



Compliance Function in a Financial Conglomerate – Structure and Processes

April 15, 2013

Agenda

Background

Overview of ICICI Group

Compliance function @ ICICI

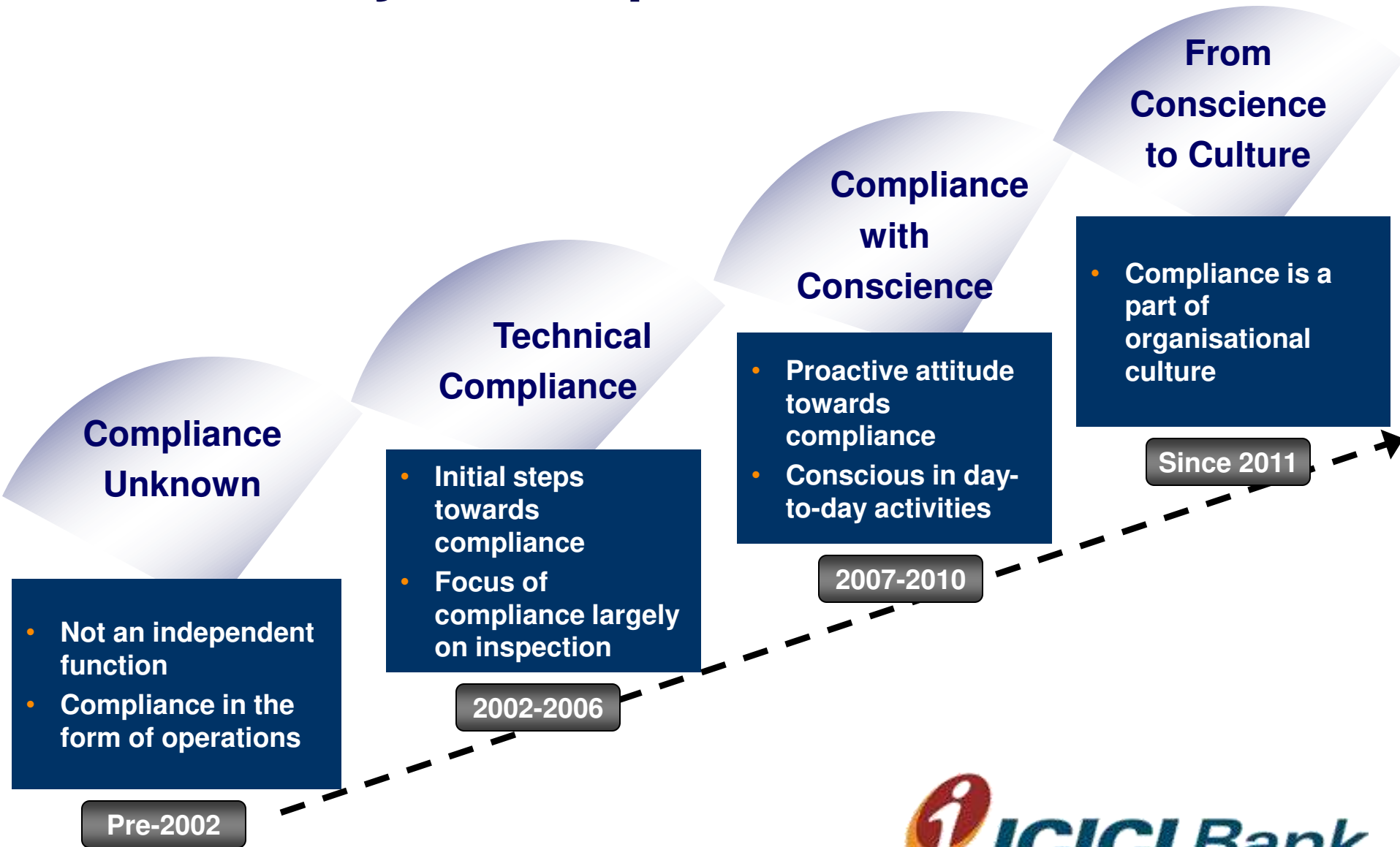
Compliance processes

Key challenges ahead

Summing up



Journey of compliance function



Moving from Compliance to Culture



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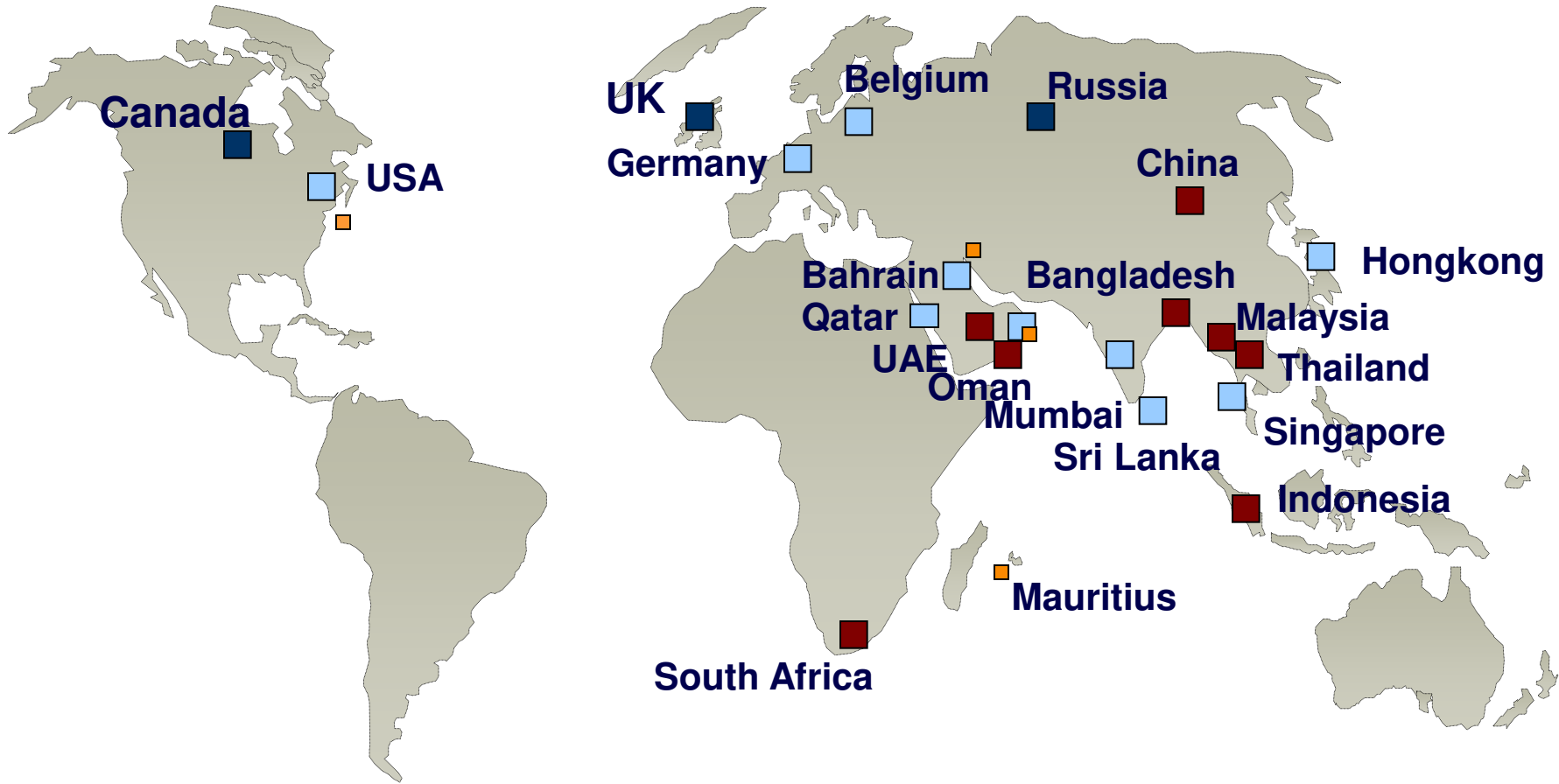






Some key facts (Dec 2012 position)

- **Largest private sector financial institution from India**
 - Balance sheet size of around ₹ 6,684.89 billion
 - Over 25 million retail customer accounts
 - Listed in NYSE/NSE/BSE
- **International market**
 - Global presence in 18 countries
 - International assets – 21% of Consolidated banking assets
 - Over 21% market share in global remittances into India
- **Group performance (comprising of 17 major entities)**
 - Leadership in Indian private sector insurance market
 - India's largest online trading platform (2.5 mn customers)
 - Total number of employees: 85,000



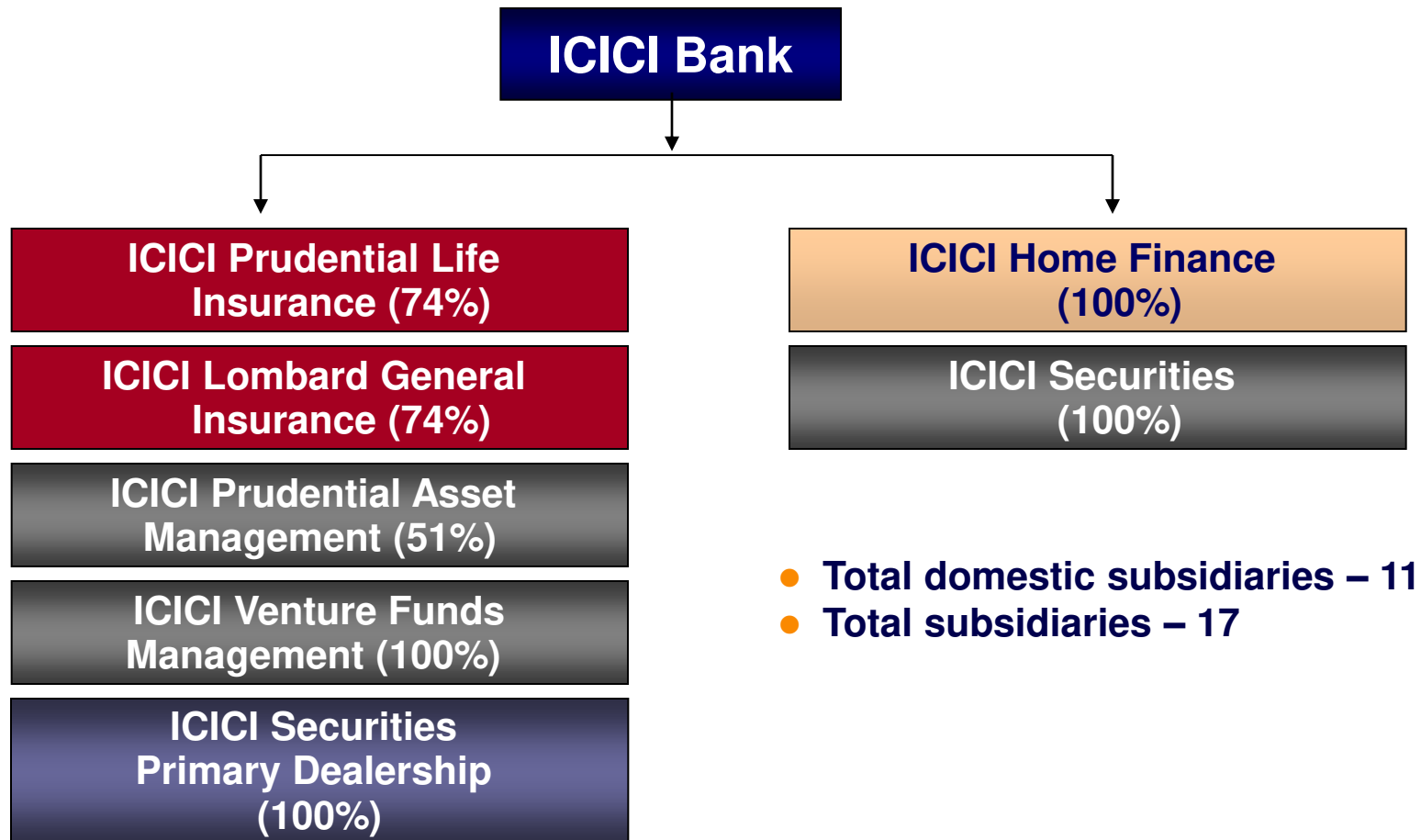
ICICI group presence – International



-  Subsidiary
-  Representative office
-  Overseas branch
-  Overseas offices of non-banking subsidiaries



ICICI Group: Key domestic subsidiaries



- Total domestic subsidiaries – 11
- Total subsidiaries – 17

Regulated by:

 RBI  IRDA  SEBI  RBI  NHB



ICICI Bank: Overseas operations

ICICI Bank

Subsidiarie

Branches

S	Date of license	Regulator		Date of license	Regulator
ICICI Bank UK (13)* (100%)	Aug 2003	FSA	Singapore (3)	Jul 2003	MAS
ICICI Bank Canada (9) (100%)	Nov 2003	OSFI	Bahrain (1)	Jan 2004	CBB
ICICI Bank Eurasia (1) LLC (100%)	Dec 2005	CBR	Hong Kong (2)	Oct 2005	HKMA
			Dubai (1)	Dec 2005	DFSA
			Sri Lanka (1)	Jan 2006	CBSL
			Qatar (1)	Mar 2007	QFCRA
			United States (1)	Oct 2007/ Feb 2008	FRB/ OCC

- Representative Offices - 8

*Includes a branch each in Germany and Belgium

Total number of branches including OBU and branches of subsidiaries is 34



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Governance philosophy

- **Sound corporate governance practices**
 - Separate positions of Chairman (independent) and Managing Director & CEO (executive) since 1996
- **Balanced Board composition**
 - Two thirds of the Board members are independent
 - Scheduled meetings of independent Directors without executive management
 - Audit Committee comprising independent directors
- **Tone at the top**
 - Board approved Group Code of Conduct & Business Ethics
 - “Compliance with Conscience” as the DNA anchor



Group compliance framework

- **Group Compliance Policy approved by the Board**
 - Enunciates compliance philosophy of the Bank
 - Provides framework for Group-wide Compliance
 - Provides for monitoring and audit of compliance
- **Headed by Group Compliance Officer**
 - Reporting to MD&CEO and Audit Committee of the Board
- **Reporting mechanisms at individual group entities**
 - Reporting to respective MD&CEO & Audit Committee
 - Linkages to group compliance function
 - Direct reporting mechanism for banking business
 - Oversight mechanism for non-banking businesses
- **Group policy frameworks put in place for key areas**



Reporting & oversight mechanisms

- **Annual strategy for compliance function**
 - Approved by Audit Committee
 - Considers the impact of regulatory environment, supervisory developments and business strategy on compliance function
 - Sets the parameters for compliance monitoring
- **Monthly Reporting to MD&CEO by the GCO**
 - Based on reports from HO/overseas branches/group entities
- **Quarterly reporting to Audit Committee**
 - Regulatory developments
 - Regulatory inspections/breaches/interactions
 - Progress on achievement of compliance monitoring
- **Periodic compliance team interactions**
 - For updating Parent/Head Office on key developments



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Compliance risk identification

- **Constructive engagement with regulators**
 - Participation through working group constituted by RBI
 - Providing feedback on draft guidelines
 - Liaising with industry associations
- **Sources of compliance risk**
 - Regulatory guidelines
 - Including mailbox clarifications from RBI
 - Critical regulatory correspondences
 - Information submission through regulatory returns
- **Leveraging upon technology**
 - For timely identification, dissemination and monitoring
 - Facilitating compliance through intra-net portal
 - Checklists, FAQs, policies
 - Equipped with search functionality



Compliance risk assessment

- **Board approval and review for key policies**
 - **Prior-clearance from compliance mandated**
- **Periodic Board focus on regulatory matters**
 - **Through calendar of reviews**
- **Compliance participation in committee-based decision-making process**
 - **For sanctioning of credit proposals**
 - **By ensuring compliance to credit-related guidelines**
 - **For review of investments and liquidity aspects**
 - **For approval of new products & processes**
 - **For ensuring assessment of compliance risk (along with other operational risk parameters)**





Compliance monitoring & certification

- **Adopts a risk-based approach**
 - Quarterly plan approved by Group Compliance Officer
 - Update to Audit Committee on quarterly basis
- **Areas focused during compliance monitoring**
 - New regulations closed during the quarter
 - Past regulations that are pending for closure
 - Critical areas/actionables presented at various forums
 - Evolving regulatory themes/inspections
 - Instances relating to revised returns and delayed submission of returns
 - Other critical issues, if any
- **Quarterly Compliance Certification process**
 - Culminating at the level of MD&CEO sharing the certificate of compliance to the Board
 - Issues identified in the process
 - Reviewed by Audit Committee



Communicating with business

- **Compliance training on critical aspects**
 - Through mandated e-learning programmes
 - Key areas taken through class-room sessions
 - Supplemented with e-tests on repeat processes
 - Awareness on regulatory focus areas through I-Komply 
- **Guidance on interpretation of regulations**
 - Compliance group sole authority for interpretation
 - Facilitated through technology enabled query-tracking tool 



Supervisory engagement

- **Annual Financial Inspection**
 - Utmost attention from senior management
 - Information flow requirements monitored regularly
- **Supervisory discussions**
 - Serves as a guide for future policy-making internally
 - Regulatory messages embedded while formulating annual business strategy
- **Compliance to AFI observations**
 - All senior officials taken through key inspection points
 - Review at Audit Committee on quarterly basis
 - Progress in achieving Monitorable Action Plan
 - Status of critical AFI observations
 - Learnings of inspection shared across group entities
 - Through forums such as Annual Meeting of Chair of Audit Committees of group entities



Building up compliance expertise

- **Early recruitment and induction**
 - Through walk-through and e-test of internal processes of compliance
 - Professional qualifications encouraged in the areas of AML and treasury compliance (through Bank support)
- **Periodic training**
 - On soft-skills through HR programmes
 - On technical matters through nomination on RBI programmes
- **Internal compliance interactions, facilitated by**
 - In-house officials, for updation of knowledge of business processes
 - External experts, in evolving areas of regulatory themes



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New regulatory developments

- **Challenges arising from regulatory proposals**
 - **Internationally**
 - **Dodd-frank Act - Living wills**
 - **Foreign Account Tax Compliance Act (FATCA)**
 - **Comprehensive Iran Sanctions**
 - **Domestically**
 - **Basel III**
 - **Migration to advanced approaches**
 - **Anti Money Laundering**
 - **Transaction monitoring – IBA rules**
- **Needs renewed focus on the compliance expertise and extensive regulatory interactions**



Move towards risk-based supervision

- **Pre-requisites at banks' end**
 - Risk management framework (including defined risk appetite, pricing, MIS aspects)
 - Risk-based internal audit
 - Skilled Human resources
- **Enhanced regulatory expectations from banks' MIS**
 - Increase in frequency of information requirements
 - Non-customised supervisory queries
 - Timeliness in submission
 - Inaccurate submission invites regulatory penalties
- **Challenges to compliance function**
 - In terms of honing up compliance expertise in the area of risk management, technology, and soft skills relating to drafting and articulation



Automated data flow

- **Expectations from automation of regulatory returns**
 - **Generation of the data only from the source system**
 - **Consistency of the data used for different returns**
- **Project monitored by a senior management team**
 - **Meets up periodically to assess the status of completion**
 - **Updates presented to Audit Committee quarterly**
- **Challenges involved**
 - **With multiplicity of systems involved**
 - **Data flow required from overseas locations/group-entities**
 - **Automation project across group entities**
 - **Integration of the regulatory returns with business decision-making framework**



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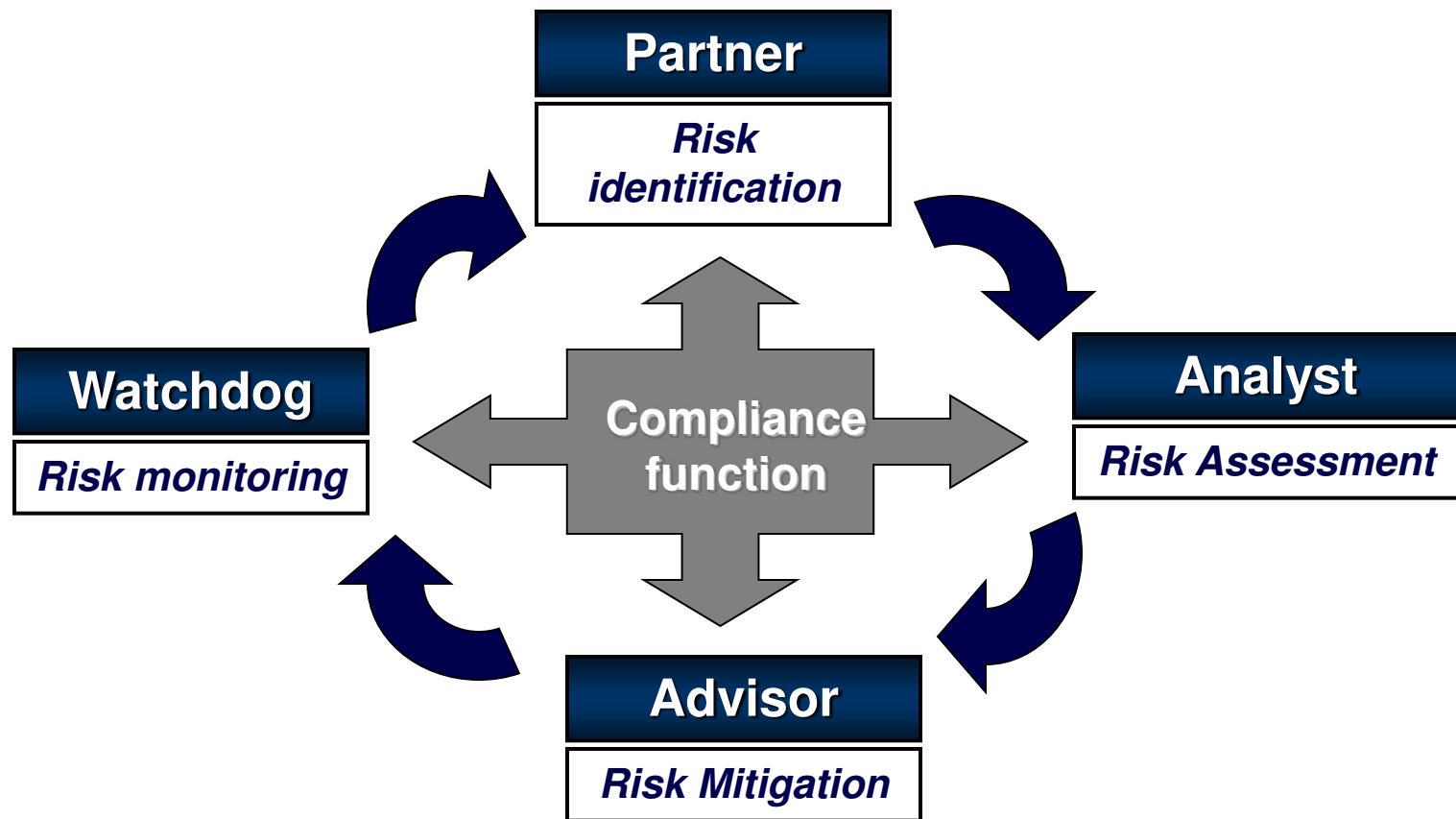
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To sum up, Compliance function acts as a...



By providing relevant regulatory perspectives and implications

