

# The Mizen Group

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Fintelekt Advisory Services and  
the Asian Bankers Association  
May 5<sup>th</sup> 2021

Cultural Landscape of AML Compliance



# Your Presenters

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**Patrick Kelly**  
CEO

Global Banking & Insurance  
Executive with 30+ years industry  
experience

[pkelly@mizengrp.com](mailto:pkelly@mizengrp.com)



**Paul McCarthy**  
CTO

Senior Technology Strategist  
with 20+ years industry  
experience

[pmccarthy@mizengrp.com](mailto:pmccarthy@mizengrp.com)



**Dr. Katy Dineen**  
Senior Associate

Assistant Lecturer at University  
College Cork and Senior  
Associate at The Mizen Group

[kdineeny@mizengrp.com](mailto:kdineeny@mizengrp.com)



# Table of Contents

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- Background
  - Who we are?
  - What is happening in the industry
  - Problems and Our View
- Regulatory expectations
- What is Culture?
  - Business Cultures
  - Culture Within Cultures
- The Importance of Compliance Culture
  - US Regulatory Expectations
  - Global Regulatory Expectations
- How to measure it?
  - Our approach



# The Mizen Group

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- Who We Are

- A global Compliance advisory and RegTech firm
- Core team participated in a monitorship overseeing a compliance enforcement action against a large global bank
- Areas of expertise cover both the regulatory and technical aspects of:
  - AML/BSA and sanctions
  - Information security
  - Information privacy and protection
- Proprietary software products to assist with compliance management
- Combine industry experience, leading academic research and technology expertise





## Current Trends

Investment and industry practices along with the recent impact of Covid-19 have greatly accelerated the digital revolution

### Continued investment in FinTech's remains strong

- Global Fintech funding across M&A, private equity (PE) and venture capital (VC) was \$105 billion on 2,861 deals in 2020.- *KPMG*
- PE and VC activity remains very strong despite the pandemic

### Financial Institutions (FI's)/FinTech partnerships are the future

- FIs need and value FinTech's for their speed and innovative abilities
- FinTech's get access to resources and more customers via FIs
- 81% of bank executives said that collaborating with Fintech partners was the best strategy to achieve digital transformation.- *Finextra*

### FIs' digital transformation has been accelerated by Covid-19

- "Banking has changed irrevocably as a result of the pandemic. The pivot to digital has been supercharged," *Jane Fraser, CEO of Citi's Consumer Banking Division*
- Appetite amongst consumer for alternative products is increasing





## Digital Transformation implications

- \$1trn+ invested globally in digital transformation over the last three years
- Increased compliance risks

### Culture Alignment and Regulatory Awareness

- FIs are conservative cultures that reward **consistency, predictability,** and careful **compliance and risk management,** slowing innovation
- FinTechs **are innovative and reactionary** and do not think about regulatory policy/compliance obligations until later in their maturity
- Current volatility in relation to M&A activity and VC/PE investment can change the complexion of FinTech or bank

### Emerging compliance risks

- Consumer appetite for alternative products and virtual assets introduces new compliance risks

### Vendor Risk Management (VRM)

- FI's stringent VRM policies can limit meaningful opportunities to engage or partner with innovative FinTech's

### Operational and Competency Challenges

- Small/mid-tier FIs typically do not have tools and skills to identify, vet, or appropriately engage with FinTech's





## Our View

- Regulatory awareness and concerns will rise
- FIs have to innovate while balancing emerging risks
- Long term work behaviors fundamentally changed
- A healthy compliance culture essential to reduce risk and improve business outcomes

## Heightened Regulatory Awareness and Concerns

- New products and services have regulators under pressure to regulate and supervise these FinTech's without stifling innovation
  - WireCard,
  - FDIC RFI on Standard Setting Third-Party Providers of Technology

## FI's need to innovate while balancing emerging risks

- Focusing on strategic initiatives to adopt to changing trends
- Aligning those initiative with a focus on good customer outcomes
- Communicating desired behaviors with a focus on positive outcomes

## Employee Adherence: Impact of global Covid-19 pandemic

- Staff operating remotely, oversight gets weaker, controls less robust
- Lack of attention to culture of compliance increase vulnerabilities



# Global Regulatory Expectations

- **Peter Lukacs, FCA Insight series:**

*'... without an understanding of the social, psychological and other influences on decision making in any given organization, regulators could be missing a trick when it comes to **improving effective compliance**. This understanding underpins the substantial work on improving corporate culture that the FCA and other regulators have undertaken in recent years.*

- **Jonathan Davidson, FCA:**

*"...[the **purpose of a firm** sits at the "heart of its business model, strategy and **culture**" and plays a "fundamental role" in reducing potential harm.*

- **James Shipton, ASIC Chair:**

*"[Report]..highlighted the **widespread failure of culture** and professionalism across the finance sector...the industry has a long way to go to **rebuild its reputation to engender trust again.**"*

## Per Hong Kong Monetary Authority:

*While considerable efforts have been made globally by banking supervisors and senior management of banks in enhancing governance and risk management framework in recent years, it is increasingly recognized that much more needs to be done **to promote a sound culture** at all levels of banks.*

## Ravi Menon, MAS MD:

*The global financial community has made good progress in raising prudential standards, enhancing risk management, and strengthening controls. But **reform** of the financial industry – to make it safer and more purposeful – will not be complete until the industry '**gets the culture right**.' The fact that misconduct continues to occur all too frequently across financial institutions shows that more needs to be done."*



# Can regulators keep up with innovation?

- **Nick Cook, Director of Innovation at the FCA, 2019:**

*“This changing landscape reminds financial regulators that we have to continually adapt to remain fit for purpose. Not only for the markets and the firms that we oversee, but for the consumers we serve to protect.”*

- **Brian Knight Director Innovation and Governance (Mercatus Center, George Mason University):**

*“Technological and economic progress has overtaken existing law, leading to an overly burdensome and unfair regulatory environment that impedes innovation and competition, to the detriment of Americans.”*

Testimony before the US Committee on Financial Services, Task Force on Financial Technology (2020)

## **Financial Conduct Authority, Sector Views 2020:**

*“Regulatory changes have enabled many new payment firms to enter the sector and quickly grow their customer base. But consumers can suffer harm if they use products without regulatory protections or these firms fail to comply with regulations.”*

*“Rapid innovation and change has raised questions about the adequacy of new firms’ controls to both safeguard client funds and prevent misuse of their systems for financial crime, including fraud.”*



# What is Culture?

Questions	Answers
Colloquially, how do we describe culture?	<ul style="list-style-type: none"><li>• The way we do things</li><li>• Social glue</li><li>• Unique environment becomes “correct” way</li></ul>
Is there such a thing as a “right” culture?	<ul style="list-style-type: none"><li>• No “one size fits all”</li><li>• Foster cultures to support spirit and letter of the law</li><li>• Underlying ethical base</li></ul>
Why isn’t culture a regulatory requirement?	<ul style="list-style-type: none"><li>• Difficult to mandate the culture of an institution</li><li>• Ways to make expectations known</li><li>• Know it when they see it</li></ul>



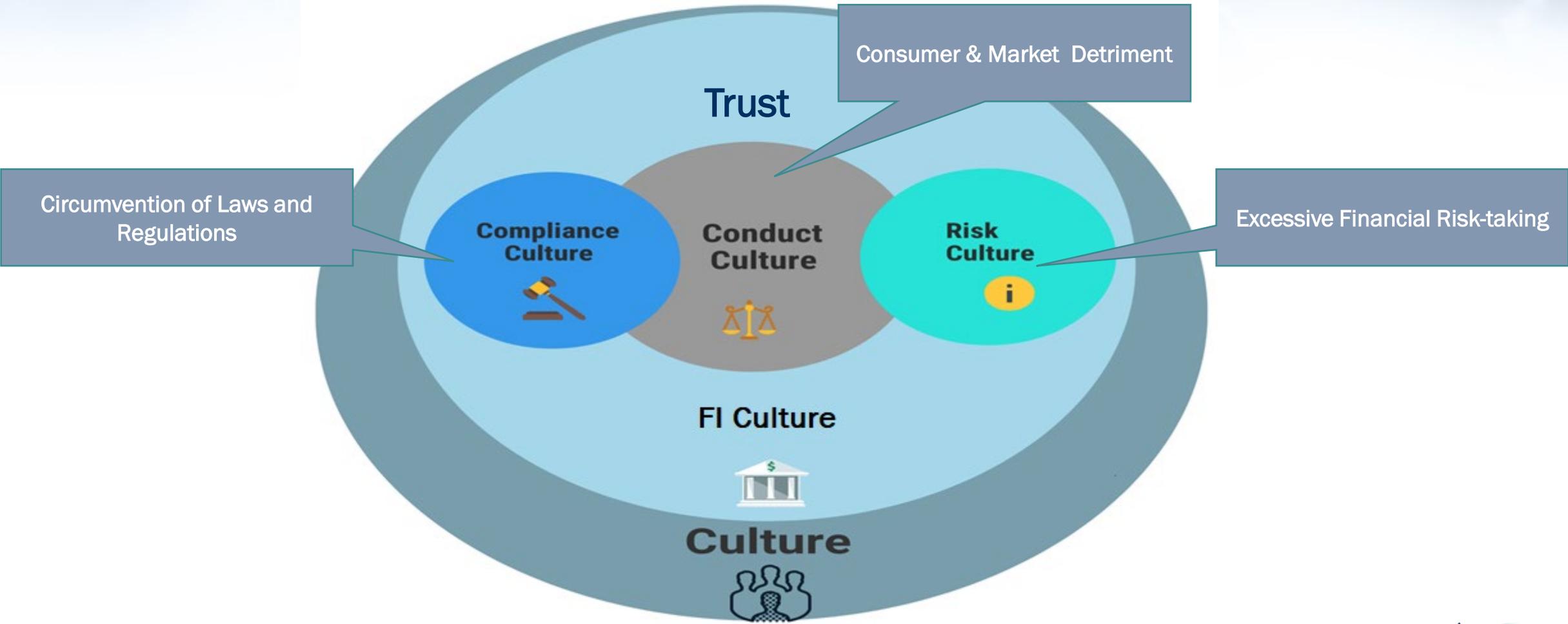
# Business Cultures

Norms of business in different countries/regions are subtly understood and mostly honored

China	<ul style="list-style-type: none"><li>• Guanxi is at the heart of business enterprise, with ties of family, community, and <b>trust</b></li></ul>
Middle East	<ul style="list-style-type: none"><li>• Key attributes: relationship and <b>trust</b></li></ul>
Anglo-Irish/Maritime	<ul style="list-style-type: none"><li>• <i>My word is my bond</i>, also supported by business, relationship, <b>trust</b></li></ul>
United States	<ul style="list-style-type: none"><li>• Historically, business inherited Anglo-Irish <b>trust</b> model</li><li>• To distinguish itself, US is focused on rules and regulations</li></ul>



# Cultures within Cultures



# Identifying a Healthy Culture

- A healthy culture should consist of a number of key characteristics

Honesty	Inclusion
Reliability	Integrity
Competence	Values Led

- Review the institution’s culture of compliance beyond value statements
- Examine the institution’s governance structure
- Review the institution’s performance management approach to compliance



# Critical factors for success

- **FI's need to:**
  - Monitor potential compliance culture risk internally as they continue to innovate
  - Monitor potential compliance risk culture of their strategic partnerships
  - Understand cultural alignment and the influencers in the organization
- **FinTech's need to:**
  - Demonstrate their compliance processes are embedded in the organization
- **Both need to:**
  - Demonstrate improvement or sustainability after compliance initiatives or when introducing new products or services
  - Measure and perform peer review to share competencies



# Culture Diagnostics: How it Works?

Employee perceptions via an anonymized survey (15 mins – per employee)



Organizational metrics indicative of cultural outcomes & Demographics (2 hours of stakeholder time)



Rapid insight into healthy or unhealthy culture (Results in 3 weeks)



Employee perceptions are correlated with quantitative measures utilizing advanced analytics

Scorecard with anonymized benchmarking of peers



# Compliance Culture Diagnostic: Structure

## Employee Perceptions

- Program Dimensions**
- Policies and Procedures
  - Training
  - Rewards and Recognition
  - Resources
  - Communications
  - Compliance Leadership
  - Compliance Environment
  - Diversity
  - Program Orientation

- Program Outputs**
- Employee Commitment
  - Willingness to Speak Up
  - Accountability
  - Employee Practices and Behaviors
  - Management Practices and Behaviors

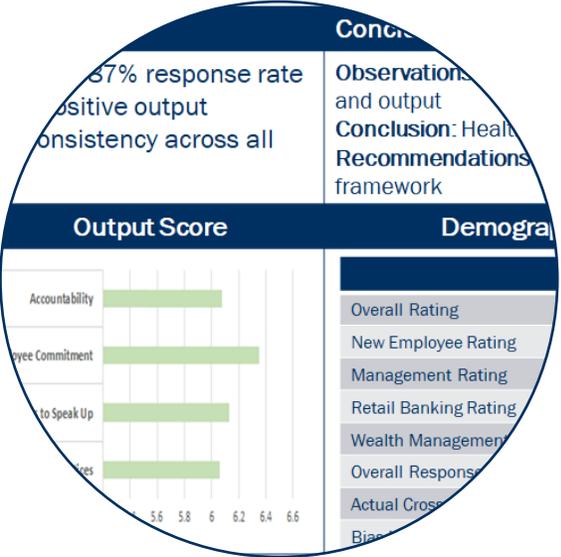
- Individual Demographics**
- Geography
  - Tenure
  - Seniority
  - Function

## Organization's Metrics

- Program Outcomes**
- HR Retention Rates
  - Whistleblower reports
  - Audit and Regulatory Findings

- Corporate Demographics**
- Asset Size
  - # of Employees
  - Products & Services

## Culture Scorecard & Recommendations



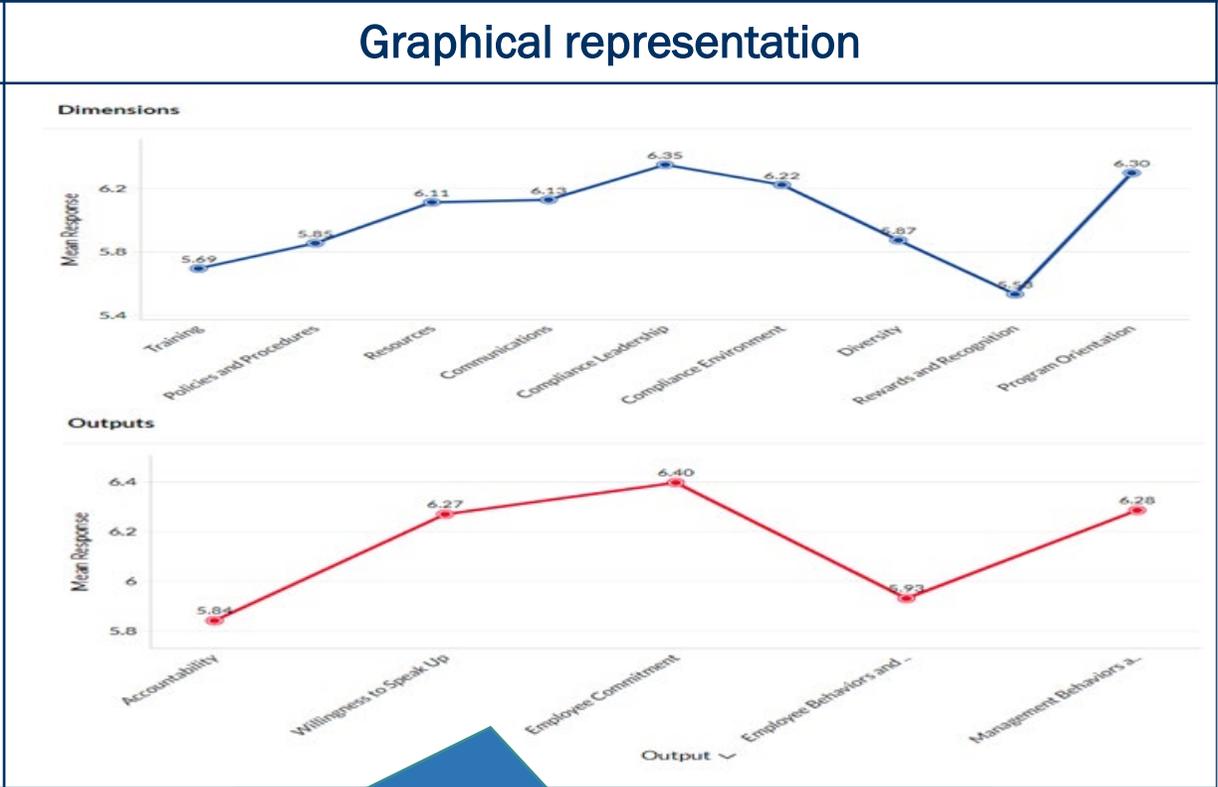
9 dimensions, 5 outputs  
Statistical model identified relative influence of dimensions on outputs



# CCD Output 1: Descriptive Results

**Observation** Example here is indicative of a positive result.  
Majority of respondents produced strongly affirmative responses on almost all questions,

Supporting Data				
Dimension	Normalized Score	Mean Score	Standard Deviation**	Coefficient of Variation*
Training (3)	5.68	17.05	3.33	0.20
Policies and Procedures (3)	5.84	17.54	2.78	0.16
Rewards and Recognition (1)	5.52	5.52	1.33	0.24
Resources (2)	6.1	12.20	1.96	0.16
Communications (4)	6.12	24.47	3.17	0.13
Compliance Leadership (5)	6.34	31.71	3.85	0.12
Compliance Environment (4)	6.22	24.86	3.14	0.13
Diversity (8)	5.85	46.82	9.82	0.21
Program Orientation (3)	6.29	18.86	2.47	0.13



High mean score

Low variation of response

Consistency of Dimensions vs Outputs



# CCD Output 2: Marginal Effects Analysis

<b>Observation</b>	Q1: How was the result achieved? Q2: Where should I <b>prioritize investment</b> dollars for continued sustainability?																																																																	
<b>Summary</b>	<ul style="list-style-type: none"> <li>The analysis indicates that all resources expect and respond to management input and directives on compliance</li> <li>The marginal effect demonstrates that Communications has a significant influence on 4 of the 5 outputs.</li> </ul>																																																																	
<b>Supporting Data</b>	<table border="1"> <thead> <tr> <th rowspan="2">Dimension</th> <th colspan="5">Output</th> </tr> <tr> <th>Accountability</th> <th>Employee Behavior &amp; Practices</th> <th>Employee Commitment</th> <th>Management Behavior &amp; Practices</th> <th>Willingness to Speak Up</th> </tr> </thead> <tbody> <tr> <td>Training</td> <td>Positively Non Significant</td> </tr> <tr> <td>Rewards and Recognition</td> <td>Positively Non Significant</td> <td>Positively Non Significant</td> <td>Negatively Non Significant</td> <td>Positively Non Significant</td> <td>Positively Non Significant</td> </tr> <tr> <td>Resources</td> <td>Positively Non Significant</td> <td>Positively Non Significant</td> <td>Negatively Non Significant</td> <td>Positively Non Significant</td> <td>Positively Significant</td> </tr> <tr> <td>Program Orientation</td> <td>Negatively Non Significant</td> <td>Negatively Non Significant</td> <td>Positively Non Significant</td> <td>Negatively Non Significant</td> <td>Positively Non Significant</td> </tr> <tr> <td>Policies and Procedures</td> <td>Positively Significant</td> <td>Positively Non Significant</td> <td>Positively Non Significant</td> <td>Negatively Non Significant</td> <td>Positively Non Significant</td> </tr> <tr> <td>Diversity</td> <td>Positively Non Significant</td> <td>Positively Significant</td> <td>Positively Non Significant</td> <td>Positively Significant</td> <td>Positively Non Significant</td> </tr> <tr> <td>Compliance Leadership</td> <td>Positively Significant</td> <td>Positively Non Significant</td> <td>Positively Significant</td> <td>Negatively Non Significant</td> <td>Negatively Non Significant</td> </tr> <tr> <td>Compliance Environment</td> <td>Negatively Non Significant</td> <td>Negatively Non Significant</td> <td>Positively Non Significant</td> <td>Positively Non Significant</td> <td>Negatively Non Significant</td> </tr> <tr> <td>Communications</td> <td>Positively Significant</td> <td>Positively Significant</td> <td>Positively Non Significant</td> <td>Positively Significant</td> <td>Positively Significant</td> </tr> </tbody> </table> <p><b>Score</b></p> <ul style="list-style-type: none"> <li>Negatively Significant</li> <li>Negatively Non Significant</li> <li>Neutral</li> <li>Positively Non Significant</li> <li>Positively Significant</li> </ul>	Dimension	Output					Accountability	Employee Behavior & Practices	Employee Commitment	Management Behavior & Practices	Willingness to Speak Up	Training	Positively Non Significant	Rewards and Recognition	Positively Non Significant	Positively Non Significant	Negatively Non Significant	Positively Non Significant	Positively Non Significant	Resources	Positively Non Significant	Positively Non Significant	Negatively Non Significant	Positively Non Significant	Positively Significant	Program Orientation	Negatively Non Significant	Negatively Non Significant	Positively Non Significant	Negatively Non Significant	Positively Non Significant	Policies and Procedures	Positively Significant	Positively Non Significant	Positively Non Significant	Negatively Non Significant	Positively Non Significant	Diversity	Positively Non Significant	Positively Significant	Positively Non Significant	Positively Significant	Positively Non Significant	Compliance Leadership	Positively Significant	Positively Non Significant	Positively Significant	Negatively Non Significant	Negatively Non Significant	Compliance Environment	Negatively Non Significant	Negatively Non Significant	Positively Non Significant	Positively Non Significant	Negatively Non Significant	Communications	Positively Significant	Positively Significant	Positively Non Significant	Positively Significant	Positively Significant				
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# CCD Output 3: Aggregate Scorecard

<p><b>Observation/ Characteristics</b></p>	<p>Provides a risk distribution of compliance outputs across employees            Graph representing Favorable Compliance Culture</p> <ul style="list-style-type: none"> <li>• Concentration of high aggregate score in the 90s percentile</li> <li>• A short tail (representing some dissent for the prevailing view)</li> </ul>
<p><b>Supporting Data</b></p>	<p>The graph displays the distribution of Aggregate CCD Score Values for Bank 1. The x-axis is labeled 'Aggregate CCD Score Values' and ranges from 40% to 100% in 10% increments. The y-axis is labeled 'Fraction of Employees'. The data series, represented by a blue line, shows a distribution that is heavily skewed towards the higher end of the score range. The curve starts at approximately 48% on the x-axis, remains relatively flat until about 70%, then rises steeply to a peak of about 93% on the x-axis, before declining slightly towards 100%. A legend at the bottom identifies the line as 'Bank 1'.</p>

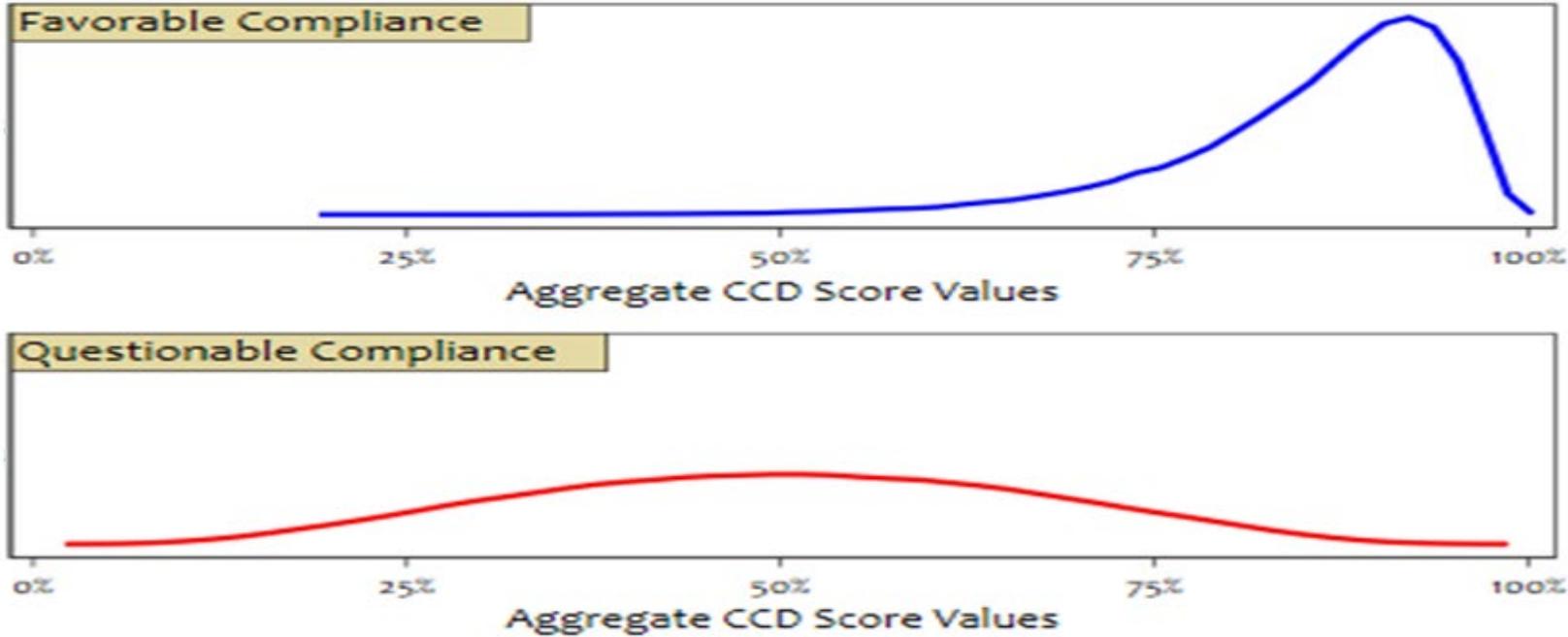


# CCD Output 4: Benchmarking Against Peers

<b>Benchmarking</b>	<ul style="list-style-type: none"> <li>• Ability to compare institutions in terms of compliance risk</li> <li>• Intend to create Benchmarks for banks and FinTechs</li> </ul>
<b>Summary</b>	<p>In this example, participants in both organizations produced a score in the 95% percentile or higher</p>
<b>Supporting Data</b>	<div style="display: flex; align-items: center;"> <div style="margin-right: 20px;"> <p>Fraction of Employees</p> </div> </div> <div style="margin-top: 10px;"> <ul style="list-style-type: none"> <li>• Represent comparisons of:             <ul style="list-style-type: none"> <li>• Internal by demographics</li> <li>• External by Banks v Bank, FinTech's v FinTech's or FinTech's v Banks</li> </ul> </li> </ul> </div> <div style="margin-top: 10px; text-align: center;"> <p>Aggregate CCD Score Values</p> <div style="display: flex; justify-content: center; gap: 20px;"> <span>— Bank 1</span> <span>- - - Bank 2</span> </div> </div>



# Interpreting Results: Scenario 1

<b>Scenario 1</b>	Inconsistent cultures - How does favorable vs questionable differ?
<b>Summary</b>	<ul style="list-style-type: none"><li>• Favorable Compliance: Majority of participants score in the 95% percentile or higher</li><li>• Questionable Compliance: Consistent scoring in the lower range 25% to 75% percentile</li></ul>
<b>Supporting Data</b>	 <p>The supporting data consists of two line graphs. The top graph, titled 'Favorable Compliance', shows the 'Fraction of Employees' on the y-axis and 'Aggregate CCD Score Values' on the x-axis (0% to 100%). A blue line starts at approximately 20% on the x-axis, remains flat until about 50%, then rises to a peak of about 95% at the 90% mark, before dropping sharply to near 0% at 100%. The bottom graph, titled 'Questionable Compliance', shows the same axes. A red line starts at 0% on the x-axis, rises to a broad peak of about 40% between 40% and 60% on the x-axis, and then gradually declines back to 0% at 100%.</p>

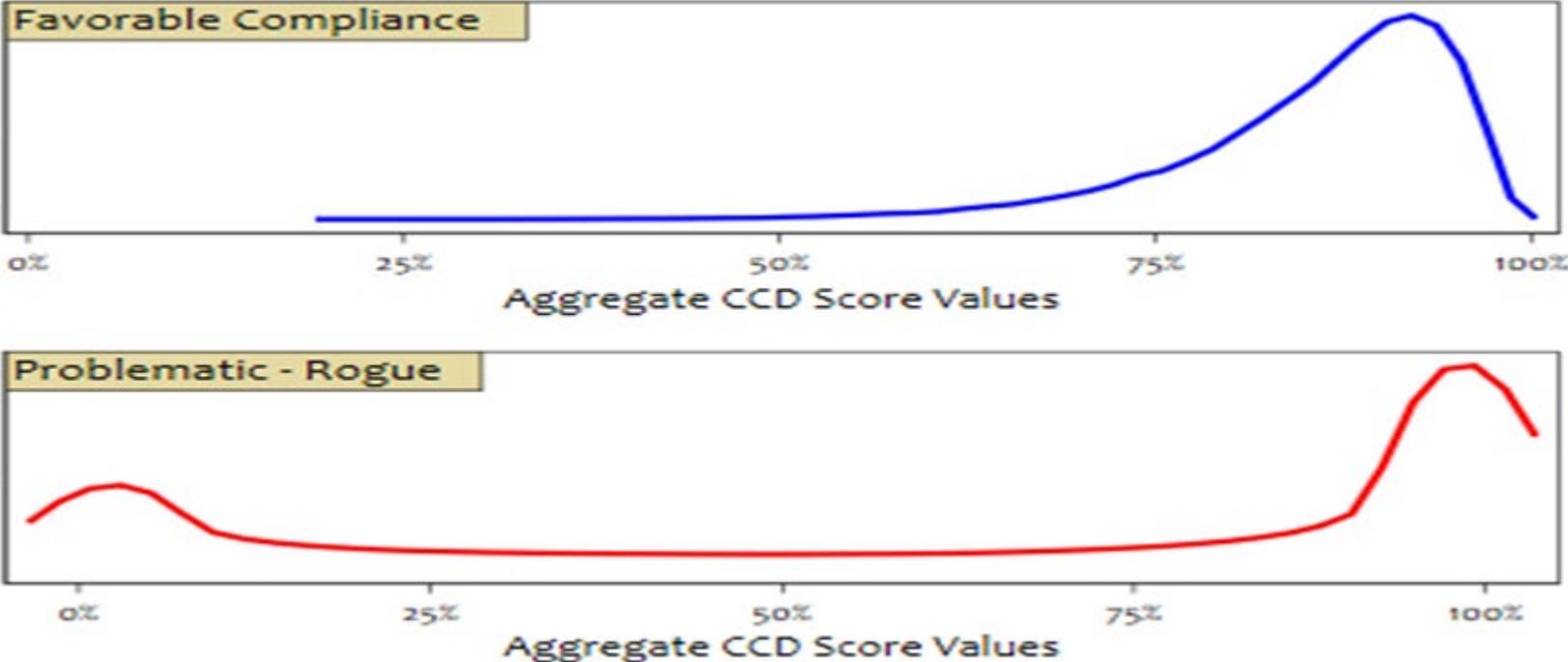


# Interpreting Results: Scenario 2

<b>Scenario 2</b>	Inconsistent cultures - what does a favorable vs problematic result look like?
<b>Summary</b>	<ul style="list-style-type: none"><li>• Favorable compliance: Vast proportion of participants produced a score in the 95% percentile or higher</li><li>• Problematic compliance: Majority of employees scoring in the sub 50% percentile</li></ul>
<b>Supporting Data</b>	<p>The supporting data consists of two line graphs. The top graph, titled 'Favorable Compliance', plots the 'Fraction of Employees' (y-axis) against 'Aggregate CCD Score Values' (x-axis, 0% to 100%). A blue curve starts near zero at 25%, remains low until about 75%, then rises sharply to a peak at 100% before dropping slightly. The bottom graph, titled 'Problematic, but Consistent', also plots the 'Fraction of Employees' against 'Aggregate CCD Score Values'. A red curve starts near zero at 0%, rises to a broad peak around 25%, and then gradually declines towards zero at 100%.</p>



# Interpreting Results: Scenario 3

<b>Scenario 3</b>	Inconsistent cultures – How does favorable vs problematic rogue differ?
<b>Summary</b>	<ul style="list-style-type: none"><li>• Favorable Compliance: Majority of participants score in the 95% percentile or higher</li><li>• Problematic Rogue: Humps of consistent low aggregate score but also some high aggregate scores</li></ul>
<b>Supporting Data</b>	 <p>The supporting data consists of two line graphs. The top graph, titled 'Favorable Compliance', shows the 'Fraction of Employees' on the y-axis and 'Aggregate CCD Score Values' on the x-axis (0% to 100%). The blue line starts at 0% at 25% score, remains flat until 75%, then rises to a peak at approximately 95% and drops to 0% at 100%. The bottom graph, titled 'Problematic - Rogue', shows the 'Fraction of Employees' on the y-axis and 'Aggregate CCD Score Values' on the x-axis (0% to 100%). The red line has a small hump at 0%, a dip at 25%, a flat line until 75%, a sharp rise to a peak at approximately 95%, and a drop at 100%.</p>



# Contact: The Mizen Group

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If you are interested in any of the topics discussed today please feel free to reach out to us as follows

**Email:** [info@mizengrp.com](mailto:info@mizengrp.com)

**Website:** [www.mizengrp.com](http://www.mizengrp.com)

