



## Embedded Compliance Controls – Should You Consider Them?

technology regulatory

**Summary:** Compliance-related costs account for about 7% of noninterest costs, according to the Federal Reserve Bank of St. Louis. It is critical to stay compliant, but community financial institutions are also looking for ways to reduce costs. Are embedded compliance controls a way to do both?

The three-point seatbelt that is standard in cars today was introduced by Volvo in 1959. By 1968, the federal government mandated its inclusion for all seats within vehicles. However, this wasn't enough impetus for everyone to embrace them. With more than 15,000 car accident deaths annually attributed to not wearing seatbelts, New York became the first state to pass a law requiring the use of seatbelts in the front seat in 1984. Today, all states but New Hampshire require car passengers to wear a seatbelt. Some cars even include embedded system features that require seatbelts to be fastened before the car can be driven.

Embedding safety features into a system helps to increase compliance, not only in cars, but also in banking. Community financial institutions (CFIs) may want to consider taking a similar approach by embedding safety features within their data management processes. With greater regulatory pressure due to broader and deeper risks, such as global cyber risk, it is vital to ensure any compliance gaps are covered. Automating compliance by embedding it within an organization's day-to-day business practices can help do this. We explore this topic a bit further today.

Grand View Research estimates that [global spending on the enterprise governance, risk, and compliance market will reach \\$97.3B by 2028](#). Ensuring compliance is a must for all CFIs, but it can be costly. Embedded compliance solutions give you another approach to explore to stay compliant.

### How it works

These embedded controls use an application programming interface (API) to derive regulatory information from a single location and implement it throughout an organization's entire data management system. This process eliminates the possibility of conflicting requirements or interpretations, primarily within deposit and loan onboarding processes. These compliance measures can be used within any digital channel to automatically identify, prevent, or correct compliance issues and minimize both compliance gaps and the amount of time that employees must devote to managing compliance requirements. It eliminates the need for duplicate data entries in numerous databases.

Businesses that have added [embedded controls have seen the number of missed compliance obligations fall by an average of 58%](#), according to Gartner. [CFIs that have already adopted these compliance systems](#) include RCB Bank in OK, Consumers Credit Union in IL, Select Bank and Trust in NC, Midwest BankCentre in MO, and First Financial Bank in OH.

### The benefits

**For CFIs.** CFIs can benefit from this compliance approach in many ways. As mentioned previously, it eases the

time burden on compliance employees, so that they can take on additional responsibilities. It provides an automated way to bake new rules into CFI applications, ensuring these new rules are met.

Lowering costs is another big benefit. Centralizing and embedding compliance controls reduces an organization’s complexity and manual operations in this area, reducing the number of employees and processes needed. At present, [compliance-related costs account for roughly 7% of most banks’ noninterest costs](#), according to the Federal Reserve Bank of St. Louis. To bring that number down, executives plan to step up the amount they spend on embedded controls by 82% this year alone.

It can also help as compliance management becomes increasingly global. CFIs may be required to not only stay abreast of changing US compliance requirements, but also of those abroad. It can be difficult to manage global compliance requirements, without embedded controls.

**For customers.** As banking becomes increasingly mobile, customers look for more seamless interactions with their CFIs. Embedded compliance can enable CFIs to simplify compliance agreements and documents. This streamlined process would enable these documents to be completed with little to no human intervention and minimal clicks. This can increase customer satisfaction, as it is easier for them to open accounts and apply for loan applications.

**How to proceed**

As with all new systems, CFIs interested in adding embedded compliance should begin by:

- Conducting a risk assessment of the application and the third-party solution providers.
- Reviewing the technical and compliance requirements thoroughly within your institution to determine what is needed to implement embedded compliance.
- Identifying the employees that will be charged with monitoring, interpreting, understanding, and managing compliance obligations.
- Recognizing the areas with the heaviest burden and the greatest need for training.
- Determining where your institution can achieve the greatest benefits of embedded compliance.

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**ECONOMY & RATES**

Rates As Of: 04/15/2022 05:45AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.79	0.27	0.73
6M	1.25	0.19	1.06
1Y	1.78	0.16	1.40
2Y	2.47	0.13	1.73
5Y	2.79	0.33	1.53
10Y	2.83	0.49	1.32
30Y	2.92	0.47	1.01

FF Market	FF Disc	IORR
0.33	0.50	0.40
SOFR	Prime	QIBR
0.29	3.50	0.32

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