

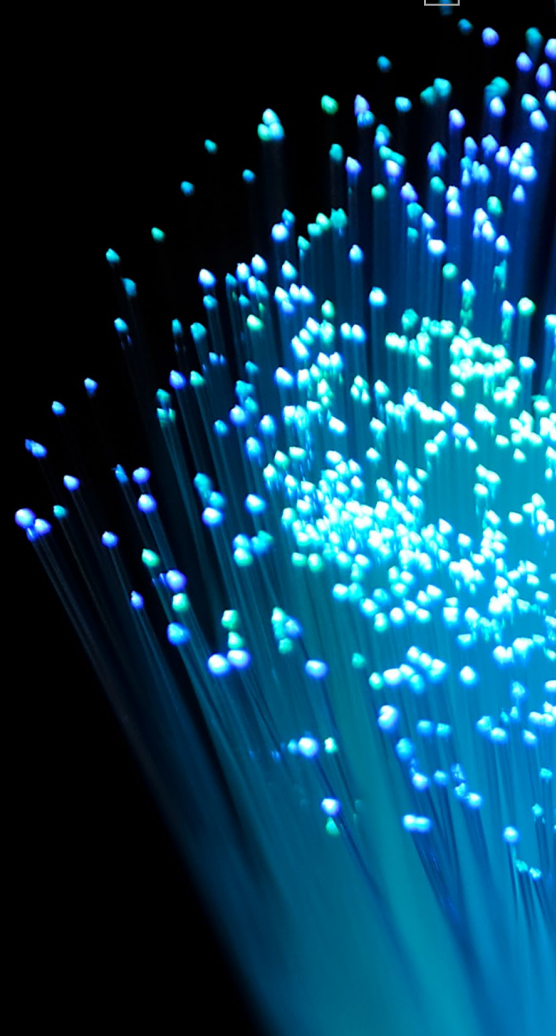


KPMG 2021 CCO Survey

**Sharing client perspectives
on compliance imperatives**

Contents

Executive summary	1
Evolving risks	2
Investments in compliance	5
Compliance in the new reality	8
Industry observations within CCO survey findings	11
Conclusions	13



With the shifting compliance environment resulting from the global pandemic and an increasingly mobile and dispersed workforce, coupled with government commitments to continue and enhance the regulatory environment, compliance officers are attuned to the need to manage emerging risks and enhance the effectiveness of their compliance programs through the use of automation and technology.



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Executive summary

In these years of prodigious change that has shifted the way in which global companies operate, Chief Ethics & Compliance Officers (CCOs) are taking the lead as change agents advancing their functions, operations, and analytics from responsive to proactive. They are anticipating shifts in regulatory and stakeholder expectations and preventing exposures before they occur by adopting new approaches and technologies that help their companies stay at the forefront of change.

The *KPMG 2021 CCO Survey: Sharing client perspectives on compliance imperatives*, explores how CCOs across multiple industries are adapting to these new global trends and evolving risks. It identifies the areas of the compliance program that CCOs believe require enhancement and/or investment, describes how CCOs are expanding the scope of compliance responsibility to embrace new areas of risk, highlights how CCOs perceive the need to invest further in automation and technology, and examines how CCOs are accommodating the shift toward new post-pandemic ways to work. Based on responses from nearly 250 CCOs at some of the largest global organizations, this survey highlights the changes we might expect to see in compliance over the next three years, even as organizations navigate increased regulatory scrutiny, gaps in resources and budgets, and competitive pressures to harness and distill large volumes of data into meaningful analysis.

Profile of respondents

The 249 organizations participating in KPMG's 2021 CCO Survey operate in the following industries:

Healthcare and Life Sciences (26 percent); Banking, Capital Markets, and Insurance (25 percent); Industrial Manufacturing, Commercial Markets, and Retail (24 percent); Technology, Media, and Telecommunications (13 percent); and Energy (11 percent). Over 98 percent of respondents described their organizational role as the senior-most compliance leader (e.g., Chief Compliance Officer) or as that person's designee, and over 75 percent of respondents indicated they were affiliated with organizations having more than 10,000 employees globally.

Respondents described their compliance departments/functions as having a range of sizes, including up to 50 professionals (59 percent), 51 to 150 professionals (28 percent), 151 to 400 professionals (8 percent), and more than 400 professionals (5 percent).

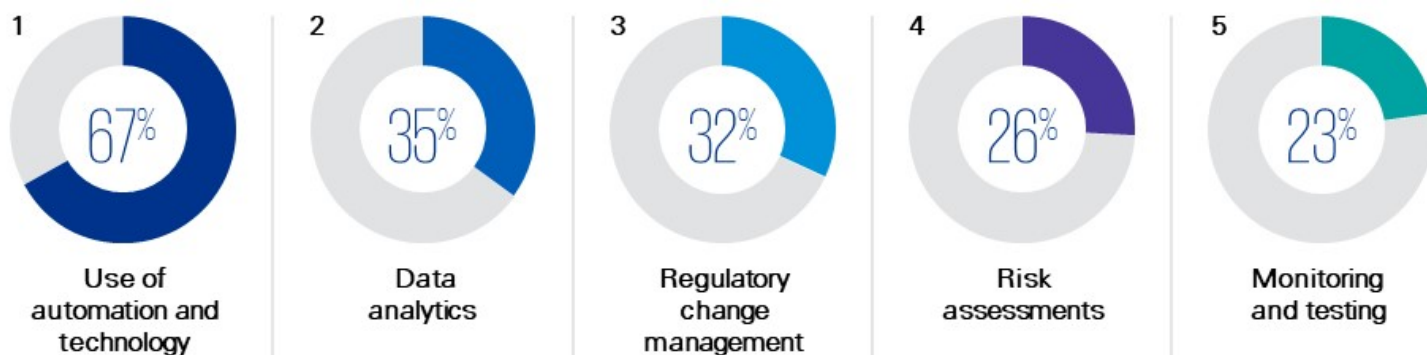
Evolving risks

The 2021 CCO Survey focused on identifying activities and obligations that compliance departments expect to enhance and/or refine across the organization in the next several years.

Enhance

Respondents were overwhelmingly clear that automation and technology would be integral to their compliance efforts. Sixty-seven percent of respondents indicated that their compliance function planned to enhance the use of automation and technology in the next one to three years. This was the respondents' overall top choice; in contrast, 65 percent of respondents to the KPMG 2019 CCO Survey¹ selected "monitoring and testing" and "investigations" as their top activities to enhance. These areas dropped precipitously, however, in the 2021 CCO Survey, with only 23 and 12 percent of respondents, respectively, selecting them as a top focus for enhancement. Such a drop may reflect progress-to-date in refining these activities or possibly a more-refined understanding of the benefits to be derived from a focus on automation and technology.

Top ethics and compliance activities to enhance



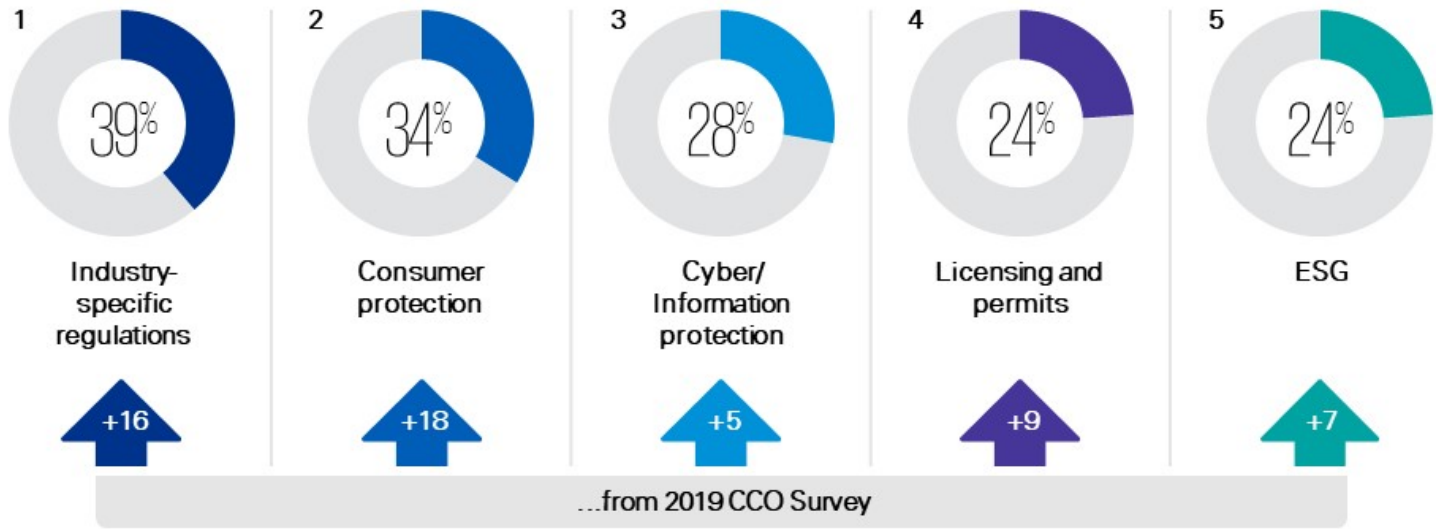
Refine

Across all industries, 39 percent of respondents indicated that industry-specific regulations was among their top obligations to refine, a 16-point increase over our 2019 CCO Survey. This reflects ongoing regulatory focus in highly regulated industries, like financial services (banking, capital markets, and insurance) and healthcare/life sciences, along with a growing regulatory focus in other industries, such as the technology, consumer products, industrial manufacturing, and retail sectors. Respondents were clear that they don't expect regulatory pressure to let up anytime soon. Over 70 percent of respondents believed that regulators' focus on compliance will increase in the next one to three years, and none of the respondents believed that the regulators' focus would decrease.

Other top obligations that CCOs are focused on refining include consumer protection (34 percent, up 18 points from 2019) and cyber/information protection (28 percent, up 5 points from 2019), reflective of the growing discussion around data privacy for individuals and organizations' own proprietary data.

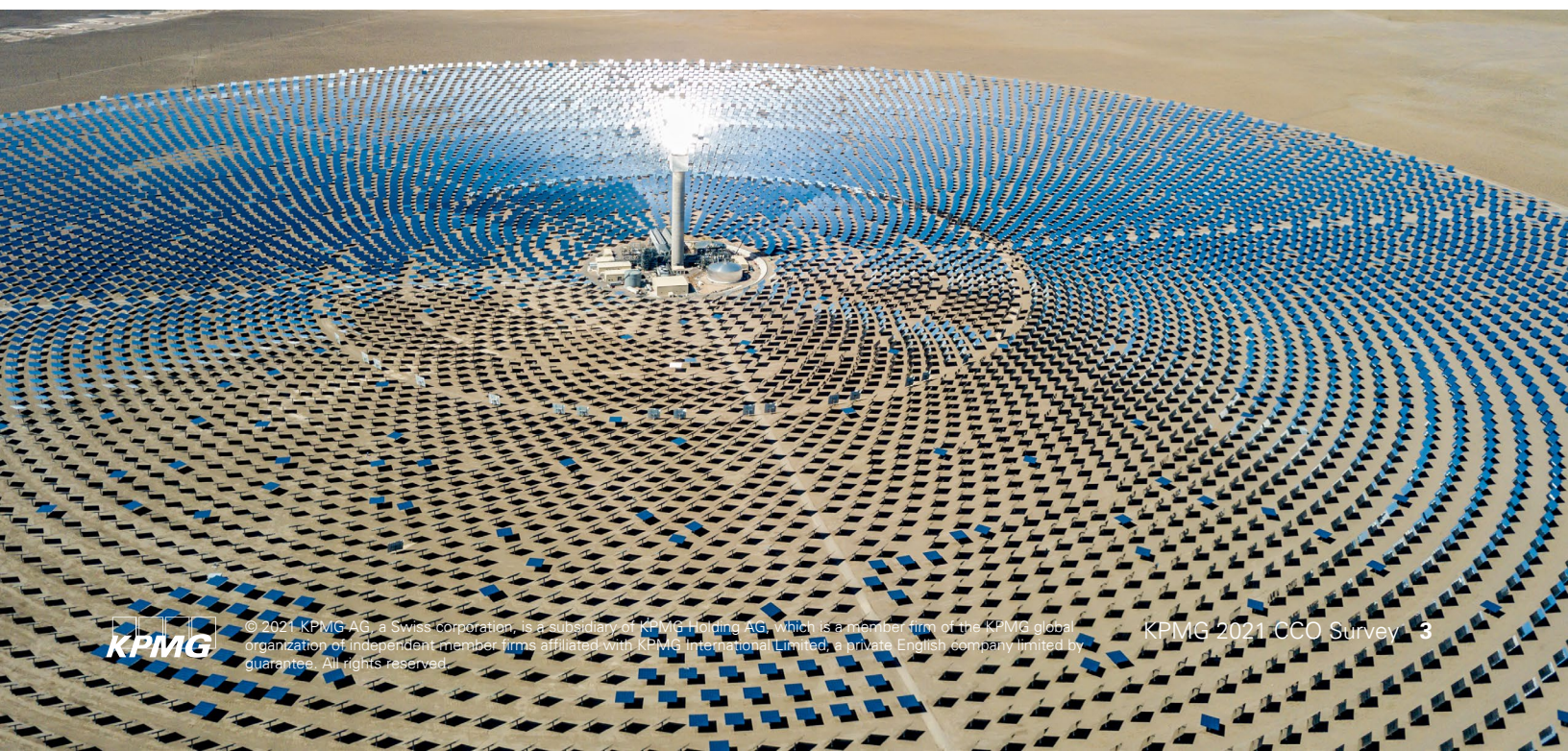
¹ KPMG 2019 Chief Compliance Officer Survey available at: [2019 Chief Compliance Officer Survey \(kpmg.us\)](https://www.kpmg.us/2019-cco-survey)

Top regulatory and compliance obligations to refine



While only 24 percent of total respondents identified ESG as one of the compliance department’s top three areas to refine in the next three years, respondents from the energy and industrial manufacturing/consumer markets/retail sectors disproportionately identified ESG as a top area for refinement (71 percent and 49 percent of respondents, respectively), highlighting the great strides these industries are already making in monitoring their ESG-related impacts. In other industries, including financial services and healthcare/life sciences, some companies may be prioritizing other very critical items and/or may be waiting for regulators to set the tone and better define expectations before taking the next steps with their ESG programs. In any case, the role of the CCO in ESG is expanding and will only become more important.

It may be no surprise that, when asked to identify the top three challenges their organizations will face in their compliance efforts over the next three years, respondents overwhelmingly identified new regulatory requirements as being one of their top challenges (61 percent of respondents). Of particular note is the high response rate related to industries that have traditionally not seen the same volume of regulatory attention—77 percent of respondents in the consumer markets/retail industry identified new regulatory requirements as being one of their top challenges, as compared to only 48 percent of respondents in the banking industry, which has historically been heavily regulated.

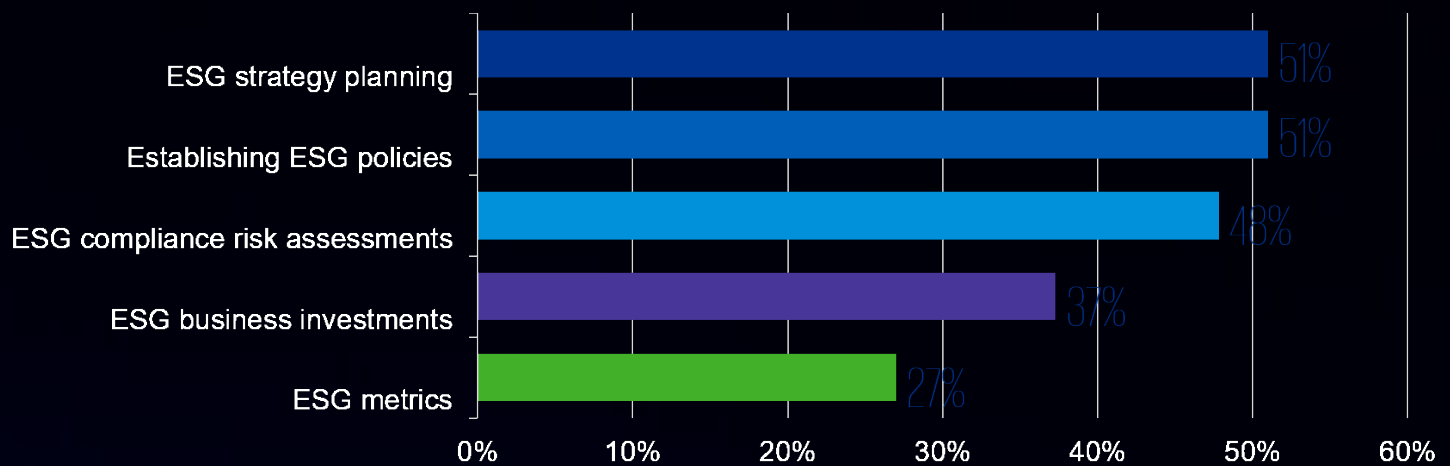


Increasing ESG focus

ESG initiatives are rapidly moving into focus for CCOs. With social unrest and issues of climate change making headlines globally, organizations are increasingly focused on developing and monitoring their ESG efforts, and they are calling on the compliance function to participate, and often to drive, these initiatives. Just more than half (51 percent) of respondents indicated that the compliance function participates in ESG strategy planning. CCOs indicated they are involved in the establishment of ESG-related policies and procedures (51 percent of respondents), the incorporation of ESG risks into overall compliance risk assessments (48 percent of respondents), and monitoring of ESG components of business investments (37 percent of respondents).

For further information on our ESG services, please visit kpmg.ch/esg

Activities the compliance function participates in related to ESG initiatives



Investments in compliance

Businesses have been aware for some time of the need to invest in automation and technology in order to enhance and monitor the effectiveness of internal controls and processes, predict future outcomes, and enable better connectivity with third parties and customers.

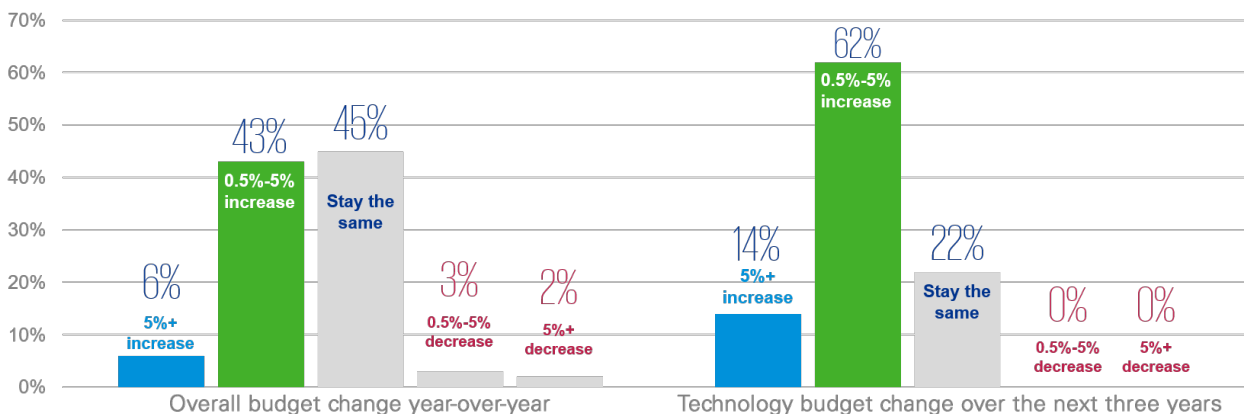
Most companies are already making those investments in technology in profit centers within their businesses – such as analyzing social media data in order to predict new trends in consumer product offerings or flagging unusual customer spending behavior to identify potentially compromised accounts. However, most companies have been slower to make similar investments to support compliance functions. When asked to identify their top three challenges with regard to compliance efforts over the next three years, 56 percent of respondents cited insufficient technology, and 32 percent of respondents cited insufficient or inaccurate data.

With 67 percent of survey respondents stating that the use of automation and technology is one of the top three activities they will enhance over the next few years, it now appears that businesses are poised to go against the trend and embrace enhancements to compliance activities through automation and technology, including the use of predictive data analytics. Notably, over 65 percent of survey respondents also stated that the use of automation and technology is one of the top three areas in which they will converge or further integrate their activities in support of their ethics and compliance environment.

Budget

Compliance departments appear to be receiving support in their technology journeys from the broader organization. Nearly half of respondents (49 percent) expect their overall ethics and compliance department budgets to increase year-over-year while the vast majority of respondents (more than 75 percent) expect their technology budgets specifically to increase over the next three years. Similarly, of those who expect their overall ethics and compliance department budgets to increase more than 75 percent identified the use of automation and technology as a top priority. Having made investments in GRC (governance, risk, and compliance) tools, many firms are looking to investments in machine learning and artificial intelligence abilities.

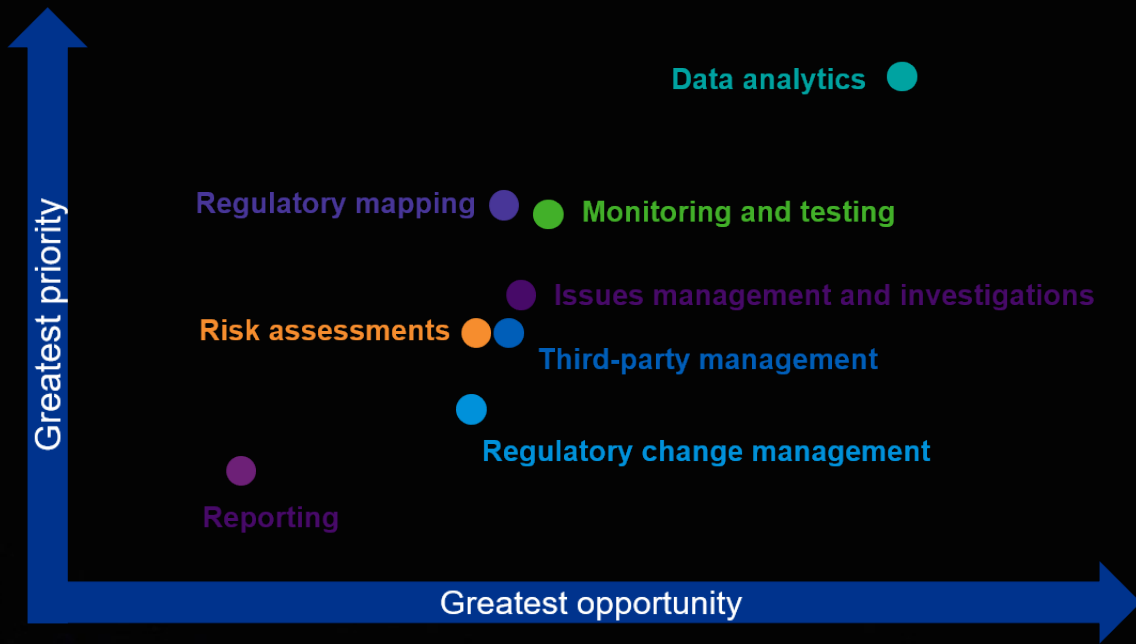
Budget change expectations



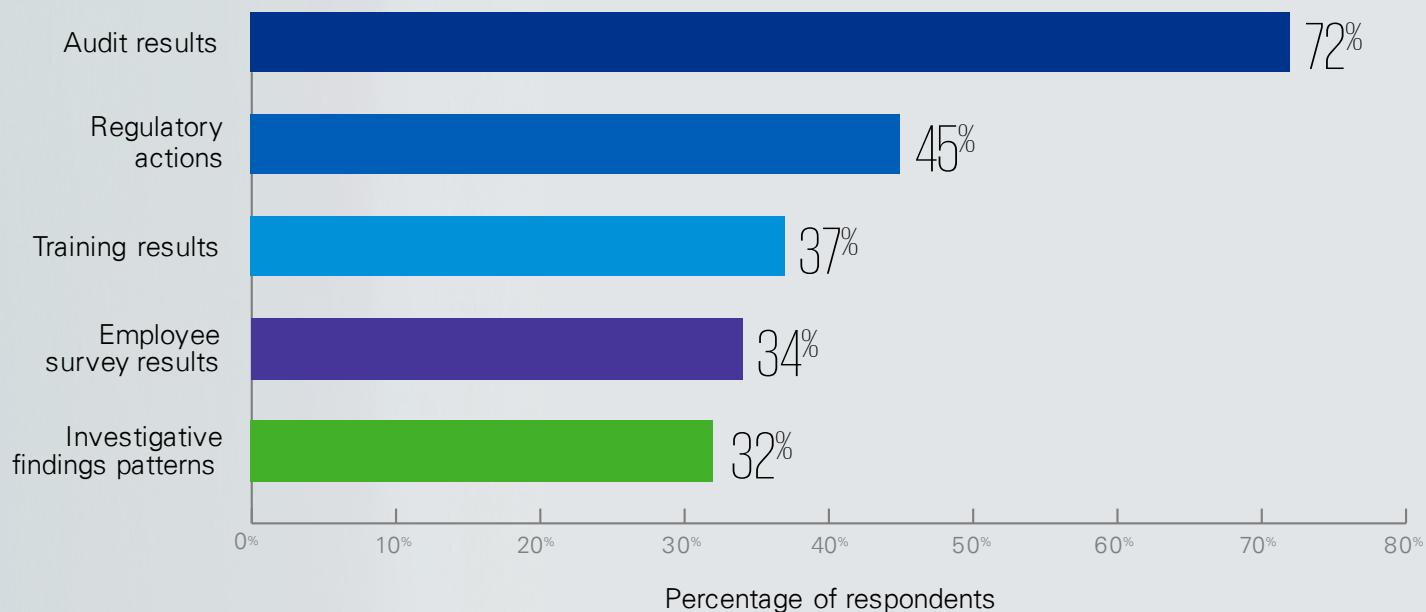
Metrics

With the budget in place to increase the use of technology and automation in the compliance department, respondents overwhelmingly identified “data analytics” as both the greatest opportunity for automation and the greatest priority. Importantly, data analytics can be a critical input to decision makers and can greatly enhance the messaging and readability of internal and external reporting.

Ethics and compliance areas that present the greatest opportunity and priority for automation



Top metrics used to assess the effectiveness of the compliance program



Plans to enhance compliance with data analytics is particularly important in light of the fact that respondents appear to be primarily leveraging reactive metrics, including internal and external audit reports and regulatory actions/inquiries, as a measure of the effectiveness of their compliance departments. When asked to identify the top three metrics that they were using to evaluate the effectiveness of their compliance programs, 72 percent of respondents identified internal and external audit results and 45 percent of respondents identified regulatory actions and inquiries as their primary metrics for evaluation. Comparatively, respondents were much less likely to be leveraging more predictive metrics as top indicators of their compliance department effectiveness. Only 32 percent of respondents are using pattern analysis related to their investigations as a top indicator of compliance, and only 19 percent of respondents identified root cause trends as top metrics for evaluation of compliance effectiveness.

Compliance departments have numerous opportunities to shift their focus from reactive to predictive measures of compliance effectiveness, which will allow them to be more proactive in identifying and mitigating areas of risk and reduce the possibility of costly remediation efforts when compliance issues do arise. In essence, predictive analytics will help compliance to analyze and address issues before they become customer complaints or audit findings. Over the next few years, we expect to see an increased focus on accessing and leveraging appropriate structured and unstructured data, linking operational and behavioral metrics to compliance root cause analytics and actions.

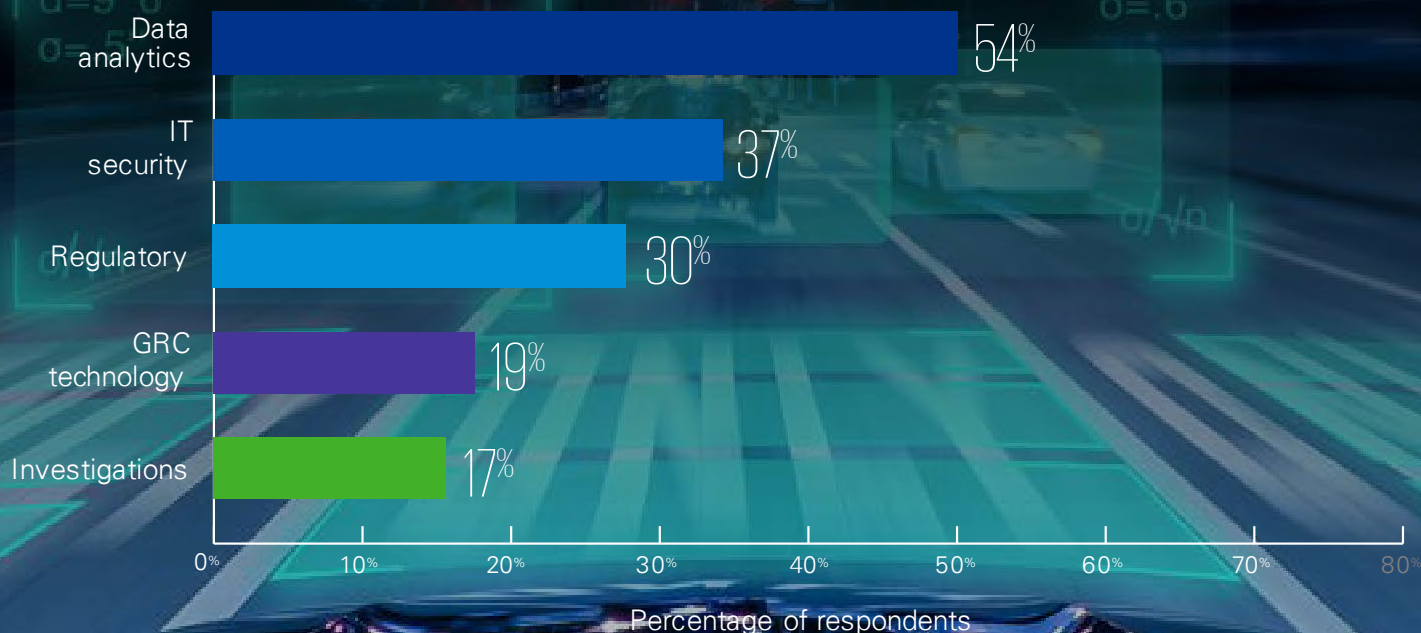


Compliance in the new reality

Skills

With an enhanced focus on automation and technology, including the integration of data analytics and predictive monitoring into various compliance department activities, CCOs recognize that not only do they need to maintain traditional compliance skills and expertise but they must also supplement their skill sets with subject matter expertise in these new areas. Fifty-four percent of CCOs identified data analytics as an area in which they need to enhance the existing compliance team with subject matter expertise. With a similar focus on refining activities around industry-specific regulations, consumer protection, and cyber/information protection, CCOs also will look to bring in individuals with expertise in IT security (37 percent of respondents) and regulatory experience (30 percent of respondents). CCOs will look to leverage increases to the overall compliance budgets in the next several years to address these current skills gaps.

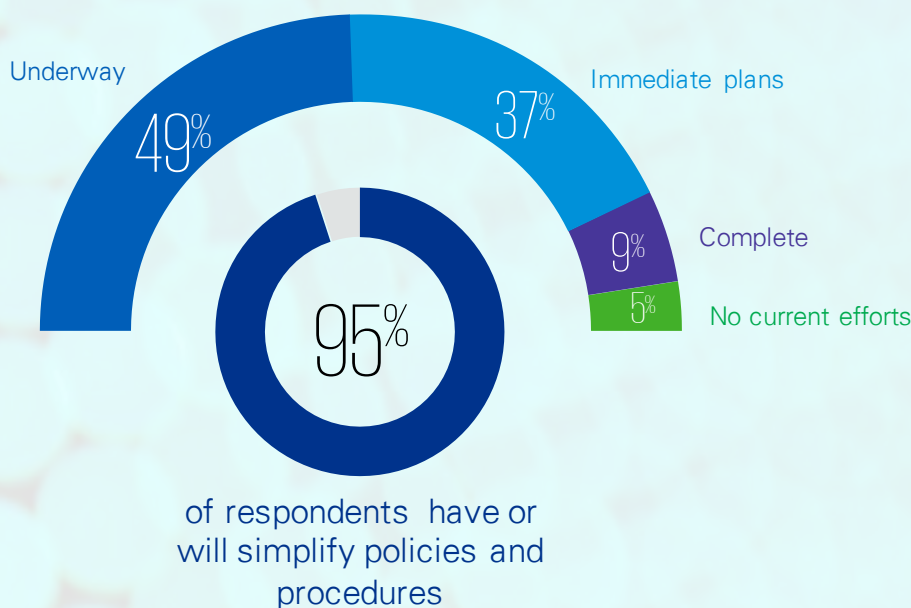
Top areas to enhance compliance with subject matter expertise



Simplify

With employees located worldwide and in various functions across the organization, companies are also increasingly focusing on streamlining and consolidating compliance policies and procedures. In global organizations, where employees have a variety of work experiences, educational backgrounds, and native languages, it is more important than ever that compliance policies are easy to find and interpret at all levels of the organization. While only 9 percent of respondents indicated that they have completed and operationalized a policy simplification project, this is clearly a high priority initiative for compliance departments. Nearly 50 percent of respondents indicated that they are currently undertaking efforts to simplify compliance policies and procedures, and another 37 percent of respondents have immediate future plans to begin such efforts. Over the next several years, we expect policy simplification to be part of a continued and ongoing effort by compliance departments to proactively update, curate, and enhance their compliance program and policy libraries across large, global organizations.

Current efforts to simplify compliance policies and procedures

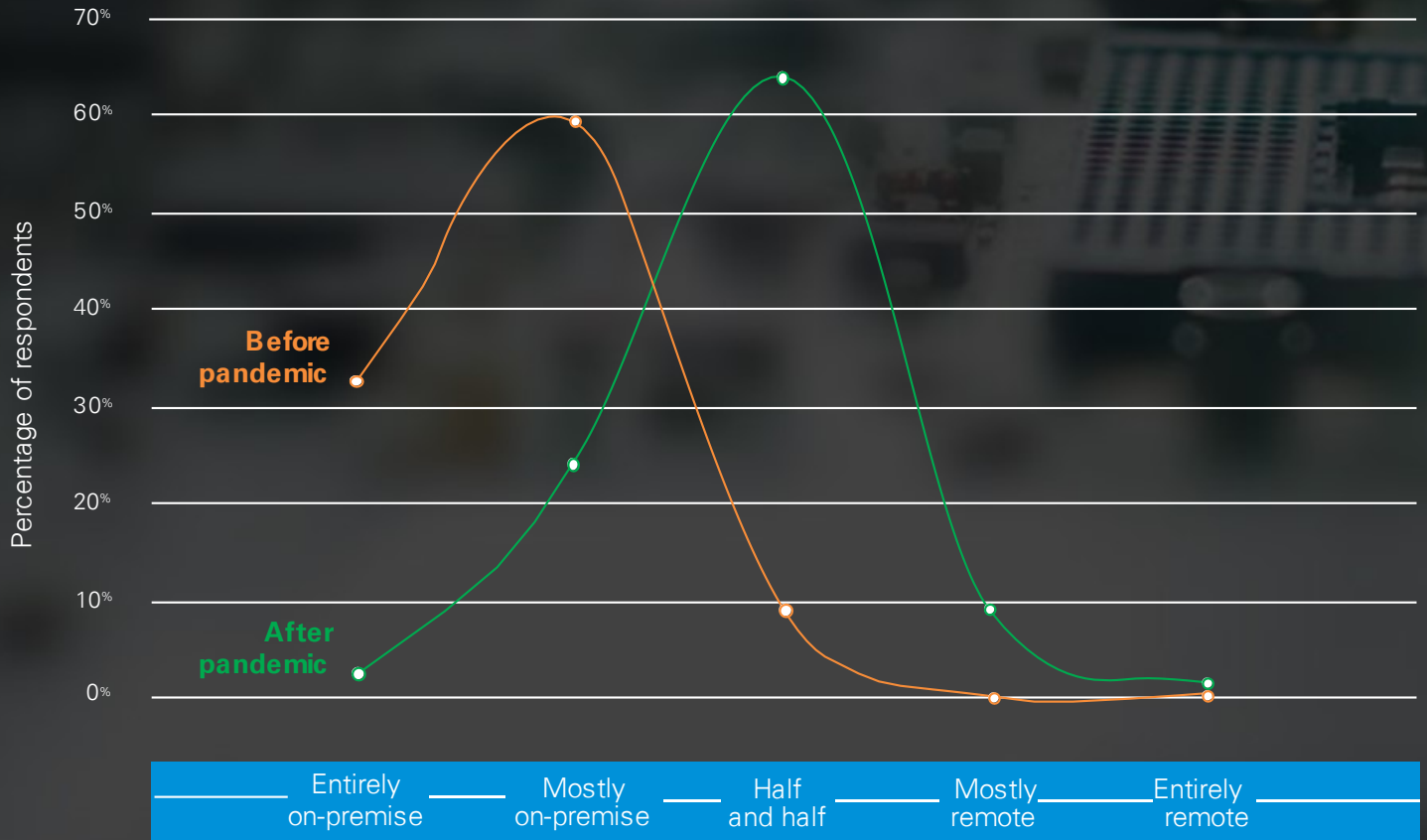


Working on-premise and remote

The COVID-19 pandemic has also enhanced the importance of certain areas of compliance, such as third-party risk and information protection, and ushered in new compliance challenges, including reaching and monitoring a remote and decentralized workforce—changes that are not expected to fully revert to the pre-COVID-19 environment. CCOs recognize that the compliance landscape has rapidly shifted, and the need to quickly adapt to these changes may have resulted in the temporary adoption of processes that companies are now making permanent. Because these policies were envisioned to be temporary, they may not have received the appropriate levels of scrutiny to identify potential compliance risks at the time they were enacted.

Not to be overlooked in understanding the effects of the pandemic on compliance is the importance of the changing physical location of the compliance department resulting from the pandemic. While 92 percent of respondents said their compliance department team members were working entirely or mostly on premises before the pandemic, 63 percent of respondents expected their team members will be splitting time between being on premises and remote work going forward, and 10 percent of respondents believe their team members will be working mostly or entirely remotely in the future. Not only have compliance departments had to quickly shift their focus to risk areas that have arisen in response to the pandemic, including changing opportunities for employee fraud, misconduct, waste and abuse, increasing strain on business resources, and a shifting landscape of third-party risk, but they have had to do so as they themselves adapt to the changing model for remote work.

Location of compliance department personnel



Industry observations within CCO survey findings



Healthcare

Healthcare has changed significantly in the past year with shifts toward tele-medicine and the allocation of emergency funding to support the pandemic response through testing, vaccinations, and credit. The speed with which these changes have come about will likely result in heightened regulatory scrutiny. Notably, healthcare respondents prioritized automating data analytics (80 percent), issues management and investigations (43 percent), and monitoring and testing (40 percent) in the next three years.



Life Sciences

In addition to facing new regulatory and market pressures, life sciences companies were on the forefront of innovative responses to the global pandemic. Life science respondents named product safety (63 percent) and consumer protection (40 percent) more frequently than other sectors as top regulatory and compliance obligations to refine, likely a shift to be more patient-centric. Life science companies have matured in areas such as monitoring and testing, but respondents still identified this (53 percent) as a priority for automation along with data analytics (53 percent) and regulatory mapping (50 percent).



Banking and Capital Markets

One of the industry goals for the banking and capital markets sector is to focus on consumer and investor protections and continuously strengthening operational resilience. The respondents' selection of cyber/information protection (73 percent), fraud (55 percent), and anti-money laundering (30 percent) as top compliance obligations to refine is consistent with this industry goal. Notably, a higher percentage of these respondents (27 percent, compared to 12 percent overall) identified investigations as one of the top areas to integrate across the organization, an area that helps enhance their conduct risk programs.



Insurance

Forty-two percent (42 percent) of insurance respondents identified policy management as one of the top compliance activities to enhance, much higher than respondents overall across all sectors (8 percent). Sixty-one percent (61 percent) of those insurance respondents indicated they have a current project underway to simplify their compliance policies and procedures (compared to 49 percent overall). Given the continued expansion of state and federal regulatory scrutiny in evolving areas (e.g., consumer protections, ESG), insurance respondents indicated a focus on compliance monitoring and testing, which was selected (55 percent) as a top priority to automate in the next three years.

Industry observations within CCO survey findings (contd.)



Technology, Media, Telecommunications (TMT)

Regulators have a growing interest in TMT companies with regard to antitrust, consumer data privacy, and cybersecurity, expecting businesses to evolve their compliance and risk management programs. Simultaneously, TMT companies are investing in technologies to enhance these functions. In addition to more than half (54 percent) of TMT respondents indicating they expect their overall ethics and compliance budget will increase from the prior year, 88 percent of the TMT respondents indicated their technology budgets will increase in the next three years, more than any other sector. Respondents identified data analytics (55 percent) and IT security (55 percent) as the most needed subject matter expertise, suggesting that TMT companies could make their largest investments in these areas.



Industrial Manufacturing and Consumer Markets/Retail

Increases in public interests on climate change, public safety and social activism are trends influencing changes in these sectors. For example, ESG was selected frequently among the top three regulatory and compliance obligations that the compliance department plans to refine among both industrial manufacturing (59 percent) and consumer (40 percent). Other top areas selected for refinement included labor and employment for industrial respondents (59 percent) and product safety for consumer/retail respondents (53 percent). Many large industrial manufacturers and consumer markets/retail entities are currently assessing and enhancing their regulatory, ethics and compliance functions. Most respondents indicated they rely primarily on employee surveys and frequency/volume of employees reached to measure the success of their training and communications programs.



Energy

A majority of energy respondents said that one of the top challenges they face in their compliance efforts is insufficient technology (61 percent). Perhaps in recognition of this challenge, 72 percent of the energy respondents also expect their technology budgets to increase in the next three years and indicated data analytics (71 percent) and regulatory mapping (57 percent) as top priorities for automation. Most of the energy respondents (71 percent) indicated they plan to refine their ESG obligations, likely driven by recent acceleration in environmental regulations and market demands.

Conclusions

As CCOs look to the near future with a view to enhance and refine their current compliance activities, embed automation and technology into their processes, and address the shift to a more-remote workforce, there are several key actions that they can undertake:

Evolving risks

- Refresh and validate internal risk assessments and the key data being leveraged for these by the compliance organization. Ensure that ESG-related risks have been appropriately integrated into the risk assessments.
- Leverage technology and analytics to create ethics and compliance risk monitoring capabilities to drive enhanced and more timely risk management.
- As part of defining a comprehensive ESG program, identify the key metrics that will be used to measure the success of the program across risk areas, including consideration of how the company's third parties are incorporated into the program.
- Heighten focus on industry-specific regulatory risks in industries that have not traditionally been as heavily regulated.

Investments in compliance

- Develop an inventory of existing compliance data and potential additional relevant data sources across the organization. Identify key relationships among the data sources that can provide relevant measures of compliance efforts and effectiveness.
- Prioritize shifting measures of compliance effectiveness from reactive reviews of audit findings and regulatory actions to proactive monitoring using predictive analytics. Develop a consistent set of key performance indicators (KPIs) for purposes of measuring and reporting on the success of the compliance program to key stakeholders.
- Leverage increased investments in compliance technology to prioritize automation of key compliance areas, including compliance monitoring and testing; regulatory inventorying, mapping, and change management; compliance risk assessments; and issues management and investigation.

Compliance in the new reality

- With the shift to a hybrid model of remote work, focus on strengthening fraud and misconduct programs in areas of remote working condition risks and staffing/resourcing constraints.
- Ensure that ethics and compliance is embedded in any overall business operating model changes so relevant risks are appropriately identified and addressed. In particular, as part of the compliance department's participation in the ESG program, ensure that ESG risks are appropriately identified and incorporated into the business plan.

KPMG is very appreciative of the respondents' support for the 2021 CCO Survey.

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