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Title: Compliance Integral in Proper Regulation

Salutations:

Firstly, I would like to extend my gratitude for the warm introduction.

I also acknowledge the presence of other esteemed individuals, distinguished presenters and guests.

Ladies and gentlemen… I am delighted to be part of this event, which coincides with Jamaica's renewed efforts to address governance challenges.

Introduction:

Some will recall, in his inaugural address, the Prime Minister pledged to strengthen Jamaica's anti-corruption agencies and ensure a culture of compliance is part of the ethos of the country. However, translating this vision into action has posed formidable challenges. Implementing reforms at the policy and operational levels requires time, and persistence, as technical solutions alone rarely prove successful. Various factors, including but not limited to vested interests, historical context, competing priorities, and diverse expectations, must all be carefully managed and understood.

Today, I will delve into the culture of compliance, and its impact on regulation. It is imperative that we all engage on this topic, discuss its significance to the financial industry, and the part we as stakeholders have to play at the micro and macro levels.

This is important as criminals continuously attempt to use financial institutions, including trust and company service providers (TCSPs), to aid in the retention and control of proceeds of their crimes, while disguising the origin and ultimate ownership of these assets. The Financial Action Task Force states that

"…through the creation of shell companies or trusts, [criminals] can conceal their ownership and create a veneer of legitimacy."

Let's Begin with a Definition of Compliance

The Bank for International Settlements defines compliance as the act of following laws, rules, regulations, and various codes of conducts, relevant to business processes. In a well-functioning financial system, compliance is one of the driving forces that aid in ensuring that services are delivered efficiently and equitably, and that corruption is held in check.

As stakeholders, we must ensure that the trust and confidence of the public in the financial system remain uncompromised. In this context, I would like to approach compliance a bit differently today and not just highlight what this very smart room already knows regarding its pros and cons. I would instead like for us to collectively recognize three key points about compliance and our attendant responsibilities.

1. Compliance in Regulation is a means to an end… not *the* end itself.

Over the past decade, compliance has gained prominence due to major governance failures. Regulatory authorities responded with tighter regulations and enforcement, leading to substantial investments in compliance functions. However, despite these efforts, fraud, money laundering, and terrorism financing continue to persist. No further illustration is needed than the country's most recent internationally renowned case of fraud – but… regrettably… we are not short of additional illustrations.

Perhaps then it is time to reassess our understanding of compliance. If compliance is seen as merely a way to follow rules and avoid regulatory scrutiny, we miss the bigger picture. Compliance should be a process that enables organizations to achieve specific outcomes, with everyone involved in preventing the abuse of the financial system. Establishing the right controls merely gets us started; it demands a sustained effort, endurance, resilience, and perseverance.

> *In regulatory circles it is asked, "How many compliance officers does it take to change a lightbulb?" The answer is three, one to change the lightbulb, one to check it and one to check it* ***again*****, *and*** *file a report on the findings.*

This illustrates how compliance can often be seen as an end to itself, with the **quality of light emitted** being inadvertently overlooked, with focus placed instead on the end game, which in this example, is a change of lightbulb.

More specifically, in measuring the effectiveness of a compliance programme, measurements must include outcomes and not just outputs, viz. seek to measure the reduction or elimination of fraud cases, violations, et al, and not solely measure the number of new reports or guidances created to address these fraud cases and/or violations.

2. **Compliance should be viewed within the wider perspective of the financial industry's responsibility to society.**

The financial system plays a crucial role in the economy and society at large. We now move away from the point of view of stakeholders within the industry, and toward the wider financial system and society. Individual behaviours within the system at a micro-level, however rational and/or well-intended, can have catastrophic consequences at a collective level, as seen during the 2008 global financial crisis.

This therefore underscores the importance of ethical behaviour and professional standards going beyond the mere letter of the law to embrace the spirit of responsible corporate citizenship. In other words, financial institutions must recognize and embrace their role as responsible corporate citizens by promoting ethical behaviour, understanding and complying with the spirit of the law, and contributing to the well-being of society.

This is not to imply that compliance should stifle any risk-taking or profit-making, but instead it should aid in ensuring that risks are taken within the requisite tolerance levels, and further, remind individuals of the bigger picture – that the system is more important than any one individual producer.

With no shortage of recent examples of financial institutions that have flirted with questionable conduct, it should also be very clear that involvement in illegal activities such as fraud, money laundering, and terrorism financing should be deemed incompatible with the values of a responsible citizen. Maintaining public trust requires going beyond mere adherence to rules.

3. **Compliance should be approached in partnership with all other key stakeholders in the financial system.**

Safeguarding the integrity of the financial system is not the sole responsibility of regulators. The industry must actively engage as responsible partners. There must be an affirmative buy-in to the purpose and value of compliance. Collaboration among all stakeholders, including regulators, industry players, and law enforcement agencies, is crucial to ensure the system thrives.

Collaboration fosters a stable environment that accommodates innovation while effectively managing risks. Cross-border partnerships and cooperation are increasingly vital as financial crimes transcend borders, necessitating joint efforts to safeguard the integrity of the global financial system.

The Financial Services Commission certainly remains committed to ensuring the orderly conduct of the financial system. Collaborative efforts have also been initiated to combat financial scams, and the regulatory approach strikes a balance between innovation and stability.

Conclusion:

To conclude, rules have, over time, evolved from detailed prescriptions, to standards and best practices today. This is due to many factors, including the rapid pace of innovation, increasing complexity of financial services, conglomeration and the realization, that a prescription-based, ‘one-size-fits-all’, micromanagement approach is not optimal.

I suggest we therefore rethink compliance to ensure the endurance, resilience, and perseverance of our financial system. A narrow focus on rules and micromanagement will fall short. Instead, compliance requires a holistic, deep understanding of incentives, ethics, and professional conduct. It necessitates strong partnerships, support from all levels and a commitment to contributing to society's well-being.

By embracing these principles, we can ensure compliance becomes an enabler rather than just a box-ticking exercise. Let us collectively work towards a financial system that promotes integrity and trust.

Thank you for your attention.