
COMPLIANCE MANAGEMENT SYSTEM



**COMPLIANCE
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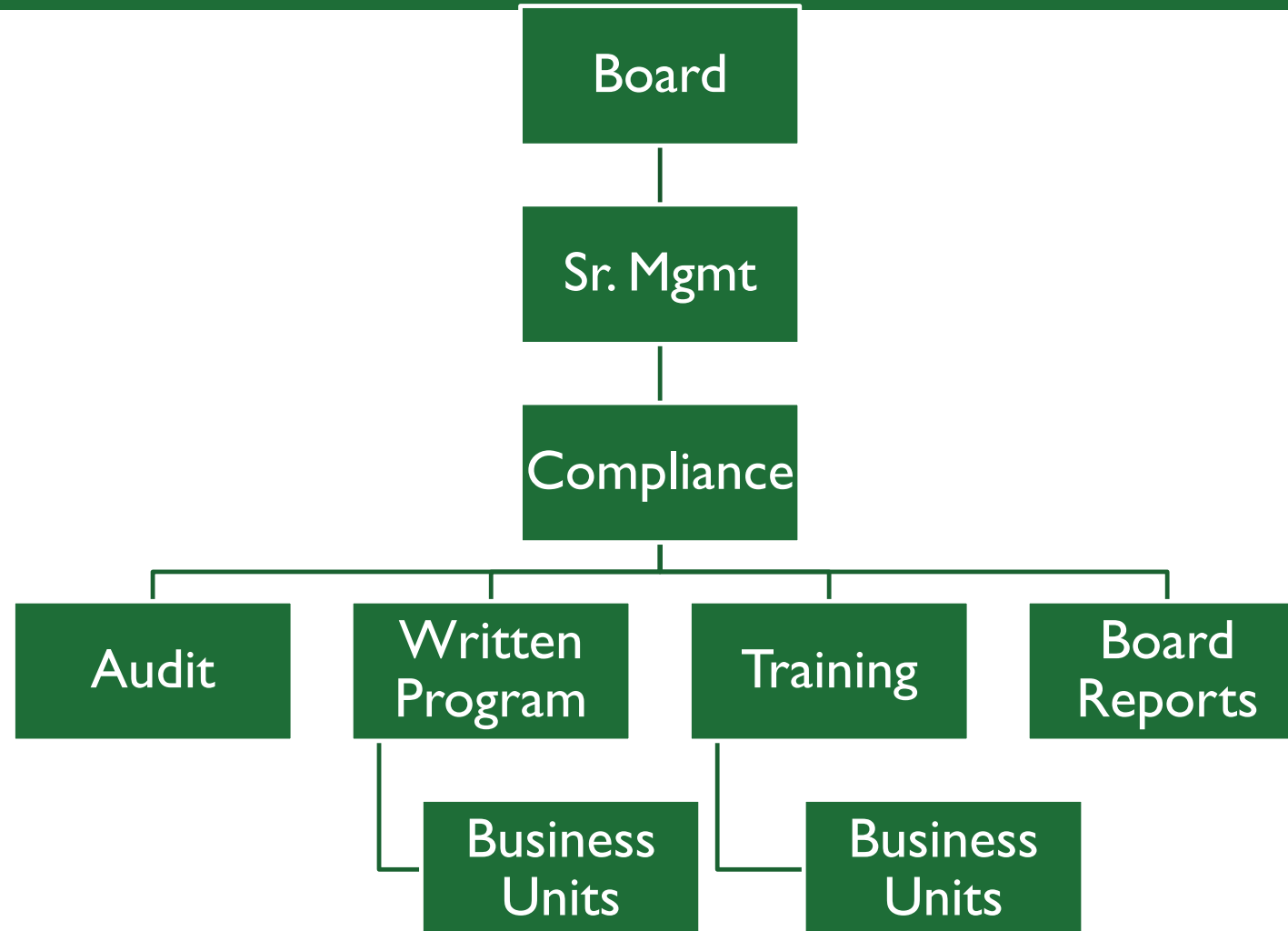
TOP-TO-BOTTOM



Compliance is not just for compliance officers but for the entire organization.

TOP-TO-BOTTOM

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WHAT IS A COMPLIANCE MANAGEMENT SYSTEM (CMS)



A CMS is
how a bank:

Assesses
Responsibility

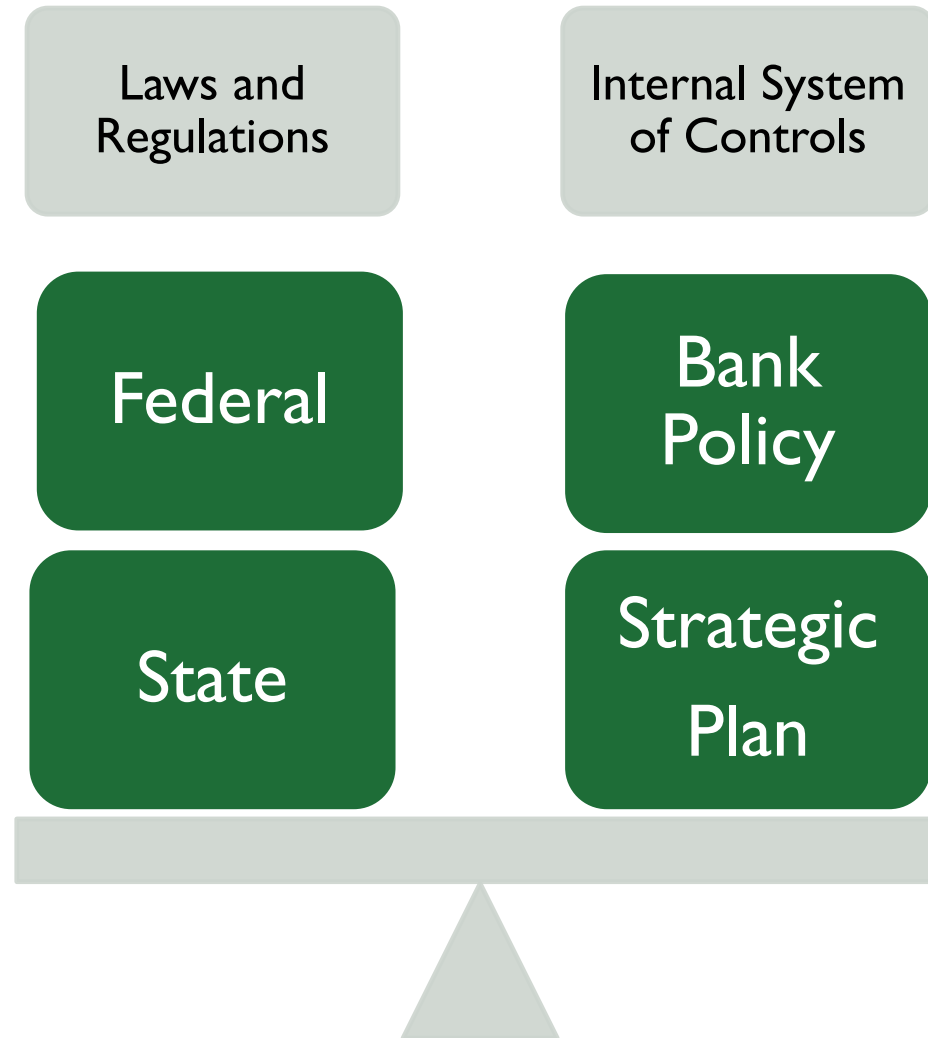
Ensures
Understanding

Incorporates

Reviews
Operations

Takes
Corrective
Action

WHAT IS COMPLIANCE?





UNIFORM INTERAGENCY COMPLIANCE RATING SYSTEM (CC RATING SYSTEM)



REVISIONS



Effective Date: March 31, 2017

FIVE-LEVEL RATING SYSTEM



Rating 1

- Strong CMS
- Preventative Action

Rating 2

- “Satisfactory” CMS
- Substantially limits consumer risk

Rating 3

- “Deficient” CMS
- Does not adequately limit consumer risk

FIVE-LEVEL RATING SYSTEM



Rating 4

- Seriously deficient CMS
- Fundamental and persistent weaknesses

Rating 5

- Critically deficient CMS
- Lack of willingness or capability

EVALUATING A CMS



Board and
Management
Oversight

Compliance
Program

Violations of
Law and
Consumer Harm

THE BOARD

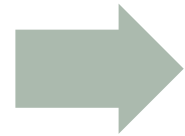


THE BOARD

C
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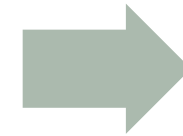
Understand

- Products, Services & Activity



Identify

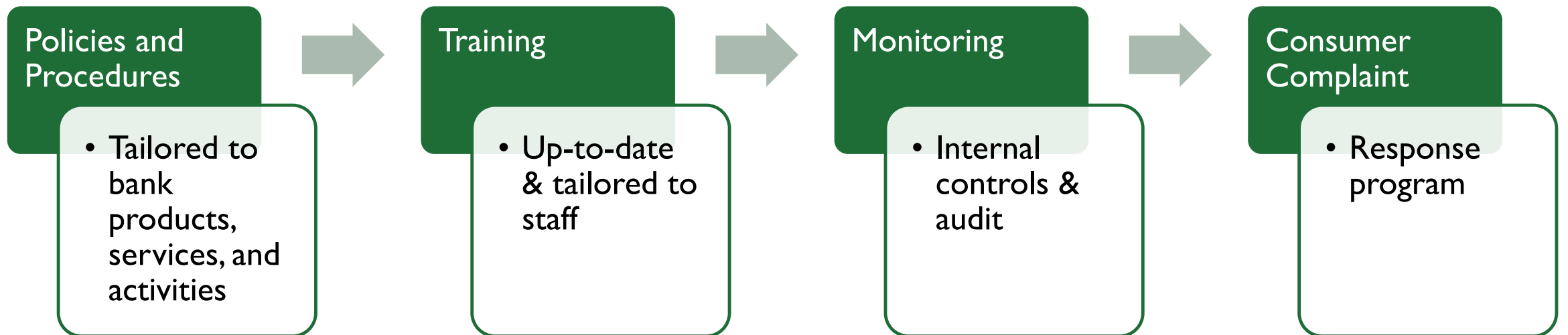
- Risk specific to bank



Manage

- Inherent Risk

COMPLIANCE PROGRAM



COMPLIANCE OFFICER



Work with bank management

Incorporate policies into procedures

Coordinate changes

Train staff

COMPLIANCE OFFICER



Issue Interpretations

Review Advertisements

Evaluate New Products/Services

Resource for Staff

COMPLIANCE OFFICER



Ensure Employees Follow Procedures

Report Results to Management and Board

Develop Monitoring Program

Initiate Corrective Action

PROGRAM STRENGTH

C
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Identify



Control

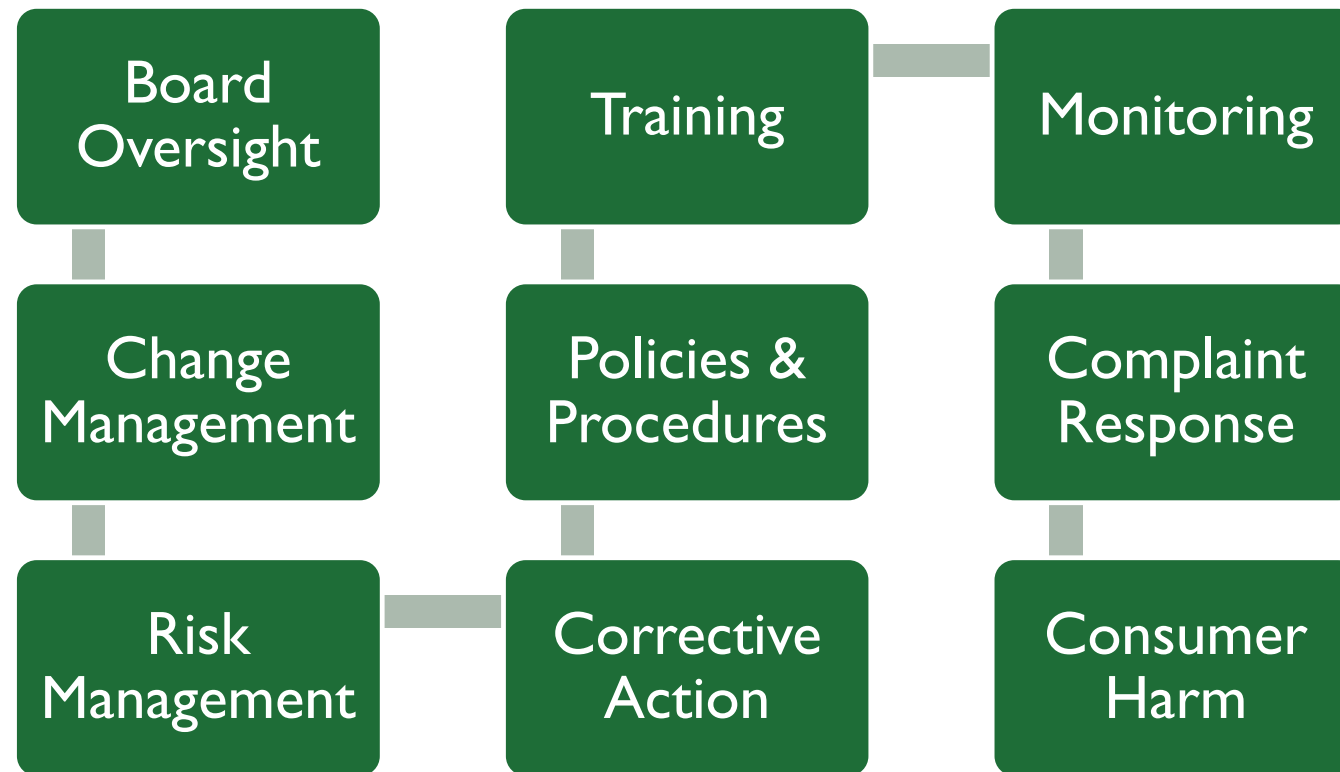


Determine



Limit

CONSIDERATIONS



RATING TERMINOLOGY



Rating	1	2	3	4	5
Board Oversight	Strong, Substantial, Empowered, Accountable, Continuous, Comprehensive	Satisfactory, Adequate, Able to Ensure Compliance	Deficient, Inadequate	Seriously Deficient, Ineffective	Critically Deficient, Unwilling, Incapable
Change Management	Anticipatory, Life Cycle of Products,	Timely, Adequate, Due Diligence Before, During & After	Not Timely	Seriously Deficient	Failure to Respond or Monitor
Risk Management	Solid, Identifies Emerging Risks, Actively Engaged, Comprehensive	Adequate, Identifies Emerging Risks, Self-Assessments	Inadequate	Seriously Deficient	Does Not Understand or Effectively Manage

RATING TERMINOLOGY



Rating	1	2	3	4	5
Corrective Action	Proactive, Prompt	Adequate, Normal Course of Business	Inadequate, Deficiencies, Violations	Seriously Deficient, Deficiencies, Violations, Exam Findings	Incapable, Unwilling, Fail, Deficiencies, Violations, Exam Findings
Policies & Procedures	Strong, Comprehensive	Adequate	Inadequate	Seriously Deficient	Critically Absent
Training	Comprehensive, Timely, Tailored, Proactive, Updated	Adequate, Appropriate, Updated, Timely	Not Comprehensive, Not Tailored, Untimely	Seriously Deficient, Not Tailored, Untimely, Inaccurate	Critically Absent

RATING TERMINOLOGY



Rating	1	2	3	4	5
Monitoring	Comprehensive, Timely, Successful	Adequate	Inadequate	Seriously Deficient	Critically Absent
Complaint Response	Strong, Prompt, Thorough, Anticipatory, Corrective Action	Adequate, Prompt, Thorough	Inadequate, Generally Prompt, Generally Thorough	Seriously Deficient	Critically Absent, Disregarded
Consumer Harm	Minimal, Brief, Isolated, Minor Weaknesses	Limited, Modest Weaknesses	Considerable, Extended, Numerous, Material Deficiency	Serious, Long-Standing, Repeated, Wide-Spread, Serious Deficiency	Serious, Long-Standing, Repeated, Wide-Spread, Critical Deficiency



SCENARIOS

SCENARIO 1 & 2, PG. 10



QUESTIONS?



Thank you for your participation!

We hope you found value in today's presentation.

If you have any additional questions,
contact Compliance Alliance at 888-353-3933.

COMPLIANCE MANAGEMENT DUTIES AND RESPONSIBILITIES CHEATSHEET

Board of Directors and Senior Management

The duties and responsibilities of the Board of Directors and Senior Management are:

1. To ensure the quality and oversight of the Compliance Program.
2. To oversee the effectiveness of the institution's change management processes, including responding timely and satisfactorily to any variety of change, internal or external, to the institution
3. To designate a qualified Compliance Officer.
4. To maintain working knowledge of the Bank's Compliance Management Program and ensure comprehension, identification, and management of risks arising from the institution's products, services, or activities
5. To provide guidance and support with regards to the self-identification of consumer compliance issues and corrective action undertaken as such issues are identified through the Bank's compliance efforts.
6. To review for formal adoption the written policies and procedural guidelines necessary to insure effective adherence with applicable compliance laws and regulations.

Compliance Officer

Under this Compliance Management Policy, the duties and responsibilities of the Compliance Officer are:

1. General Responsibilities.
 - A. To maintain a working knowledge of state and federal laws and to determine how laws affect Bank policy, procedures, and/or practices. Additionally, ensuring the institution's policies and procedures are appropriate to the risk in the products, services, and activities of the institution.
 - B. To manage the degree to which compliance training is current and tailored to risk and staff responsibilities.
 - C. To have general knowledge of the automated procedures and provide compliance guidance prior to the initiation of new procedures to ensure the sufficiency of the monitoring and, if applicable, audit to encompass compliance risks throughout the institution.
 - D. To establish and maintain a comprehensive indexed file containing all forms used by the Bank (refer to Section 8 of this policy).
 - E. To establish and maintain a central advertising file for record keeping purposes.
 - F. To be responsible for the handling and coordinating with Senior Management and/or Board of Directors those complaints alleging discrimination and/or disparate treatment to manage the responsiveness and effectiveness of the consumer complaint resolution process.

- G. To act as a liaison for Senior Management on regulatory compliance matters during federal compliance examinations and/or outside compliance audits.
 - H. To maintain the Bank's Compliance Library that houses the Bank's standard procedure manuals and various other handouts and reference materials for officer or employee use.
2. Training and Communications Systems.
- A. To establish and implement, with direction from Senior Management, a compliance training program for the Bank.
 - B. To review information regarding outside seminars, workshops and conferences to provide recommendation to Senior Management as to appropriate personnel for attendance, and to ensure own maintenance and expansion of knowledge through these outside seminars and conferences.
 - C. To establish and maintain a Compliance Library of all current state and federal laws, regulations, and reference material.
 - D. To establish with direction from Senior Management a Bank forms maintenance system and coordinate the ordering of new forms and the placement of existing forms supply with the individual department managers to ensure consistency and overall proper usage of all Bank forms.
3. Compliance Monitoring and Audit Systems.
- A. To review and approve new advertising copies for adherence to compliance laws and regulations prior to publication.
 - B. To provide compliance guidance with any new product development or enhancement and monitor end results.
 - C. To monitor and provide advice to programmers when changes are required to automated systems.
 - D. To review and ensure the proper and timely resolution of all customer compliance-related complaints by the appropriate departments.
 - E. To monitor the adequacy of internal controls established within the various Bank operations to ensure the proper compliance to laws and regulations.
 - F. To be responsible for ensuring proper corrective action to any federal examination and/or outside audit exceptions.
 - G. To develop and implement a compliance audit program to be performed either internally or through external sources.
4. Compliance Policies and Procedures.
- A. To coordinate with the impacted department to establish as required the written compliance policies and procedures to implement new laws and/or regulations. Also to coordinate revisions to existing policies and procedures made necessary due to changes in the regulations or in Bank procedures.

- B. To ensure the proper maintenance of compliance sections within the Standard Procedures Manuals (Spumes).
- 5. Product Development.
 - A. Work with branch and department supervisors at the inception of a development of any new deposit or loan product or service to ensure that all such new Bank products will be in compliance with applicable laws and regulations.
 - B. Participate in any product development committees designated by Senior Management.
- 6. Compliance Calendar.

Establish a compliance calendar for the annual review and approval of the Bank's compliance policies by the Board of Directors. This schedule is to be revised from time to time as policies are added, deleted or changed.

Compliance Committee

Under this Compliance Policy and Management Program, the duties and responsibilities of the Compliance Committee are:

1. To assist the Compliance Officer in ensuring the compliance mandate established by the Board of Directors is an integral part of Bank operations.
2. To ensure that the Board of Directors is informed of the Bank's compliance efforts on a periodic basis.
3. To provide guidance to the Compliance Officer in causing the Bank to adapt to changes mandated by the law.
4. To ensure at minimum an annual review of all established compliance related policies and procedures to determine the need for any significant revisions.
5. To recommend policies necessary for implementation and/or development to insure the compliance of specific regulations.
6. To review and approve the Bank's training program, assess the training needs, and provide recommendations regarding the effectiveness of the training program.
7. To be informed of all new or enhanced product development and to review and approve all marketing campaigns prior to implementation.
8. To provide assistance to the Compliance Officer with the responses to audit exceptions and/or regulatory examination results.
9. To provide overall general guidance and expertise to ensure the successful implementation of the Compliance Management Program.



COMPLIANCE MANAGEMENT SYSTEM

Summary

The compliance management system (CMS) is how the bank understands and manages compliance risk. The CMS is a top-to-bottom system, starting with the board of directors and senior management. It is imperative for banks to show the responsibility for compliance does not just belong to the compliance officer or compliance department. There is no uniform compliance management system that can be used from one bank to the next. A bank's CMS should be tailored to each specific bank based on its risk profile and its product and service offerings.

A robust CMS will ensure that the bank:

- Assesses its consumer protection, fair lending, and CRA responsibilities;
- Ensures that employees understand these responsibilities;
- Ensures that requirements are incorporated into business processes;
- Reviews operations to ensure responsibilities are carried out and requirements are met; and
- Takes prompt corrective action and updates materials, i.e. disclosures, training, etc. as necessary.

The CMS will address two levels of compliance. The first level is compliance with the federal, state and local laws and regulations that impact the bank. The second level is the bank's own stated policies and internal controls that are used to ensure compliance with both the first level of compliance and the board of director's strategic goals.

While the written program is critically important, effective CMS is more than policies and procedures. The CMS is a bank-wide program that is intertwined through all of the bank's lines of businesses and ensures that all employees of the bank understand their compliance responsibilities via training, day-to-day oversight and the bank's plan for corrective action. Issues such as BSA/AML, mortgage foreclosures, vendor risk management, UDAAP, information security and business continuity need to be addressed through rigorous processes, strong talent, dynamic systems and a robust audit and risk management process to review the procedures in place to mitigate these risks.

Compliance Program

Managing compliance risk means having a compliance program that has essential elements. The first element is the written program. While the written program is generally thought of as the rather important policies and procedures, it should also include defined roles and responsibilities. For example, polices should have a set mission statement and formal directives from the board and senior management. Compliance risk management should also include researching and making bank-specific interpretations. This allows the bank to make decisions, policies, procedures and practices that meet with the bank's acceptable risk threshold. The compliance management program should also include monitoring and testing the effectiveness of the CMS. This means ensuring that controls are working, that the bank is adhering to policies and procedures and that the bank focuses resources on highest-priority risks.

Bank Roles

Board of Directors: The Board of Directors (“Board”) set the tone for organizational compliance. This is why the CMS is a top-to-bottom process. Without the Board setting the overall commitment to compliance, there effectively is no CMS. The Board has ultimate oversight over the entire system.

Senior Management: Senior Management is in charge of ensuring policies are implemented through the business units. In addition, Senior Management is charged with emphasizing organizational compliance as a top priority bank-wide.

Both Senior Management and the Board need to have information reported to them so they can effectively lead and implement the CMS bank-wide. This information would generally be reported by the Compliance Officer and should include:

- Self-monitoring and audit results;
- Proactive compliance controls;
- Timely and accurate compliance performance reporting; and
- Frequent communication on regulatory environment.

Employees: An employee’s main duty is ensuring that each position is working within the framework of the CMS and complying with the bank’s set policies.

Compliance Officers/Department:

While the Compliance Officer and/or Department, are not the only parties responsible for compliance, they do play a critical role. The Compliance Officer must:

- Be a resource for employees and business unit managers to understand responsibilities;
- Track proposed and final rules;
- Ensure monitoring and self-testing in business units;
- Coordinate exams;
- Oversee training; and
- Review policies, procedures and marketing materials.

Uniform Interagency Compliance Rating System: Compliance Rating System

While there is no uniform compliance management system, there is a uniform system by which the effectiveness of the CMS is graded. The Consumer Compliance Rating System is more commonly known as the “CC Rating System”. Effective March 31, 2017, the last revisions to the CC Rating System reflect changes to the industry that have occurred since 1980. Per the guidance, an effective CMS is written and is comprised of three interdependent categories and assessment factors:

- Board and Management oversight;
- Compliance program; and
- Violations of Law and Consumer Harm.

CMS performance is comprised of five rating levels, with one being the best rating, and five being the lowest rating, and therefore, a CMS with the highest amount of supervisory concern.

Rating	
1	Strong CMS, Prevents Violations and Prevents Consumer Harm
2	Satisfactory CMS and Substantially Limits Consumer Harm
3	Deficient CMS and Deficient in Limiting Consumer Harm
4	Seriously Deficient CMS, Underlying Weaknesses and Inadequacies
5	Critically Deficient CMS, Missing Critical Elements, Unwilling to or Incapable of Compliance

Board Responsibility

The CC Rating System guidance also lays out the requirements for the Board of Directors. The guidance specifically notes that the Board is responsible for the oversight of the bank's risk management. They are also specifically tasked with approving the compliance system policy and the compliance charter. The Board is in charge of assessing, at least annually, whether the CMS is working properly and allowing the bank to manage compliance risk why also, meeting the strategic goals set out by the Board. Having a strong CMS and a "1" rating on the CC Rating System, necessitates a thorough understanding of the products and services the bank offers, their inherent risk and the internal controls the bank mitigates those risks.

The CC Rating System rates the effectiveness of "oversight" in a number of ways. First, there is a consideration of whether the Board properly manages the CMS and directors understand what compliance challenges the bank faces. Part of the Board's compliance performance also relates to assignment of responsibilities. This means ensuring that the Board hires employees that have the resources they need to be experienced and capable. One of the listed issues in the CC Rating System is having staff or management that is unwilling or incapable of complying with regulatory requirements and bank policy.

It is important that while the bank may delegate performing the day-to-day task of overseeing compliance management to a committee or to a particular person, it does not relieve the Board of its ultimate oversight responsibility. A strong CMS necessarily includes a strong change management process to ensure that changes, whether within the bank (changes in leadership, products, strategic plan) or outside the bank (laws, regulations, market conditions) are evaluated for risk and compliance prior to, during, and after implementation. The Board should ensure that there are ways for the bank to self-identify potential compliance issues and a process for making proactive corrections prior to causing any consumer harm or having violations on an exam.

Written Program

The written program is, of course, critically important to a strong CMS. The guidance notes that the written program should be tailored to the bank's risk profile related to the products and services the bank offers. The written program doesn't just stop at policies and procedures; however, it also includes training and therefore, considers whether the training is up-to-date and actually tailored to the persons receiving the training. For example, training on BSA should be different for frontline staff versus back-of-house employees. Just as lending training should be different for consumer and commercial lenders.

The written program also includes monitoring and auditing. This should include the scope and schedule of those functions. While there are no specific timing requirements for these functions, how often and how functions are monitored and audited should, again, be based on the bank's specific risk profile. Finally, the written program also includes the consumer complaint response program.

Compliance Officer

The compliance officer works with bank management to ensure that Board approved bank policies are incorporated in daily operating procedures. This responsibility includes coordinating implementation of changes to policies and procedures as required by new or amended regulations. Personnel training is one of the most important parts of the compliance program. The Compliance Officer is responsible for the oversight and administration of training, education, and dissemination of information to employees regarding all banking laws and regulations that pertain to their positions. The Compliance Officer provides the necessary periodic support to employees by issuing interpretations, advertisement reviews, evaluations of new products and services for their compliance ramifications, and other activities as needed to ensure that the bank always conducts its business in accordance with banking laws and regulations. The Compliance Officer must make an effort to be a continuous resource for staff looking for guidance and assistance on the federal regulations affecting their jobs.

The Compliance Officer is charged with developing a compliance monitoring program even though the Compliance Officer may not necessarily perform the actual compliance monitoring. The purpose of the compliance monitoring program is to check periodically that employees are following the compliance procedures and to initiate appropriate corrective action when noncompliance is found. The Compliance Officer reports results of compliance monitoring efforts to line management and the Board Audit/Compliance Committee.

Consumer Harm

Avoiding and mitigating consumer harm is the cornerstone of the CC Rating System. An effective CMS doesn't just resolve consumer harm that has occurred, it is able to actively pinpoint what the cause of the harm is, limit the amount of harm, determine the time period that the harm occurred and limit the scope of the issue. Violations can be found during examinations, but the rating system also looks at how proactive the bank is (is the bank able to identify potential issues before they cause consumer harm or quickly find and resolve issues to limit the amount of products and consumers impacted).

Thus, the CC Rating System specifically rates the bank based on:

- Root Cause
- Severity
- Duration
- Pervasiveness

Oversight and Commitment

Rating	1	2	3	4	5
Oversight	Strong Commitment	Satisfactory	Deficient	Seriously Deficient	Critically Deficient
Resources	Substantial	Adequate	Inadequate	Seriously Deficient	Critically Deficient
Staff	Empowered & Accountable	Able to Ensure Compliance	Inadequate	Ineffective	Unwilling or Incapable
3 rd Party Oversight	Complete & Continual	Adequate	Inadequate	Seriously Deficient	Critically Deficient

A top rating is going to include a very engaged Board that allots enough resources to compliance to allow staff to be able to meet their requirements as set by the bank's policies. The CC Rating System specifically discusses systems where the staff is both empowered to meet the compliance requirements but also, held accountable when they don't. In addition, a "1" rating for oversight is going to include Senior Management responsibilities including ensuring there is oversight of not just bank employees, but also, third parties. Third party vendor management has long been an important part of compliance with plenty of guidance related to managing third party risk. Here, the CC Rating System is evaluating how strong that oversight is.

Going through the spectrum, a "2" rating has the criteria but instead of being exemplary, it simply meets the requirements. A "3" rating will have some level of deficiency and inadequate oversight of third parties. On the other end of the spectrum, there will be a general lack of oversight and a lack of effectiveness in ensuring that the bank and its employees are complying with requirements. This includes a lack of oversight of third parties and also, a staff and management that either incapable of meeting compliance requirements because of a lack of training, resources, oversight, etc. However, the low ratings also include staff and management who are unwilling to meet their compliance responsibilities.

Change Management

Rating	1	2	3	4	5
Response to Change	Anticipates	Timely & Adequately	Does Not Respond Timely	Seriously Deficient	Failure to Respond
Consideration	-Laws & Regulations -Market Conditions -Business Lines -Entire Life Cycle of Products & Services	-Laws & Regulations -Market Conditions -Impacted Business Lines -Products & Services	-Laws & Regulations -Market Conditions - Products & Services	-Laws & Regulations -Market Conditions - Products & Services	-Laws & Regulations -Market Conditions - Products & Services
Due Diligence	Prior to and After Change	Prior to and After Change	Not Timely	Deficient	Fails to monitor changes

Change management is imperative to the effectiveness of the CMS and the guidance notes several elements to having an effective change management process. First, change management should evaluate, not just laws and regulations, but also market conditions and impacted business units and products. The main difference between a “1” rating and the other ratings here is that Senior Management evaluates and considers the entire possible life cycle of a product or service when considering risk and also, anticipates changes instead of just reacting to changes. A “2” rating will include a timely response to changes and both a “1” and “2” rating will do due diligence on the changes prior to and after the change to ensure that the changes were properly implemented. On the other end of the spectrum, if management fails to be timely in effecting legal and regulatory changes, they will fall in the “3” to “5” rating. If management just fails to monitor and respond to change, in general, that will put the bank’s change management process in the “5” category.

Risk Management

Rating	1	2	3	4	5
Understanding of Risk	Solid	Adequate	Inadequate	Seriously Deficient	Does Not Understand
Identifies	-Compliance Risk -Emerging Risk	-Compliance Risk -Emerging Risk	-Compliance Risk -Emerging Risk	-Compliance Risk -Emerging Risk	Does Not Identify
Risk Management	Actively Engaged	Adequate	Inadequate	Seriously Deficient	Does Not Effectively Manage
Tool	Comprehensive Self-Assessments	Self-Assessments	None	None	None

As the purpose of the CMS is to evaluate and mitigate risk, risk management is, of course, an important component of the CC Rating System. A bank with a high “1” or “2” rating will have management team that fully understands and can identify risks. That should include emerging risks as well as existing compliance risks. The difference between a “1” and a “2” bank is that while a “2” bank will have self-assessments, a bank with the highest rating will have comprehensive self-assessments and active engagement by management in mitigating those risk. Lower rated banks will have inadequate risk management, fail to identify risks and/or will have a management team that doesn’t understand risk nor is able to actively identify risks.



Corrective Action

Rating	1	2	3	4	5
Management Identification of Issues	Proactive	Adequate	Inadequate	Seriously Deficient	Incapable or Unwilling or Fails to Identify
Response	-Prompt -Remediation	-Adequate remediation -Normal Course of Business	-Inadequate remediation - Deficiencies & Violations	-Deficiencies, Violations & Exam Findings	-Deficiencies, Violations & Exam Findings

While being able to identify issues is important, it is also imperative to respond appropriately to those identified risks. If management is proactive about identifying issues and then responds/resolves issues as quickly as possible, that is more likely to be a “1” rating. A “2” rating, while similar, includes corrective action timing as part of the normal course of business. A low rating will be issued in banks where senior management is unable to or unwilling to identify issues and/or fails to respond to violations, known issues and even exam findings.

Policies and Procedures

Rating	1	2	3	4	5
Policies & Procedures	Strong & Comprehensive	Adequate to Manage Risk	Inadequate	Seriously Deficient	Critically Absent
Third-Party Management Program	Strong & Comprehensive	Adequate to Manage Risk	Inadequate	Seriously Deficient	Critically Absent

The written program will be evaluated as to whether policies and procedures, as well as third party management programs, are adequately thorough and effective. On the other end of the scale, a bank that fails to have necessary policies, procedures and management programs, will fall within the “5” rating.

Training

Rating	1	2	3	4	5
Training	Comprehensive, Timely and Tailored to Staff	Adequate and provided to appropriate staff	Not Comprehensive or Tailored	Seriously Deficient or Tailored to Appropriate Staff	Critically Absent
Timing	Proactive Updates	Updated Timely	Not Updated or Timely	Not Timely	Critically Absent
Content	New Products New Requirements	New Products New Requirements	Products & Regulations	Inaccurate	Critically Absent

Training is one of the important responsibilities of the compliance department officer and as such, as included in the rating system. A top-rated training program will be specifically tailored to the parties receiving the training. This means ensuring that training is not just one-size-fits all and makes sense for the particular roles of the staff receiving the training. Top-rated training should be timely and proactively updated. Lower rated training will either be not tailored to staff, not timely, inaccurate or nonexistent.

Monitoring and Audit

Rating	1	2	3	4	5
Monitoring systems, practices, reporting, audit and Internal Control Systems	Comprehensive and Timely	Adequate	Inadequate	Seriously Deficient	Critically Absent
Identify & Measure Risk	Successful	Adequate	Inadequate	Seriously Deficient	Critically Absent

Internal controls such as monitoring should include timely monitoring and thorough audit and internal control systems. A “1” rated monitoring and audit program will proactively identify weaknesses in either the written program or training and will be corrected in order to reduce the risk or violations and consumer harm. Low-rated systems will have seriously deficiencies or simply be non-existent.

Complaint Response

Rating	1	2	3	4	5
Processes & Procedures	Strong	Adequate	Inadequate	Seriously Deficient	Critically Absent
Investigations & Responses	Prompt & Thorough	Prompt & Thorough	Generally Prompt & Thorough	Seriously Deficient	Absent
Monitoring	Identifies Potential Risks & Takes Corrective Action	Adequate	Inadequate	Seriously Deficient	Disregarded

Consumer Complaints are important part of risk management as they can be the first notice of consumer harm or product/service deficiencies. This is why the CC Rating System takes consumer complaints into consideration. A strong complaint process will have thorough and effective policies and procedures, investigate complaints and respond in a timely fashion. Monitoring of complaint responses will also include the ability to identify potential risks and take corrective action. Lowest-rated systems will disregard consumer complaints and fail to investigate, and correct known issues identified via the complaint process.

Consumer Harm

Rating	1	2	3	4	5
Root Cause	Minor Weakness in CMS	Modest Weakness in CMS	CMS Has Material Deficiency	CMS Has Serious Deficiency	CMS Has Critical Deficiency
Harm to Consumer	Minimal	Limited	Considerable	Serious	Serious
Time Period	Brief	Limited	Extended	Long-standing or repeated	Long-standing or repeated
Number of Violations	Isolated	Limited	Numerous	Widespread or occur in multiple products/services	Widespread or occur in multiple products/services

Consumer Harm prevention is a cornerstone of the CC Rating System. As such, the CC Rating System evaluates not just the number of violations but rather, the impact of consumer harm. Was the root cause due to a minor error or a systemic unwillingness to ensure processes match the compliance requirements? Was the harm to the consumer egregious or merely minimal? Did the harm occur over a very short amount of time or did the violations occur for a long time and, once noticed, did it continue to be repeated? Were the number of violations isolated to a limited product or limited amount of consumers or did it impact a multitude of products and services bank wide? All of these questions are taken into consideration when evaluating the bank's consumer harm rating.

A high rating for consumer harm will consist of a CMS that has minor weaknesses that result in violations. The shorter the amount of time and the more minimal the harm is to the consumer, the more likely the bank will receive a "1" or "2" in this category. The most serious deficiencies will include violations that occur over a long span of time or that are repeated and impact multiple products and services. The higher the number of violations and the more serious the harm (for example, monetary harm) the more likely the bank will fall into the "4" or "5" rating category.

Compliance Management System Scenarios

ABC Bank has new leadership and it is reevaluating its compliance management system. The new leadership is looking at making a number of changes and would like your advice on what changes to make first.

Scenario 1: ABC Bank has a number of examination findings that are outstanding. The leadership is looking at a number of changes to avoid issues in the future (an increase in compliance staff, new training and revised policies). What course of action should the bank make first and why?

Scenario 2: ABC Bank has no formal consumer complaint process. In the past, the bank has been criticized for failing to respond to consumer complaints. What changes would you make to the bank's processes and why?

Model Answers to CMS Scenarios

Scenario 1:

The bank should first take any corrective action needed to address the current violations, including making consumer restitution or fixing the specific issue because the goal of the CC Rating System is to ensure the CMS mitigates and resolves consumer harm. This should include an evaluation as to how widespread the violations are and the root cause(s). The proactive approach suggested by the new leadership is a good approach after the existing issues are resolved starting with hiring new compliance personnel, revising the policies, and then training on the revised policies.

Scenario 2:

The first step should be to create a written formal consumer complaint process to ensure that complaints are monitored, investigated and responded to in a timely fashion. A formal process will help to ensure continuity and can set the groundwork for tracking complaints, so the bank has the ability to use complaints to determine whether they are systemic risks that are not being caught elsewhere.