shift your focus from hindsight, to insight, to foresight so you take control of compliance. To learn more, contact our London team today and request a free demo today.**



ComplySci is a leading provider of technology solutions that help compliance organisations identify, monitor, manage and report on conflicts of interest arising from employee activities, including personal trading, gifts and entertainment, political contributions, outside business affiliations, and other code of ethics violations. Founded in 2003 by early pioneers in the development of automated compliance management solutions, ComplySci is now trusted by over 1,100 customers, including some of the world's largest financial institutions. Compliance Officers rely on ComplySci's scalable and sophisticated platform to stay ahead of risk.

Learn more with a [ComplySci Demo](#)

# RESOURCES

- i “The True Cost of Compliance with Data Protection Regulations: Benchmark Study of Multinational Organizations,” Globalscape, December 2017, <http://dynamic.globalscape.com/files/Whitepaper-The-True-Cost-of-Compliance-with-Data-Protection-Regulations.pdf>