

What is the role of compliance in financial services?



WHAT IS THE ROLE OF COMPLIANCE IN FINANCIAL SERVICES?



In simple words, financial compliance is the enforcement and regulation of the laws and rules in capital markets. Financial compliance covers the whole of the financial spectrum, ranging from retail banking practices to investment banking practices. **Compliance in financial services** works towards meeting the key regulatory objectives to protect the investors and make sure that the markets are efficient, transparent, and fair. Another major role of financial compliance is that it helps reduce financial crime and the system risk.

What exactly does compliance mean?

The main task of the compliance department is to keep a close watch on the financial business services and make sure that they remain connected with the external regulations as well as the internal controls. The financial crisis that had occurred in 2008 led to stricter regulatory scrutiny and thus changing the advisory role of the compliance department to active risk management. The main job of the compliance officer is to work with the managers and employees to manage the regulatory risk closely.

There are many companies that have branches overseas, and, in that case, they have to translate their compliance related materials into that particular language. The company owner must also seek input from the foreign offices regarding the effectiveness of the business's training materials. The compliance department mainly has five areas of responsibility: prevention, identification, detection and monitoring, advisory, and resolution. The department will identify the risks that the business is facing and will provide advice on how to address them and prevent them. Implementation of the control system to protect the company from all these risks is also done by the compliance department.

What is the purpose of compliance?

- The most basic reason why [statutory compliance services in India](#) are necessary is that it decreases the risk of facing lawsuits, penalties, fines or work stoppages or a complete shutdown of the business. For example, if a business owner posts an employment poster in the wrong area of the office, which in turn doesn't allow him/her to fulfill the compliance requirements, then he/she will receive a warning to rectify the mistake. The fulfillment of compliance requirements is a must to avoid or reduce legal problems.
- Compliance management is of great importance for any company or business. After the 2008 financial crisis, the government needs more regulatory and statutory compliance, which is why every company has to have **statutory compliance services**.
- Compliance services help improve the operations and safety of the business. **Statutory compliance in India** is all about meeting the legal obligations of the company, mostly to protect the safety, welfare, and health of others. A few quick examples of compliance include paying the taxes or obtaining a business license.
- The importance and purpose of compliance become more evident when the business starts expanding and the issues at hand start getting more and more complex. The responsibilities regarding the employees will increase in terms of hiring, discrimination, firing, safety, harassment, salaries, and payroll. If a business owner fails to meet the legal obligations such as the advertising campaigns or manufacturing procedures, then it becomes a lot easier for the rival companies to sue the business. This is where a compliance expert plays a crucial role in understanding all the legal obligations of the company and how to comply accordingly.
- The main purpose or benefit of compliance is that when the legal obligations of a company are fulfilled, then that can be advertised as marketing material on the company's website. If a company website flashes job opportunities and at the same time states that they do not discriminate based on caste, creed, religion, or sex, then that will help better public relations. When a company states on their official website that they prioritize both the physical and mental well-being of their employees, then they are not only encouraging the

recruitment of new workers but also ensuring them that they are providing a safe workspace for the employees.

Key areas where compliance jobs hold rank and merit

Compliance in itself is a broad spectrum, and the range of professions within it varies significantly. To identify which type of role will suit an individual within his/her scope is quite a job. Few of the key areas in which compliance jobs hold rank and merit being discussed below:

- **Legal and Regulatory Compliance**

Companies are subject to regulations that are always evolving and changing because they are set by external bodies such as the stock exchanges, government agencies, or industrial bodies. These regulations cover a wide range of aspects like what materials a company will use for the safety and health measures of the employees.

The internal regulations are also laid down by these bodies, which are responsible for building the infrastructure of the company. A regulatory compliance officer will have the duty of writing down regulations and policies based on the existing [legislation](#) as well as the emerging ones. They will also have the job of advising the company head on how to interpret the policies. The main job of the officer is to make sure that the business he is in charge of is compliant and fulfilling the obligations.

The compliance officer will collaborate and cooperate with the management and stakeholders to ensure the rules are being maintained and followed. A regulatory compliance officer must have thorough technical knowledge regarding rules and regulations and policies and the correct way of interpreting and understand them. Equally important is the fact that the regulatory compliance officer should be pre-emptive in terms of future policies and what impact that can have on the business.

- **IT compliance**

In today's day and age, strong compliance around data security and data privacy is a must because there are very strong penalties associated with business practices. Companies are subject to policies such as GDPR (general data protection regulation), which is how the employees are allowed to access, store and interact with the data.

An IT compliance professional will provide the necessary guidance around these subjects and how to deal with them. They are responsible for writing down the rules which will secure the data of the organization and also advise the business owners regarding the best practices around data and information. IT compliance professionals examine data governance standards and have the

duty to find out solutions that will be specifically designed to fill the gaps in the organization's IT risk management strategy.

How many types of compliance?

- External compliance is defined by following the rules and regulations set by government organizations and agencies to avoid any sort of negative impact on the company or destroy its goodwill. These laws are specially created to help a business build trust, public relations and provide transparency to the kind of business practices performed. Complying with the laws laid down by the government agencies ensures that there isn't any duplication of resources or efforts. A few broad heads of external compliance include company law, labor law, tax law, and environmental law.
- Internal compliance targets internally developed rules and policies which the employees, traders, owners, and customers abide by to maintain the quality of the products and services of the business. A company will be able to comply with the external requirements only if it is working in line with the internal regulations. A few broad heads of internal compliance include preventive policies, detective controls, and corrective procedures.

How effective compliance in Finance services?

- Companies that are based in the financial services industry have the duty of managing and holding the customers' financial information and money. These companies have to comply with federal as well as state laws because they govern almost every aspect of the industry. They also have to comply with these laws to keep their financial data in a secure state. Protecting the data of the customers from any kind of fraud and maintaining compliance with the government policies while also ensuring the fact that financial services and products are made more convenient to use is quite a task.
- Millions of people around the world are shifting towards digital platforms, and businesses and companies are changing their models accordingly. In such scenarios, high-profile data breaches are also very likely to happen, which causes lakhs and crores to get embezzles. This makes compliance with rules and regulations a must need and highly effective for financial services. Financial compliance in today's day and age is imperative because that is the only way to outwit criminals. Advances in security technology, adopting new rules and regulations, and a change in the mindset, and outlook towards digital financial services have definitely helped company owners a great deal in staying a step ahead of these criminal minds.
- Data breaches and fraud have become the new-age problems when it comes to handling digital information. These breaches are even easier to commit when the data becomes easily accessible. The data travels several points before reaching its final destination, and each of these points poses a potential threat. The server in itself can have plenty of vulnerabilities, and each of them can be

exploited. To avoid such situations and mishaps, compliance with government policies as well as in house rules is a must.

The effectiveness of compliance in financial services can be authenticated by the fact that security is provided using methods such as encryption and multi-factor authentication. This means that the security is top-notch and updated, and the demands of the digital economy are also met. Innovations in technology and systems have helped evolve the compliance and upgrade the overall functioning of businesses.

The overall effect of compliance on financial services

Compliance in financial services helps improve the effectiveness of the business and increase efficiency in the new reality. At the end of the day, it is all about ensuring the fact that the necessary internal control systems are in place so that regulatory compliance can be properly monitored. Clear written supervisory procedures are a must.