



# HOW TO OPTIMIZE COMPLIANCE RISK MANAGEMENT USING SIX SIGMA

In today's financial climate, we are all challenged to do more with less. Adopting a "continuous improvement" business philosophy is essential to gaining efficiencies, increasing productivity, reducing cost, as well as expanding profitability, and improving overall risk management. A culture that challenges the status quo, and one in which compliance officers have a

greater awareness of the business environment, including the interdependencies between key stakeholders, will lead to significantly better returns on investment and a higher level of compliance with both the letter as well as the spirit of regulatory requirements. Achieving this requires an assessment of existing operations and business processes with a focus on the implications of internal

controls and their associated costs - a paradigm shift from traditional compliance methodologies.

By looking beyond minimum legal requirements to satisfy applicable laws, rules, and regulations, compliance can help drive ongoing enhancements across the organization. Supported by executive management, and working

closely with the lines of business and other support functions, compliance officers should take a leadership role to ensure that ethics and compliance become engrained as part of the corporate culture and that regulations are embedded in business routine in an efficient and effective manner, in so doing, protecting the organization while maximizing risk reward by ensuring that the risks taken are the risks intended.

Making compliance a best practice strategy means alignment

across the organization of people, processes, and technology. This is achieved through the adoption of a new risk mindset that goes beyond problem avoidance to continuously examine existing business practices and create new ways to improve operations that will result in enhanced processes, and improved customer experience. To this end, training compliance staff to apply Six Sigma can open new opportunities for assessing internal processes. Specifically, Six Sigma can be adopted to drive the evolution of

compliance risk management capabilities from event driven actions to a proactive regimen that advances business activities. By recognizing both the down side of risk management that is concerned with loss mitigation, as well as the benefits of maximizing efficiencies to create a culture of performance based on shared accountability, compliance can serve as a valuable instrument to garner trust and aid in exceeding stakeholder expectations.



Six Sigma, a quality control and customer-focused methodology, was first introduced in the 1980s. The name refers to six standard deviations from the mean, a quality goal of reducing defects by 99.9997%, or striving for no more than 3.4 defects per million opportunities. It has evolved over the past three decades to combine effective quality control with financial efficiency by helping management detect non-value processes that can be eliminated, thereby increasing the organization's bottom line.

Six Sigma thinking provides the discipline to study institutional processes and internal controls, inclusive of compliance requirements, from the vantage of all involved stakeholders and beneficiaries. In addition, the application of a risk-based methodology provides the combined framework for systems thinking whereby the whole is greater than the sum of its parts. Ultimately, value is derived from properly managing the delicate balance of the regulatory mandates, legal requirements, and internal audit

standards to ensure products and services offered by a bank are in compliance with governing laws, rules, regulations, and internal policies and procedures, while at the same time appreciating line of business objectives to grow revenue, operation's role in supporting day to day production demands, customer's interests in realizing the best possible service at the lowest price, as well as shareholder's expectations of earning a fitting return on their investment.

## How to Optimize Compliance Risk Management

While some regulations are zero tolerant, meaning no exceptions, other regulations provide some leeway, understanding that 100% compliance may not be practicable. Of course, the objective is always to ensure full compliance, but human error or system failures can result in isolated inconsistencies. The value proposition lies in the assessment of risks and controls from the lens of all stakeholders to achieve a balanced risk-reward. By way of example, if processes are overly controlled, they may lead to high regulatory compliance, but could be costly

to achieve and negatively impact business, including customer satisfaction; the end result may not be favorable for business. While mindful of regulatory expectations, the objective should be to ensure that compliance is good for business, in so doing, understanding the upside of risk management, and maintaining a customer focus. At its core, compliance must be values driven, exacting that business be carried out with uncompromised ethics and a commitment to the highest level of quality.

Promoting an environment of continuous improvement that is customer focused, providing the right service to the right customer at the right price, is consistent with the principles of Six Sigma. Six Sigma uses a DMAIC (Define, Measure, Analyze, Improve, and Control) methodology to concentrate on internal processes, utilizing tools to quantify and measure performance and eliminate defects, to strengthen overall business practices. The key elements of DMAIC are summarized below as well as their application to Compliance Risk Management.

<i>Six Sigma Approach</i>		<i>Compliance Risk Management Application</i>
Define	Establish the boundaries, map the processes, and understand the business objectives of a specific project, including the critical quality characteristics and customer needs.	Identify applicable laws, rules, and regulations, as well as associated critical processes, activities, and internal controls.
Measure	Create process maps and identify critical quality characteristics and measure defects currently generated relative to those processes. This involves collecting baseline data on defects and possible causes.	Measure elements defining the inherent and residual risk; understand workflow and related processes taking into consideration the needs and objectives of stakeholders.
Analyze	Document baseline performance, analyze results, explore potential causes, collect further data and use statistical methods to quantify cause and affect relationship and look for opportunities for process improvement.	Assess quantifiable data to understand the nature of the issue as well as explore systemic strengths and weaknesses to identify solutions that address noted areas for enhancement.
Improve	Understand the factors and root causes that impact the processes and initiate actions to minimize the impact of these factors and enhance processes.	Address gaps as well as proactively initiate efforts to enhance existing processes, resulting in increased efficiency and effectiveness.
Control	Prepare and document standard practices, monitor performance, create process for updating procedures, and summarize and communicate results and recommend future plans.	Monitor risk indicators and report potential violations and problems as well as opportunities for further enhancements.



Applied in earnest, Six Sigma and the DMAIC method can prove a meaningful tool in fostering the continuous improvement of organizational compliance, taking into consideration that an effective compliance program must go beyond minimum legal requirements. Optimal compliance programs are characterized by unwavering ethics, good judgment, effectiveness, and efficiency, which serve not only to protect the institution, but also aid in meeting or exceeding customer expectations. Success in implementing, maintaining, and continuously enhancing a compliance program, as is true of most endeavors, requires a commitment from all staff, led by executive management. Moreover,



the ability to strengthen existing working processes, appreciating the implications to all involved parties, requires a cultural change to achieve desired results. Such a

change often happens gradually; compliance officers must do their part to help champion that change.

### ABOUT THE AUTHOR



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Joined Arab Bank plc in November 2005 as EVP and Global Head of Group Regulatory Com-

pliance. Mr. Matossian has more than 30 years of experience in regulatory risk management, anti-money laundering, and compliance. Mr. Matossian participates on several national and international task forces addressing governance, anti-money laundering, and compliance matters and is the Founding Member of the MENA Financial Crime Compliance Group and has held the Group's Deputy Chair position (2016-2018).

**MENA FCCG**

The MENA Financial Crime Compliance Group (MENA FCCG) is a voluntary body that seeks to bring collective action in the fight against money laundering and terrorist finance in the region. The

group comprises 13 banks representing nine MENA countries, including; Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the UAE. The Group, is presided over by Wisam H. Fattouh, Secretary General for the Union of Arab Banks while Waheed Rathore, EVP Group Compliance – Abu Dhabi Commercial Bank is the current Deputy Chair.

