

How Banks Can Elevate Their Compliance Management Systems

In the banking world, compliance regulations are constantly evolving. To stay compliant, financial institutions must continuously monitor for new guidance, updates to laws and rules, and enforcement actions that indicate a need for updates or changes to their existing processes and procedures.

While not every rule or ruling applies to a specific bank, financial institutions must actively respond and tailor their offerings to comply with existing and upcoming regulations. That's where a compliance management system enters the picture.

A compliance management system, or CMS, should cover all the major and minor aspects of compliance management, from ensuring all team members follow policies and procedures to implementing new regulations. Too often, however, banks and other financial institutions overlook critical elements of an effective CMS, including the three lines of defense.

As you reexamine your bank's CMS, consider these factors and how you can improve it, ensuring you're ready to handle any future challenges and changes.

Why your bank's compliance management system matters

A compliance management system is an interconnected system that helps a bank manage compliance. If the human body represented an institution's operations, the CMS would be the backbone, as it supports the rest of the organization by managing regulatory compliance and integrating risk management across all departments.

While having a CMS is best practice, it's also a regulatory requirement for banks. For example, the Federal Deposit Insurance Corporation (FDIC) provides [specific guidelines](#) on an effective CMS, emphasizing that financial institutions are "ultimately responsible for such compliance including the use of third-party providers."

Other regulatory bodies that govern banks, including the Federal Reserve, the Consumer Financial Protection Bureau (CFPB), and the Office of the Comptroller of the Currency (OCC), have released guidance on compliance management systems.

The critical components of a strong CMS

While every financial institution's CMS will look different based on its size, resources, geographic location, existing risk, strategy, and other factors, there are a few categories regulators agree are essential in a compliance management system:

- **Board of directors and management oversight.** Compliance starts at the top. Board members are responsible for ensuring bank staff develop and implement a CMS that is compliant with federal and state consumer protection laws and regulations. The board

should communicate expectations and well-defined policies and ensure the compliance team is properly staffed.

- **Documented compliance program.** This formal, written program must include policies and procedures, training, monitoring, and a process for responding to consumer complaints.

The goal of the CMS is to help financial institutions better understand their compliance obligations, ensure their employees are informed and trained appropriately, integrate requirements into business processes, review operations for compliance risks, and implement corrective actions as needed.

How to Maximize Your Lines of Defense for Compliance

Compliance is a team sport, so simply relying on your compliance officer or department to take care of everything is a mistake. You need the buy-in of your entire organization.

While you may be familiar with the Three Lines of Defense, the Three Lines Model offers a more updated take on leveraging everyone within an organization to tackle governance, collaboration, and risk management.

The “three lines” include:

- **First line.** This line includes operational management and employees creating and selling products and services, including sales and customer service roles. These employees are responsible for understanding their roles, implementing internal controls, and addressing risks associated with their work and customer interactions.
- **Second line.** The compliance and risk-related functions make up the second line. These team members oversee and guide the first line, ensuring that policies and procedures are effective and compliant. They also facilitate communication between the first and third lines.
- **Third line.** This line includes the internal and external auditors who independently evaluate an institution’s compliance risks and controls. They communicate information to the second line and report to the board and senior management team.

While the lines serve different functions, they must work together to address compliance risk cohesively. If two lines are strong but the other is weak, that could jeopardize the entire CMS.

Tips for building a comprehensive CMS at your bank

So, how can your bank build a stronger compliance management system? Whether you’re starting from scratch or reevaluating your current systems, there are some actions every institution can take to elevate their CMS.

- **Establish clear governance structures.** The role of the board and senior management in setting a strong culture of compliance can't be overstated. Ensure your leadership team sets the tone from the top by implementing the Three Lines Model and effectively communicating the expectations of all employees.
- **Develop a robust compliance program.** A comprehensive and formal compliance program is essential for a successful CMS. This program should be well-documented and include critical components such as detailed policies and procedures, employee training programs, effective monitoring systems, and a structured consumer complaint response mechanism.
- **Utilize technology to enhance your compliance efforts.** The right compliance management software solution can save your bank valuable time, money, and human resources. Look for a solution that will streamline processes, automate monitoring, and facilitate reporting to ensure your institution is meeting compliance requirements efficiently.
- **Conduct regular risk assessments.** Proper compliance management is about being proactive, not reactive. Risk assessments should be updated as the regulatory landscape changes to ensure controls function as needed and high-risk areas are addressed effectively.
- **Collaborate across departments.** Compliance is *everyone's* responsibility. Fostering a culture of compliance and open communication across different lines is crucial. Your bank also risks duplicating tasks or overlooking major risk areas if there's a lack of communication.
- **Test and modify your CMS as needed.** Establishing a robust CMS is only the first part of your institution's compliance journey. Consistently evaluate its performance against established benchmarks and metrics, and you'll find modifications are necessary to remain effective in a constantly changing environment.

Understanding the crucial components of a successful CMS is only the first step in every financial institution's broader compliance journey. As the regulatory landscape continues to evolve on the federal and state levels, use these insights to implement procedures and processes to ensure your bank is positioned for compliance success now and in the future.