



The effectiveness of the regulatory compliance monitoring process for banks in South Africa

C Mathisa



orcid.org 0000-0002-1433-4138

Mini-dissertation accepted in partial fulfilment of the requirements
for the degree *Masters of Business Administration* at the North-
West University

Supervisor: Prof W Musvoto

Graduation: July 2020

Student number: 31388760

DECLARATION

I solemnly declare that '*The effectiveness of the regulatory compliance monitoring process for banks in South Africa*' is my own work and that all the sources used have been acknowledged accordingly. I certify that this dissertation has not been submitted before for any other degree.

.....

Cedrick Mathisa

.....

Date

ACKNOWLEDGEMENTS

- I would like to convey my heartfelt gratitude to the following people who assisted me during the compilation of this dissertation:
- To my supervisor ***Professor Wedzerai Musvoto*** for his assistance and encouragement. I will forever be grateful for his constructive criticism.
- To my study mates, ***Johaness Mahasela, John Thamela, Lerato Duma and Mohau Modise***, for teamwork.
- To my friends who gave me unrelenting support throughout the research.
- To all the participants who volunteered to provide the information required for the research to be successful.

DEDICATION

First of all, I would like to thank God for giving me the strength and wisdom to complete this mini-dissertation. I am truly grateful to him. My appreciation also goes to my supervisor, **Professor Wedzerai Musvoto** for his guidance and encouragement throughout my studies. Last but not least I would to thank my mother Mrs Ellen Mathisa, my late Father Mr M Mathisa and brother Mr S Mathisa my wife Mrs Nomalanga Mathisa, my daughter Ms Hlompso Mathisa, half-sister Ms Ivy Pitiki, Garegae's family, Mathetsa's family, Galane's family, Moyo's family and Mohapi's for their love and support and contributions towards the success of my academic pursuit, I am highly grateful. My heartfelt appreciation also goes to my friends, Mr M Molazi, Mr F Tshabalala, Mr G Ncikinta, Mr M Madiba, Mr D Melo, Mr S Modise, Mr B Zungu, Mr H Molokela, Mr Y Ombele, Mr D Modise, Mr T Zungu, Mr M Mogoba, Mr X Ntsobi, Mr V Masinda, Mr N Mokgosi, Mr T Old John, Mr A Morokong, Mr T Sekgale, Mr D Moletse, Mr L Ntobe, Mr P Mosito, Mr F Makutulela, Mr S Makoko, Mr L Kekana and Sweet Company Social Club for their timely advice, patience, support and encouragement contributed immensely towards my career journey. My gratitude also goes to my colleagues and friends at the University of North-West Business School who supported me with ideas and suggestions while writing this thesis.

“Your attitude, not your aptitude, will determine your altitude”– Zig Ziglar

ABSTRACT

The primary objective of this study is to investigate the effectiveness of the regulatory compliance framework for banks in South Africa. South African Reserve Bank (SARB) fined the major banks as the result of their weaknesses on their compliance monitoring that is not effective. The regulatory compliance problem faced by South African banks, is that banks experience difficulties in both managing regulatory compliance process. The problem being explored in the study is that the regulatory compliance framework and its monitoring process might not be effective. A quantitative research methodology was used. A questionnaire was designed based on a five-point lickert scale rating. This was used to collect data from 119 respondents within the two banks. The findings suggest that the respondents are aware that compliance framework exist in their banks. The results indicate that the introduction of regulatory compliance framework in the banking sector is effective and data clearly illustrates that the respondents appear to understand factors causing non-compliance with regulatory requirements. The respondents view regulatory compliance framework as instrumental to the resilient, stable and designed to adhere to regulatory compliance requirements. The banks should implement effective programs to monitor non-compliance with regulatory obligations. Compliance regulatory prospects continues to increase, with the challenge to effectively implement a regulatory program that is a practical component of the bank management risk principles to be embedded in the financial institutions. Compliance risk management must be co-ordinated carefully to banks personnel to enhance dedication and ability to manage multiple risk types while complying with existing regulations.

Key-words: Banks, compliance framework, compliance identification, compliance monitoring and compliance reporting.

LIST OF ABBREVIATIONS

BCBS:	Basel Committee on Banking Supervision
BIS:	Bank for International Settlements
BSD:	Bank Supervision Department
CO:	Compliance Officer
CFA:	Chartered Financial Analyst
COSO:	Committee of Sponsoring Organisations of the Tread Way Commission
FAIS:	Financial Intelligence Centre Act
FSCA:	Financial Sector Conduct Authority
FSP:	Financial Service Provider
IODSA:	Institute of Directors in South Africa
SARB:	South African Reserve Bank
SREP:	Supervisory Review and Evaluation Process
NCA:	National Credit Act
PCCA:	Prevention and Combatting of Corrupt Activities
RMCP:	Risk Management Compliance Program

TABLE OF CONTENTS

DECLARATION.....	i
ACKNOWLEDGEMENTS.....	ii
DEDICATION.....	iii
ABSTRACT.....	iv
KEYWORDS.....	v
LIST OF ABBREVIATIONS.....	vi
LIST OF FIGURES.....	vii

CHAPTER ONE: INTRODUCTION AND PROBLEM STATEMENT

1.1 Introduction	1
1.2 Background to the study	1
1.3 Research Problem	2
1.4 Research question and its objectives	4
1.5 Objective of the research	5
1.6 Importance and significance of the study	5
1.7 Chapter outline	6

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction	7
2.2 South African Banking Sector	7
2.3 Banks Overview	8
2.4 The regulator regime	10
2.5 International Supervisory Committee	12
2.6 Compliance Regulatory frameworks	13

2.7	Regulatory Compliance Universe	15
2.8	Compliance strategy	17
2.9	Strategies to improve regulatory compliance process	18
2.10	Compliance plan purpose in the bank	20
2.11	Factors influence regulatory compliance framework	22
2.12	Causes of non-compliance	26
2.13	Consequences of non-compliance	29
2.14	Perceptions of the regulator on compliance framework	30
2.15	Factors to monitor the effectiveness of compliance programs	32
2.16	Key elements of effective compliance programs	33
2.17	Conclusion	34

CHAPTER THREE: RESEARCH METHODOLOGY

3.1	Introduction	36
3.2	Research philosophy	37
3.2.1	Positivism	37
3.3	Research design	37
3.4	Delimitation of the study	38
3.5	Quantitative research	38
3.6	Population	39
3.7	Sampling	40
3.8	Research Instruments	40
3.9	Data collection	42

3.10 Data Analysis	43
3.11 Validity	43
3.12 Reliability	44
3.13 Pilot study	44
3.14 Ethical Considerations	44
3.15 Conclusion	45

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

4.1 Introduction	46
4.2 Demographics	46
4.3 Reliability Analysis	50
4.4 Percentages	51
4.5 Descriptive Statistics	63
4.5 Correlation Analysis	74
4.6 Conclusion	77

CHAPTER FIVE: DISCUSSIONS OF THE FINDINGS AND RECOMMENDATIONS

5.1 Introduction	78
5.2 Compliance frameworks	78
5.3 Research Methodology and design	78
5.4 Discussion results	78
5.5 Recommendations	80
5.6 Limitation of the Study	81
5.7 Conclusion	81
References	83

Appendix

Questionnaire

94

LIST OF TABLES

Table 1	Compliance strategies
Table 4.1	Indicate your role in the organisation
Table 4.2.	Level of experience
Table 4.3	Level of education
Table 4.4	Reliability analysis on regulatory compliance monitoring process
Table 4.5	Factors that influence the effectiveness of the regulatory compliance Framework (Percentages)
Table 4.6	Factor that influence the effectiveness of the regulatory compliance Framework (Percentages)
Table 4.7	Strategies to improve regulatory compliance process (Percentages)
Table 4.8	Perceptions of the regulator on compliance framework (Percentages)
Table 4.10	Factors that influence the effectiveness of the regulatory compliance Framework (Descriptive)
Table 4.11	Factors that influence the effectiveness of the regulatory compliance Framework (Descriptive)
Table 4.12	Strategies to improve regulatory compliance process (Descriptive)
Table 4.13	Perceptions of the regulator on compliance framework (Descriptive)
Table 4.14:	Spearman's rank correlation between level of experience

LIST OF FIGURES

Figure 1 Compliance Framework

Figure 2 Advantages of Research Questionnaire

Figure 3 Disadvantages of Research Questionnaire

Figure 4.1 Indicate your role in the organisation

Figure 4.2 Level of experience

Figure 4.3 Level of education

Figure 4.4 Views of respondents versus level of experience ($r > 0$)

CHAPTER ONE

1.1 INTRODUCTION

The purpose of the study is to evaluate the effectiveness of regulatory compliance monitoring process implemented in South African banks. Basel Committee of Banking Supervision (2006) states that the bank must create a compliance body or function in a way that is reliable and aligned with the compliance strategy. Misha (2016) points out that compliance risk is defined as supervisory sanctions, monetary cost or reputational damage. The financial institution might suffer consequences by failing to conform to legislation, rules and regulations. LexisNexis (2011) states that non-compliance with regulatory requirements require an effective compliance monitoring process in the banks. The South African Reserve Bank (SARB) has expanded its yearly supervision procedure which will focus on financial institution regulatory mandate. Regulation (74) 1 mention that: "It is imperative for a financial institution to form a regulatory compliance function to be part of its compliance structure and to ensure that financial institutions or banks continuously manage its compliance monitoring process with applicable legislation. There is a need for a significant controlling effort to ensure there is a culture of compliance. The complexity and cost required to comply with regulation (74) 1 and the importance and the benefits the banks will achieve.

1.2 BACKGROUND

The occurrence for non-compliance regarding compliance obligation particularly in the Financial Sector is a reason that is worrying regulators. This study examines the effectiveness of the regulatory compliance monitoring process for financial institution. Therefore, compliance with a regulatory obligation it is important to the banks. The South African Reserve Bank Act (Act No. 90 of 1989) requires a necessity for an ideal direction amongst the

regulatory universe and regulatory framework. Consequently, this study is contextualized on the regulatory compliance structure or framework for the banks and reviews on compliance monitoring process for banks in South Africa. The study has been triggered by the regulator being the South African Reserve Bank for the financial year 2015/2016 respectively annual report. Based on instances of non-compliance with applicable legislation by the banks, it is evident that compliance is compromised, a situation that prompts the view that compliance monitoring process control is not effectively implemented by banks. McKinsey (2013) states that banks must drive an effective compliance monitoring process with procedures, rules and regulations. The Institute of Directors (IOD 2011) defines compliance universe as a common term used for all the legislation, policies that governs the bank's operation. It is vital that the regulatory compliance universe of the bank is comprehensive and complete.

1.3 RESEARCH PROBLEM

Hargarter (2017) states that SARB have imposed heavy fines on banks for conduct failures occurred in 2007/2008 due to ineffective compliance systems. Financial Intelligence Centre Act (FIC 2017) introduced the Regulatory Compliance Framework within broader spectrum of the banking sector. With the aim to implement the regulatory compliance framework to ensure that banks continuously manage compliance risk and comply with applicable laws and regulations. South African Reserve Bank (SARB 2018) further states that regulatory compliance problem faced by banks, is that banks experience difficulties in managing regulatory compliance process. Following the implementation of the Regulatory Compliance Framework in 2017. The banking sector continues to be faced with non-compliance with regards to legislative requirement. To illustrate this, Financial Service Board (FSB 2017)

fined Investec Bank a total amount of R20m for weak control anti-money-laundering controls measures. South African Reserve Bank (SARB 2018) fined embattled Mutual bank namely VBS Bank with a penalty of R2, 5 million for non-compliance with applicable legislation of FIC Act No. 38 of (2001). Recently, South African Reserve Bank Supervision Department (2019) has imposed administration sanctions on the following Banks, Standard Bank, Grindrod Bank Limited and U-bank. According to the Prudential Authority Report (2019) has fined Sasfin Bank and Bank of Baroda respectively a total amount of R900, 000 for non-compliance with the provision of Financial Intelligence Centre Act. Bank Supervision Department report from (2015-2019) shows that there are indicators of non-compliance that require immediate attention by the banks. The Basel Committee on Banking Supervision Annual report (BCBS 2018) raised concern that the banks are faced with challenges on regulatory obligations, the problem is serious, imminent and affects the financial services industry. This suggest that the regulatory compliance monitoring process is not effective in ensuring that banks are operating within a compliant framework. Compliance Institute of South Africa (CISA 2018) further states that financial services sector continues to witness the occurrence of non-compliance by banks. Marx and Mynhardt (2019) further agree that South African Reserve Bank has articulated displeasure regarding the culture of non-compliance with regulatory requirements. FIC Act, 38 of 2001 requires banks to have a compliance framework which comprises of policies, systems and controls to be implemented. Estate Agency Affairs Board (EAAB 2018) states that risk management compliance planning establishes guidelines and procedure to ensure full compliance with pertinent legislation applicable to the bank. Financial Intelligence Centre Bill (2017) states that non-compliance with the provision of the act and regulations issued by the regulatory will

lead to administration penalties and sanctions. The consequences of non-compliance can affect the bank negatively. The evidence gathered suggests that the banks regulatory compliance monitoring process might not be effective. In this study, will explore the effectiveness of regulatory compliance framework in the banks.

1.4 RESEARCH QUESTIONS

1.4.1 PRIMARY RESEARCH QUESTIONS

“How effective is the regulatory compliance framework in South African Banking Sector?”

THE SUB-RESEARCH QUESTIONS FOR THE STUDY IS TO:

1. What factors influence regulatory compliance framework implementation in the banking sector?
2. What are the factors causing non-compliance with regulatory requirements?
3. What strategies do banks employ to improve regulatory compliance process?
4. What are the perceptions of regulators on the effectiveness of the regulatory compliance framework for the Banks?

1.5 AIMS OF THE RESERACH

1.5.1 MAIN OBJECTIVE

To determine the effectiveness of Regulatory compliance framework in the South African Banking Sector.

1.5.2 SECONDARY OBJECTIVES

Pajares (2018) states that secondary objectives are things one needs to do to fulfil primary objective.

Sub-Objective 1: To establish factors that influence regulatory compliance framework implementation in the banking sector.

Sub-Objective 2: To determine the factors causing non-compliance with regulatory requirements.

Sub-Objective 3: To find out the strategy's banks employ to improve regulatory compliance process

Sub-Objective 4: To establish the perceptions of regulators on the effectiveness of the regulatory compliance framework for the Banks.

1.6 IMPORTANT AND SIGNIFICANCE OF THE STUDY

The main aim of conducting this study is to contribute to a body of knowledge in the effectiveness of Regulatory Compliance Framework in the South African banking sector. This study will enhance and improve a regulatory compliance monitoring process for banks in South Africa. Simbanegavi, Greenburg and Gwatidzo (2014:303) implies that a feasible financial service sector must be efficient and effective on the regulatory compliance framework to comply with regulatory requirements. This study will enhance and improve supervisory priorities for the bank. This study will also review the usefulness of the regulatory compliance framework, perception of regulators and banking sector on the effectiveness of the compliance monitoring process by banks. Compliance with regulatory requirements by the banks will improve the relationship amongst the banks as well as the regulatory bodies to believe in the institution.

1.7 CHAPTER OUTLINE

The chapter outline of the study is as follows:

CHAPTER 1: Introduction

The introduction section provides an overview of the study. The chapter outlines the aim of the study, the research problem statement, research question and research objectives.

CHAPTER 2: Literature review

This chapter will discuss regulatory compliance framework and its desired benefits.

CHAPTER 3: Research methodology

This chapter outlines research methodology applied to the study.

CHAPTER 4: Results presentation, data analysis and discussions

The chapter will present and analyse the research results and interpret data into meaningful information.

CHAPTER 5: Summary of findings, recommendations and conclusion

The summary research findings will be discussed, and recommendations will be given thereof. This study will then be concluded in this chapter.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The South African governments enact laws, regulations and rules to govern societal interactions. Okhaide (2016) states that regulations are fundamentally imposed for many types of demands on banks and their action systems. These regulations are administered by the regulators which they established and mandated to enforce compliance independently or with oversight by a government organisation. The Banking Committee on Banking Supervision (BCBS 2011) requires banks to have an effective regulatory compliance framework. The compliance framework is the key in the operations of the bank as it is a snapshot of the compliance responsibilities and risks arising from regulations and laws. It also outlines how the banks manage its regulatory compliance and risks. This chapter gives an overview of the regulatory compliance framework, legal and regulatory universe, compliance strategy, compliance plans and its principles and functions in the banking sector. Discussion on the need for compliance in the banks. Factors that influence the effectiveness of the regulatory compliance framework, causes on non-compliance and strategies employed by banks to improve regulatory compliance process will be the pivotal facts or points to consider.

2.2 SOUTH AFRICAN BANKING SECTOR

Phakisa (2014) states that the retail business in banking is dominated by the following major banks being (First National Bank, Standard Bank, Nedbank, Capitec and ABSA). The banking industry offers a variety of products or financial services to small, individuals or entities. The South African financial services experienced a crunch during 2002 regarding the failure of the following banks Saambou Bank, Regal Treasury Bank and African Bank.

Therefore, there is need for regulators to tighten up compliance policies and robust regulatory compliance framework. Rules and regulations assist banks with compliance risk management to effectively manage and alleviate non-compliance issues in the banks. Anderson and Black (2013) states that non-compliance with regulation may be undetectable within the banks where the management of a bank are uninformed that some of the staff members inside the institution are not conforming to the rules and principles. Coovadia (2011) further states that the significance of regulations in the banks is vital to the success of the banks. Compliance rules, guidelines and principles have numerous foundations, including key regulation, rules and standards enacted by the regulators.

2.3. BANKS OVERVIEW

2.3.1 STANDARD BANK

Standard Bank is a South African-bank or financial institution listed on the Johannesburg Stock Exchange (SARB, 2016:1). The bank has a global footprint with operations in 17 African nations and 21 countries in other continents (Standard Bank, 2016). Standard Bank has traditionally been one of the big four banks in South Africa. According to Standard Bank (2016) the group has 746 branches across South Africa. In 2019, Standard Bank was ranked the largest banking group in South Africa, ranked by assets and earnings (Standard Bank, 2019:1).

2.3.2 FIRST NATIONAL BANK

First National Bank was founded in 1838 in Grahamstown. First National Bank operates as a subsidiary of the First Rand Group and is listed on the Johannesburg Stock Exchange (FNB, 2016:1). FNB offers numerous banking products including insurance products and

individual banking guides to personal, commercial and corporate businesses. The bank had an estimated customer base of 8.2 million in 2018/2019 financial year (BusinessTech, 2018:1). Today, FNB trades as a division of FirstRand Bank Limited. The first is a story of survival different circumstances in South Africa that have posed many great challenges in our history. This track record provides a strong foundation for our future challenges.

2.3.3 NEDBANK

Nedbank was first established in South Africa as the Cape of Good Hope in the 19th century (Nedbank, 2016:1). According to the South Africa Reserve Bank (2016:1) Nedbank was ranked the fourth largest bank in South Africa in 2016. In 2018, the bank had an estimated customer base of 7.1 million. The bank offers a comprehensive list of products and services through Nedbank retail, Nedbank capital and Nedbank corporate divisions (Nedbank, 2016:1). The bank has been listed on the Johannesburg Stock Exchange since 1969 (South Africa Reserve Bank, 2016:1).

2.3.4 ABSA

According to South African Reserve Bank report (2016) ABSA Bank was established because of a merger between four banks, namely Allied Building Society, Volkskas, Trust bank and United Building Society. It is listed on the Johannesburg Stock Exchange and has grown phenomenally to become one of the big four banks in South Africa. Absa Group Limited is listed on the JSE and is one of Africa's largest diversified financial services groups. Absa reported client numbers at 8.75million in 2016.

2.3.5 Capitec Bank

According to South African Reserve Bank report (2016) Capitec Bank was established on the 01 March 2001, with its International partners including Mastercard and Visa. Capitec Bank was ranked the fifth largest bank in South Africa in 2016. In 2016, the bank had an estimated customer base of 7.1 million.

2.4 THE REGULATORY REGIME AND UNIVERSE IN THE BANKING INDUSTRY

2.4.1 SOUTH AFRICAN RESERVE BANK

The South African Reserve Bank (SARB) is the central bank of South Africa. It was established in 1921 after Parliament passed the Bank Act of 10. South African Reserve Bank is responsible for among others, supervising the banking sector and ensuring the effective functioning of the national payment system. The oversight of the soundness of the domestic banking system and financial stability has been delegated to the Bank Supervision Department within the SARB. According to Banking Association South Africa report (BASA 2016) South African Reserve Bank is responsible for:

- formulating and implementing monetary policy;
- issuing bank notes and coin and
- supervising the banking sector;

According to Koch and Macdonald (2006:3) South African banks need to be regulated in order to safeguard the soundness of financial instruments by minimising the risk. Banking International Settlement BIS (2012) further states that banks are required to submit compliance report to the regulatory bodies to ensure that they comply with laws and regulations set by regulators.

2.4.2 FINANCIAL INTELLIGENCE CENTRE

BASA Report (2016) states that FIC was established by the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). Its mandate is to identify the proceeds of crime, combat money laundering and terror financing. It does this by seeking to:

- supervise and enforce compliance with the FIC Act.
- facilitate effective supervision and enforcement by supervisory bodies.
- receive financial data from accountable and reporting institutions.
- share information with law enforcement authorities, intelligence services, the South African Revenue Service, international counterparts and supervisory bodies and
- formulate policy regarding money laundering and the financing of terrorism.

The FIC Act introduces a regulatory compliance framework of measures requiring certain categories of business to take steps regarding client identification, record-keeping, reporting of information and internal compliance structures.

2.4.3 FINANCIAL SECTOR CONDUCT AUTHORITY

The FSCA is a unique independent institution established by statute to oversee the South African Non-Banking Financial Services Industry in the public interest. The FSCA'S mission is to promote the fair treatment of consumers' financial services and products, financial soundness of financial institutions, systemic stability of financial services industries and the integrity of financial markets and institutions (FSCA 2018).

2.5 INTERNATIONAL SUPERVISORY COMMITTEE

2.5.1 BASEL COMMITTEE ON BANKING SUPERVISION

Coovadia (2011) states that Basel Committee on Banking Supervision (BCBS) is acknowledged internationally for its primary role in setting standards for the regulation of banks. The BCBS has the responsibility to improve regulation within banks to ensure the enhancement of global financial stability (BIS 2014).

2.5.1.1 THE EXISTENCE OF BASEL COMMITTEE ON BANKING SUPERVISION

The BCBS came into existence after significant disruptions in global financial markets. One of these disruptions included the losses suffered by banks during the collapse of the Bretton Woods system in 1973. The main responsibility of the BCBS is to set minimum regulatory and supervisory standards in order to enhance banking supervision techniques. BCBS address the problems faced by diversified financial institutions in corporation with other regulators (BCBS 2013:1). In summary, the BCBS merely designs standards and guidelines and make recommendations to financial institutions to ensure the best practice with the hope that these institutions will implement them.

2.5.2 BASEL ACCORD

Ferreira (2014) states that Basel accords refer to the banking supervision accords, Basel i, Basel ii and Basel iii issued by the Basel Committee on Banking Supervision. The Basel I Accord was envisioned always to evolve over time and in January 1996, the BCBS introduced a document named: Market Risk Amendment to the Capital Accord, to be phased in during 1997 (BCBS 2013:2). Resultantly, international bank failures transferred the focus from credit risk towards operational risk (Ferreira 2014:60). Basel II, therefore, was introduced to be more risk sensitive and safeguard financial institutions against additional risks one of which was compliance risk. Basel III has enhanced Basel II by introducing new capital and liquidity standards, which have improved the quality of capital (The Banking

Association of South Africa 2013:2). The BCBS introduced proposals to Basel III in 2010 aimed at improving and strengthening the pillars of Basel II (BCBS 2013:4).

2.6 COMPLIANCE REGULATORY FRAMEWORK AND ITS EFFECTIVENESS

Jane (1998) define compliance framework as a planned set of rules, guidelines and procedures with established legislation. South Africa Banking Supervision Department (2006) states that regulatory compliance framework guides the creation, implementation and monitoring of regulatory compliance monitoring process. A compliance framework is an important element in the governance of entities for: Preventing, identifying and responding to breaches of laws, regulations, codes or standards. Therefore, compliance framework must be part of the financial institution strategic structure which aims to recognise report and disclose compliance risk. According to Global Legal Insight report (2018) stated that compliance within the banking sector is regulated by prescripts and internal policies and procedures. An effective compliance management framework enables to demonstrate commitment to comply with regulatory obligations. The approach to establish, implement, maintain, evaluate and improve banks compliance management system includes:

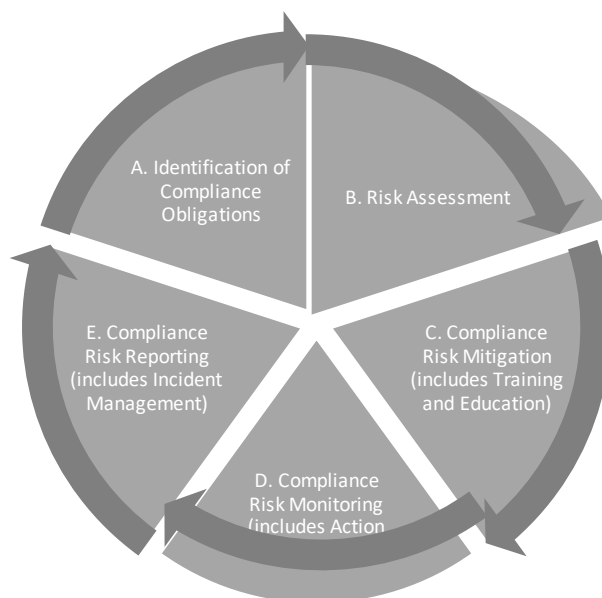
- Strategy and scope– business strategy, compliance objective and scope of the compliance management system;
- Governance and accountability–roles and responsibilities, governance, compliance culture and competence and training;
- Framework and documentation–framework, policies and documentation supporting the compliance management system;
- Compliance planning–management of compliance obligations, risks, controls, issues & incidents and compliance monitoring and reporting and

- Evaluation and improvement–compliance performance measures, escalation and continual improvement.

Stream (2019) states idealistic companies have achieved this goal by adopting a risk-based approach. Risk based compliance management allows compliance managers to first identify the most significant compliance risks and then propose controls to mitigate those risks. A successful or effective regulatory compliance framework which is essential provides the following:

- Active board and senior management oversight: An effective board and senior management oversight is the cornerstone of an effective compliance risk management process.
- Operative policies and procedures: Compliance risk management policies and procedures should be clearly defined and be consistent with the nature and complexity of a banking institution's activities.
- Compliance risk analysis and comprehensive controls: Banks that use applicable tools in compliance risk analysis like self-assessment, key indicators and audit reports; which enables establishing an effective system of internal controls.
- Effective compliance monitoring and reporting: Banks that ensure they have adequate management information systems that provide management with timely reports on compliance like training and development.
- Testing should be conducted to verify that compliance-risk mitigation activities are in place and functioning as intended throughout the banks.

FIGURE 1: REGULATORY COMPLIANCE FRAMEWORK



Source: www.bis.org/publ/bcbssc131.

2.7 REGULATORY COMPLIANCE UNIVERSE

LexisNexis (2010) refer regulatory compliance universe as a convenient snapshot of all the acts, laws and regulations relevant to the banks and the associated compliance risk for each risk identified. This means, banks should ensure that an adequate and effective regulatory compliance process are implemented. Stream (2019) states that regulatory compliance is an accountable institution's adherence to laws, regulations, guidelines and specifications relevant to its business processes. Therefore, compliance regulatory universe seeks to aid banks in monitoring compliance with legislative obligations pertinent to the banks. SARB report (2006) states that adherence with legislative and regulatory obligations is fundamental to banks. To ensure the banking sector is properly regulated and managed.

2.7.1 Regulations that impacts financial institutions amongst:

- **Banks Act;**

According to the SARB Amendment Act (2007) the banking sector is governed by the Bank Act, 1990 and regulations thereto. To provide for the regulation and supervision of the business of public companies taking deposits.

The purpose of the Banks Act:

The Banks Act regulates deposit-taking activities and provides that no person other than a registered bank may take deposits from the general public as a regular feature of its business or advertise for deposits. It does not, however, regulate the relationship between a bank and its customer.

- **National Payment System Act;**

According to the National Payment System Amendment Act 22 of (2004): provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in South Africa. In short, the NPS Act gives rise to a legal framework regulating how South Africans pay one another. A payment system is any system used to settle financial transactions through the transfer of monetary value. This includes the institutions, instruments, people, rules, procedures, standards, and technologies that make its exchange possible.

- **Financial Intelligence Centre Act;**

According to the Financial Intelligence Centre Act (2001) amended act: FIC provides for the regulation of accountable institutions, such as Banks, insurers, credit providers and financial service providers.

The purpose of the FIC Act:

The Purpose of the Financial Intelligence Centre Act is to: assist in the identification of the proceeds of unlawful activities; combat money laundering; and combat the financing of terrorist and related activities.

- **Financial Intermediary and Advisory Services Act;**

The Financial Advisory and Intermediary Services Act (2002) has been amended by The Financial Services Board. The Purpose of the Financial Advisory and Intermediary Services Act is to protect consumers of financial products and services; regulate the selling and advice-giving activities of FSPs; ensure that the Consumers are provided with adequate information about the financial product they use.

2.8 COMPLIANCE STRATEGY

According to Deloitte (2006) compliance strategy is about an accountable institution able to mitigate risk and adhering to rules, laws and regulations set by regulatory authorities. FSB Bulletin (2014) agree with the above statement that to drive the compliance strategy of the bank, a risk-based approach is required to align the business outcome with the bank risk appetite. Financial action task force (FATF 2019) states that a risk-based approach must be embedded in the regulatory management compliance plan of an accountable institution. In order to identify, assess the risk, and take the appropriate mitigation measures in accordance with the level of compliance risk. Ernest and Young (2018) states that the aim of complying with principles and regulations governing the bank, will result in effective management of the compliance process. Below are the strategic objectives:

- Risk Perspective-Maintain and review Compliance Regulatory Universe.
- Internal Processes-Develop and maintain compliance policies, procedures and processes to effectively manage compliance risks.

- Learning and Development-Develop annual awareness training program prioritised based on Regulatory Compliance Universe.

2.9. STRATEGIES TO IMPROVE REGULATORY COMPLIANCE PROCESS

O'Neal (2014) reports that banks are aware of the importance of compliance obligation. Reports on banks non-compliance violations and being fined by the regulators are a concern to the regulators. Implementing compliance obligation can be challenging, because it needs every participant in the bank to comply. Wespack Group Report (2015) states a well establish framework and policies designed to monitor and report on compliance. Minimise the potential for non-compliance, fines or the license being revoked. Ensuring and improving regulatory compliance process and a better compliance culture. This study will discuss the strategies as follows:

2.9.1 KEEPING ABREAST WITH THE LEGISLATION

Horwath (2016) states that compliance requirements are the focus for the management of the bank, and it requires a substantial investment in resources and technology. Therefore, managing compliance is a vigorous process and banks must regularly assess compliance risks and maintain effective controls for each process. LexisNexis (2016) reports that it is vital for the financial institution to conform with compliance requirements to ensure that the bank's regulatory structure is aligned to the regulatory universe. Mynhardt (2008) describes regulatory universe as pertinent legislation applicable to the bank for review. Therefore, South African regulatory universe was reviewed in terms of the different acts in (2006) to identify and list which of these acts govern the activities of banks. The acts in the list will be those that have the most severe impact on the activities of a bank.

2.9.2 INTRODUCE AUTOMATED CONTROLS

O’Neal (2014) urges that the importance of management compliance systems in place can also detect compliance issues. For example, if an important part of the compliance process has been skipped, the system will flag the non-compliance immediately. It is better to have a compliance professional’s deal with strategies to improve regulatory compliance. BIS (2015) emphasises that management must play an oversight role and control culture. The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank:

- Accepting main threats identified by banks.
- Set suitable points for the risks identified.
- Ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks.
- Approving the organisational structure; and ensuring that senior management is monitoring the effectiveness of the compliance process.

2.9.3 COMPETENCE AND TRAINING NEEDS

West (2015) emphasises that banks function in a difficult legislative environment. Therefore, first line management and second line compliance are required to ensure that its employees are adequately trained and perform their roles in a way that achieve compliance with regulatory obligations. O’Neal (2014) further states that training and development are important to enforce regulatory compliance in the banks. Deloitte (2016) reports that regulatory training should be a priority for the banks. Compliance training is not only about responding to regulatory requirements. It also shapes compliance culture and ethics in the financial services industry.

2.10 COMPLIANCE PLAN PURPOSE IN THE BANK

Wong (2006) states a well-developed compliance plan in the bank reduces the danger of complying or to assist management discharging its responsibilities to comply with legislation requirements. The purpose of the compliance plan is to provide guidance on how the compliance department shall execute its compliance responsibilities in the bank. Wong (2006) further states that it is the responsibility of the management ensuring the banks remain compliant with legislation obligations. Anderson and Eubanks (2015) states the main reason is to allow the administration and directors of the financial institution, to understand roles and tasks in the compliance functions. Therefore, through integrated planned and co-ordinated activities the compliance department will be able to identify, monitor and evaluates the bank activities which are carried out, are consistent with its policies and procedure.

2.10.1 DEFINITIONS OF COMPLIANCE

The Basel Committee on Banking Supervision (BCBS 2005) describes compliance as adherence to rules and laws as well as guidelines. The fact that compliance remains a legislative obligation, it is important for the bank to comply with their regulatory obligation.

2.10.2 THE NEED FOR COMPLIANCE FOR BANKS

During the 2008 financial crisis, financial institutions were faced with a supervisory of inspection by the regulators. Banking Supervision Department (2009) states that regulators want numerous legislative and monitoring compliance audit for the banks, for example, FAIS (Financial Advisory and Intermediary Service Act 37 of 2002). Therefore, each bank needs a monitoring system in compliance ensuring that financial institutions are efficient

about the legislative obligation it complies. O' Neal (2014) emphasises that banking compliance is becoming more vital for financial institutions. Dye (2016) financial institution banks differ in their operation or conduct business but they have in common is compliance purpose. This suggests that compliance management is of substantial important in any sector. Therefore, the reasons as to why compliance is essential to the financial services sector are as follows:

- Compliance is a critical concern for financial institution or banks. Failing to conduct due-diligence on customers will leave the bank to be exposed to scrutiny.
- Financial institution can face regulatory action with regards to non-compliance that will results to the consequences of being sanctions, revoked their license.

2.10.3 FUNCTIONS OF A COMPLIANCE DEPARTMENT

South African Reserve Bank Supervision (2015) highlighted the following:

- Identification of the risks the financial institution exposed and guide on them.
- Design and device some controls are there to protect the financial institution from potential risk.
- Reporting and monitoring on the usefulness of the controls in the management in the financial institution about exposure to threats.
- Resolving on matter such as compliance problems when they happen.
- Guide the bank on laws, rules and proper controls in place.

2.10.4 COMPLIANCE PRINCIPLES IN THE BANKING SECTOR

The Bank for International Settlement (BIS 2005) identifies nine principles which are mandatory for financial institution that underpin the business compliance function:

- Management of the banks are accountable for supervision of the business or financial institution regulatory issues identified.
- Management in the bank must approve bank's regulatory policies and procedure.
- Senior management of the bank is to ensure there is effective running of the financial institution compliance risk.
- Senior management team must ensure that it establish and communicate a compliance policy and procedure for the bank.
- Management of the bank is accountable in creating a stable and operative regulatory structure in the banks.
- Financial institution compliance function must be independent.
- The financial institution regulatory function must have resources to perform its responsibilities efficiently.
- Financial institution must conform to pertinent rules and guidelines in all jurisdictions in which they conduct business and the organisation and structure of the compliance function and its responsibilities should be consistent with local legal and regulatory requirements.

2.11 FACTORS INFLUENCING REGULATORY COMPLIANCE FRAMEWORK

Rose (2013) compliance framework can be defined as outlining all the regulatory compliance codes and principles relevant to the bank and its business procedures. Therefore, there is a need for compliance with the rules, principles and standards are entrenched in the bank. Deloitte (2016) states compliance universe remained revised with the aim of recognising all pieces of legislation governing the financial institution activities. Therefore, every bank has a responsibility to identify current and developing legislation that is more

pertinent to its business. Key factors which will influence the effectiveness of regulatory compliance framework are set out below:

2.11.1 COMPLIANCE IDENTIFICATION

CISA (2013) defines compliance identification involve the formation of the bank's compliance universe. Regulatory universe should include the identification of all legislation applicable to the bank. Bank Supervision Department (2016) further identified some critical compliance deficiencies noted during their audit review on banks. The problem identified is non-compliance with regulatory compliance by the financial institution. Bates (2004) states where linkages exist, they are on paper only but in practical terms no policies that expedites compliance requirements.

2.11.2 CHARACTERISTICS OF COMPLIANCE IDENTIFICATION

Losiewicz-Dniestrzanska (2014) states that compliance identification of risk relates to both classifying relevant legal requirements. Therefore, the aim is to establish a relevant compliance structure and then assessing its significance to the bank business. Makowicz (2011) further states that it is imperative for compliance identification of all the compliance risk in the bank to be identified. The outcomes of the above is to determine the type of compliance risk mitigation to monitor compliance risk effectively. The following factors should be examined (Are, 2013; Kroll, 2012):

- The nature of the threat – what, when and where the event happens?
- The foundation threat – the question will be what kinds of individuals or business will be involved? What is the main reason for the threat?
- The consequence of the threat – what will be the outcome once assessed?

2.11.3 COMPLIANCE RISK ASSESSMENT

Deloitte (2016) states that compliance assessment is a procedure that identifies essential compliance risk with the aim to mitigate those risk. Hence, it is critical for compliance risk valuation that is mandatory for the banks. According to Nimble Group (2015) emphasise that there must be a review, identification of violations law and regulations in the bank.

2.11.4 COMPLIANCE MONITORING

The Banking for International Settlement (BIS 2005) states that compliance monitoring is the quality assurance that the banks operated within a compliant framework. Hart (2006) argues that monitoring creates prospects for banks in assessing risk, a management plan that are operational and effectively. Therefore, a compliance monitoring plan must be documented with aim of addressing the following:

- Serious regulatory threat focusing on key and accomplished threat levels.
- Repetitive bank dealings to which regulatory requirements or threats are associated.
- Embedding of the structures, procedures and all guidelines issued by the bank compliance division.
- Regulatory compliance with the rules, guidelines and principles incorporated on the framework.
- Monitor requirements that have been given to the compliance risk management division.

BIS (2005) states that measurable tools in regulatory monitoring risks are mostly constructed on the sign that are categorised by plenty of reference points to the parameter set by the regulator. For example,

- the amount of non-compliance recognised;
- the amount of violations;
- the amount of consumer grievances to the supervisory bodies;
- the amount of cases submitted to the regulators; and
- the amount and cost of fines levied by the regulatory bodies.

Compliance monitoring is an endless process that ensures that the banks are conforming to the relevant compliance obligations. It is imperative to make sure that the regulatory monitoring process is working excellently and efficiently (Terblanche, *et al*, 2013:232). Monitoring and reviewing are an essential and integral step in the compliance risk management process.

2.11.5 COMPLIANCE REPORTING

Institute of Directors (IOD 2009) states that it's important for compliance reporting to be acknowledged within the compliance framework of the bank. Therefore, compliance function must ensure its co-ordinates the compliance reporting in the bank. Furthermore, to report on new laws, amendments and advising management or board with any changes. Appropriate rules, laws and values must be complied by management and attention should be focused on the higher risk. The compliance reporting should address compliance risks breaches. King III Practice note (2015) states management tasks regarding reporting and additional features of the affiliation with supervisory bodies must be clearly well-defined. According to Compliance Charter (2013) the administration and the regulatory function must measure the compliance hazards or threats for the risk appetite framework. Reporting must be at least quarterly and compliance cases must be reported to management of the institution as per below:

- Breach of bank's business principles;
- Breach of applicable laws, regulations and standards;
- Reputation threat;
- Supervisory sanctions.

2.12 CAUSES OF NON-COMPLIANCE

Brown-bridge (1998) points out that the cause of non-compliance by banks, occur when bank does not have effective compliance monitoring programs. Therefore, it is vital for the board to maintain clear lines of authority and ensure that management understands and carries out the bank's compliance policies. The Compliance Institute of South Africa (2008) states that management of the bank is to attain its role and duties for overseeing the bank's regulatory risk. The board must leave day-to-day tasks to management and it must retain overall control. Other factors include when the banks do not implement written policies, conducting effective training and education, conducting internal monitoring and auditing. Banks International Settlement (BIS 2006) outline the following failures by the financial institution.

2.12.1 NON-ADHERENCE TO REGULATION

According to Sultania (2018) U.S. Bancorp settled an amount of \$613 million in fines to the authorities for non-complying with Bank Secrecy Act and money laundering activities because of the banks' failure to implement operational compliance program with acceptable controls in place. Financial Intelligence Centre (Section 28) FIC Act states that banks must submit the cash threshold report to the FIC. Price Water Coopers (2017) during the audit report of VBS Mutual Bank, it has found evidence of fraudulent reporting and manipulation of financial information and there was no proper control in place.

There is no control to verify the number of transactions within the file in comparison to the source. South African Reserve Bank (2018) penalised the bank with a R2.5M for contravention of anti-money laundering rules and regulations. Further to that Annual Financial Statement were withdrawn as they contained “material miss-statements” and incorrect submission reporting to the South Africa Reserve Bank.

2.12.2 RISK MANAGEMENT DECISIONS

BIS (2005) reports that banks have been confronted with challenges over the years for several reasons. Therefore, financial institution must now have an awareness on identification, measuring, monitoring and control compliance threats in the bank. Deloitte (2016) states that management of risk must support the compliance framework with the risk assessment of the pertinent rules or regulations with the requirements of the regulation. Meaning a compliance risk list for the compliance universe displaying the importance of each regulation centred on the effect and probability should be included in the procedure. Deloitte and Touché (2016) further states that penalties and other business risks associated with key provisions of the regulation should be identified and captured on the risk register.

2.12.2.1. TYPES OF RISK IN THE BANKS

National Bank of Serbia (2015) outline types of threat that the bank it's exposed in its processes. Below are the types of risk:

- The prospect of negative effects on the financial institution result as a concern.
- Failure to conform to operational rules and additional directive.
- Inadequate policies and procedures due to failed strategies.

2.12.3 MALADMINISTRATION

Leadership is important for the business to succeed. According to Spiegel et al. (2016:51) suggest that capability and focal point are substantial in the development of a business. Financial catastrophe in some instances will come from management that lacks decision-making. Deloach (2016) states failure by leaders and managers to make sure that there must be compliance with relevant statutes, methods and processes. In numerous circumstances wherever there is a loss of a business, it is attributed to either lack of policies. If policies existed at all, they are insufficient or existing policies are not observed. Spollen (1997) states that below are the primary causes or failures of banks which are also significant in this study:

- Failure by leaders to manage a bank.
- The situation when an important control processes are overlooked.
- The condition when management does not efficiently and successfully talk about audit probes.

2.12.4 POOR RISK MANAGEMENT PROCEDURES

Hempel and Simonson (2014) states the principal action of bank management is not deposit utilisation and providing a credit facility. Active credit supervision comforts the threat of customer non-payment. The competitive benefit of a bank is dependent on its competency to handle credit risk usefully.

2.12.5 FRAUD AND CORRUPTION

Herstatt Heffernan (1996: 293) emphasises that the main reasons as to why many banks are failing in the banking industry are because of corruption and fraud. In South Africa, the

common law offence of fraud is defined as the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another. White (1993: 108-109) maintains that financial institution is perceived to be initiated by misconduct, deception.

2.12.6 OPERATIONAL RISK

DuPont (2015) describes operational risk management as a continual cyclic process which includes risk assessment, risk decision making and implementation of risk controls. Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people or from external events. If not properly managed, operational risk may result to internal/external fraud, leak of sensitive or confidential information.

2.12.7 REGULATORY SANCTIONS

Regulatory Sanction—is the risk of the Bank to reputational or financial loss, cost of lawsuits and other legal proceedings resulting from non-compliance with regulation. Risk on regulatory sanction is the exposure of the Bank to regulatory fines and penalties.

2.13. CONSEQUENCES OF NON-COMPLIANCE

There are fines, such as penalties and licence being revoked, costs of non-compliance with appropriate rules and laws such as:

2.13.1 CRIMINAL CHARGES

LexisNexis (2017) emphasises that criminal charges are possible consequence on certain compliance requirements. Failure to comply in areas pertaining to staff management, corporate governance, due diligence laws could result in jail time.

2.13.2 REPUTATIONAL DAMAGES

TMF Group (2007) states that if the regulatory authorities are carrying out an investigation for non-compliance the company's reputation can be damaged. Investors, customers and suppliers may no longer wish to work with such an organisation. When a company is thrust into the public eye for failing to comply with regulations, there are reputational repercussions.

2.14 PERCEPTIONS OF THE REGULATOR ON COMPLIANCE FRAMEWORK

Shanapinda (2015) states that to appraise the perceptions of effectiveness of the framework it is important to understand what regulatory compliance framework entails. The regulator perception on the effectiveness of the compliance monitoring process is deemed as critical driver in the successful implementation of the regulatory compliance framework. South African Reserve Bank Report (2018) highlights the need for regulatory compliance framework within the banks to be implemented effectively. To ensure that bank's comply with applicable legislation. South African Reserve Bank (2015) has highlighted challenges banks have in complying with the framework which in turn results into non-compliance with legislation:

2.14.1 FAILURE TO DEVELOP STRONG CONTROL CULTURE WITHIN THE BANK

South African Reserve Bank Supervision Report (2015) highlighted the following cases of major loss reflect on the responsibilities of the board. Boards and senior management are facing increasing scrutiny and pressure from regulators to tighten internal controls. Ernst and Young (2014) suggests that the significant feature on improving the culture of risk is compliance structures. SARB (2015) states insufficient guidance and oversight by board's lack of clear accountability through the assignment of roles and responsibilities. Ernst and

Young (2014) further states banks must reinforce lines of defence to clarify roles and responsibilities and redesigning compliance frameworks to shift risk accountability. Bank Supervision Department (2015) states that risk appetite is the key area to focus for both boards and management. Banks are still finding it difficult to translate the banks compliance strategy into planning and processes of the bank's operations. Consequently, appetite of risk, compliance strategies, must be aligned to be effectively.

2.14.2 ASSESSMENTS OF THE RISK

SARB (2015) highlighted that banks must implement a risk-based approach in compliance. Basel Committee on Banking (2014) suggests that banks must identify, assess and understand compliance risk the bank is exposed. This assessment should cover all risks facing the bank. Internal controls must be revised to appropriately address any new or previously uncontrolled compliance risks. Also, to take appropriate mitigation measures in accordance with the level of risk.

2.14.3 FAILURE OF KEY CONTROL STRUCTURE AND INADEQUATE INFORMATION

SARB (2015) highlighted that the lack of segregation of duties has played a major role in the significant losses that have occurred at banks. To be effective, policies and procedures need to be effectively communicated to personnel involved in an activity. Some losses in banks occurred because relevant personnel were not aware of or did not understand the bank's policies. Banking for International Settlement (1998) argues that failure of key structures activities such as segregations of duties are typical problem seen in the bank. Therefore, lack of segregation of duties play a role in non-compliance with the regulatory obligations. Banking Supervision Department (2014) states control activities are designed and implemented to address compliance risks identified during assessment process. Therefore,

control activities involve two steps: (1) the establishment of control policies and procedures and (2) verification that the control policies and procedures are being complied with.

2.14.4 INEFFECTIVE AUDIT PROGRAMS AND MONITORING ACTIVITIES

South African Bank Reserve Bank Supervision Report (SARB 2015) highlighted many cases and audits were not sufficiently challenging to identify and report the control weaknesses associated with problem banks. In other cases, even though auditors reported problems, no mechanism was in place to ensure that management corrected the deficiencies. Banking Supervision Department (2016) states that internal audit function is an important part of monitoring of the system of internal controls. The reason is because it provides an independent assessment and compliance with, policies and procedures. It is critical that the internal audit function is independent from the day-to-day functioning of the bank. It has access to all activities conducted by the banks. ISA (2009) states internal control deficiencies, compliance risks and must be escalated to the right person. Matters of a serious nature must be reported to management of the banks.

2.15 FACTORS TO MONITOR THE EFFECTIVENESS OF COMPLIANCE PROGRAMS

Phelps and Phillips (2018) states that there are procedures to ensure there is monitoring and effectiveness of regulatory programs. Below are the factors to be considered or monitor the effectiveness of compliance programs:

- Planning: Have a plan and set the goals to measure the results and ensure there is a track progress of your initiative to figure out whether your compliance program is evolving and keeping up with best practices.

- **Capture data:** Data gathered on your regulatory activity must be captured as possible and ensure data collected is correct and is beneficial.
- **Intensify:** Construct a strong and suitable reporting method, so that managers can reply to any recognised breaches of compliance and red flags.
- **Remediate:** Non-compliance failures are recognised and are being addressed.
- **Train:** Training and development of banks personnel are vital. When employees recognise a reportable event when they see it and know how to report it, you have managed to install a sound corporate compliance culture.
- **Document:** Document all your efforts and keep auditable records that have a proof of all your compliance activities.

2.16 KEY ELEMENTS OF EFFECTIVE COMPLIANCE PROGRAMS

Welch (2015) states that management's commitment to compliance begins with members of the executive. They must clearly articulate commitment to prioritise and maintaining effective measures.

2.16.1 Leadership

Tone from the top : a successful compliance program must be built on a solid foundation of ethics that are fully and openly endorsed by the bank's senior management.

2.16.2 Standards and Controls

Banks should have three sets of principles and controls:

- **Guidelines**—A code of conduct is a set of rules outlining the social norms, religious rules and responsibilities.

- Values and rules—Policies in place that build upon the foundation of the code of conduct and articulate code-based policies, which should cover such issues as bribery, corruption and compliance practices.
- Processes—Enabling applied procedures or process to confirm the policies are implemented, followed and enforced.

2.16.3 Training and Communication

A vital pillar of a strong compliance program is properly training company officers, employees on relevant laws, regulations, corporate policies and prohibited conduct. It is important to pay attention to what employees say during training. This is because training can alert you to potential problems based on the types of questions employees ask and their level of receptiveness to certain concepts.

2.16.4 Reporting Hotline

It is critical to have a hotline that enables confidential and truly anonymous reporting of compliance issues. The organisation may publicise reporting options, such as email, toll-free numbers and mailbox addresses, including information on the kinds of issues to report.

2.16.5 Monitoring, Auditing and Internal Reporting

As a best practice, leverage the risk assessment to create an annual monitoring and auditing internal reporting program. The assessment can be used to identify trends, support quality reviews and other operational activities, determine where expertise is lacking and third parties should be engaged, evaluate vendors and track compliance hotline calls.

CONCLUSION

This section provides synopsis of literature highlighted the effectiveness in introducing regulatory compliance framework. It is evident that regulatory compliance and its principles are essential components of the financial institution to be integrated on the strategy of the bank to meet its compliance obligations. The above, implemented effectively can lead to the banks in complying with the banking legislation. Regulators have outlined outstanding compliance structures and procedures in managing effectiveness of compliance monitoring process by the banks in South Africa. However, the South Africa Reserve Supervision Department identified negative findings on their inspection on banks, including the ordering of certain remedial action on the respective banks. Complaints outcomes from the regulators drives to introduce more and more governance, regulation and supervision to the industry. To develop regulatory effectiveness, efficiency and sustainability, it is essential to execute not only against a sound compliance framework but to continue to invest in compliance regulatory automation. Through compliance investment, you drive not only enhanced compliance integration to the compliance risks in your business practices and control environment but the ability to further expand your compliance predictive analysis.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Hall (2010) states that research methodology is a philosophy of common principles behind research which comprises of the investigation techniques and methods. This study will offer a quantifiable measure the effectiveness of regulatory compliance framework in the banking sector. The sample size and composition of the target population were identified. Leedy and Ormrod (2014) interprets methodology as a framework that lays facts clearly such that clear meaning can be derived from what they present. According to Leedy and Ormrod (2014) quantitative research methods involve many respondents and are predetermined. The use of numbers allows for greater accuracy and precision in reporting research results. Hall (2010) elaborates further that the nature of the research methodology selected is reliant on the research problem and its goals. The aim of the designed questionnaire defines effectiveness of introducing Regulatory Compliance framework and its desired benefits.

Jankowicz (2005) describes research methodology as processes and techniques employed to obtain the much-needed data for analysis. This study discusses research philosophy, overall strategy, research instruments, population, data collection, data analysis and pilot study ethical consideration. A questionnaire designed as a data collection instrument. Therefore, a questionnaire obtained in responding to the search topic as the data gathered must be administered using numerical tests, analysed to obtain meaningful outcomes.

3.2 RESEARCH PHILOSOPHY

Easterby-Smith (2008) states research philosophy involves means to be applied for data gathering, analyses and utilised. Bell (2008) further states that the understanding of philosophical issues is useful in different ways to assist in clarifying the research design and it helps to recognise which design will work and which will not. According to (Crowther and Lancaster 2008) philosophical research deals with landscape, source and improvement of information. Therefore, the approach that will be used in this study will be positivism.

3.2.1 POSITIVISM

According to Bryman and Bell (2015) describes positivism as to adherence through knowledge or information gained through observation including measurement, is dependable. Therefore, this study will attempt to establish laws and regulations that govern the regulatory universe. Kawulich (2012) states that positivism studies are only limited to collection of data and understanding very objectively. Therefore, these kinds of studies and results are typically measurable. The technique of gathering data is mainly questionnaires. This study is to discover the effectiveness of the regulatory compliance framework for banks and principles that govern the regulatory universe.

3.3 RESEARCH DESIGN

The nature of the study is quantitative. Jonathan (2010:102) and Mouton (2001:55) describes research design as a framework for reaching the objective of the study. The aim is to construct statistical expressions that explain hypotheses formulated. In this study cross-sectional study comprises of respondents from diverse groups in the sample (Leedy and Ormrod 2014). A quantitative research technique will be used by distributing a constructed

questionnaire with the aim to ascertain the effectiveness of compliance monitoring process. Data is collected from General Manager, Head of Compliance, Compliance Manager, Compliance Officer and Compliance Analyst at the selected banks for this study from various divisions within the bank which include amongst others, Retail, Business, Wealth and Corporate. The selected people are privy to regulatory changes within the banking industry and mostly drive strategic decision on the practical implementation of the regulations within the banks. Data collection is based solely at the selected banks to determine effectiveness of compliance monitoring process in the banking sector. The purpose of applying the approach is based on acquiring deeper theoretical understanding and expanding empirical knowledge about this phenomenon. In addition, the study selected the banks.

3.4 DELIMITATION OF THE STUDY

The selected study focuses on the banks as opposed to other sectors of the financial services such as Insurance companies and Investment management. Banks are generally the biggest sector within the financial services industry and have elements of investment banking, insurance etc.

3.5 QUANTITATIVE RESEARCH

According to Teddlie and Tashakkori (2009) quantitative research is about prediction and using numbers to prove or disprove a hypothesis. Given (2008) describe a quantitative research as a technique that relies on measuring variables using a numerical system, analysing these measurements using of a statistical model. In this study, a quantitative method will be conducted at the banks. A more descriptive approach and correlation will be used to express views, describe events and situations within the banking institution.

Furthermore, a questionnaire will measure the stability of research instrument, as well as the Cronbach's alpha will be used to establish internal consistency for questionnaires. Babin and Harris (2013) postulate that quantitative research addresses questions regarding phenomena, using numerical measurement and analysis tools. Therefore, the measurement instrument (Appendix 1) used to gather data in this study was structured and had a quantitative scale. The questionnaire used the following pre-coded quantitative anchors in the form of a Likert scale:

- Strongly disagree;
- Disagree;
- Not sure;
- Agree; and
- Strongly agree.

3.6 POPULATION

Mugo (2008) states that a research population generally is group of persons, objects, and items from which samples are taken for measurement. Kumar (2005) population is the complete listing of elements from which one selects a sample in order to answer research questions.

3.6.1 TARGET POPULATION

According to Teddlie and Tashakkori (2009) a research target population usually has varying characteristics and it is known as the theoretical population. Target population generally has changing features, which is denote theoretic populace. Therefore, main target will

be compliance officers, compliance analyst and head of compliance and compliance managers as a population at major banks in retail business banking. For this study, 132 banks employees from compliance and risk department head office in Johannesburg are included.

3.7 SAMPLING

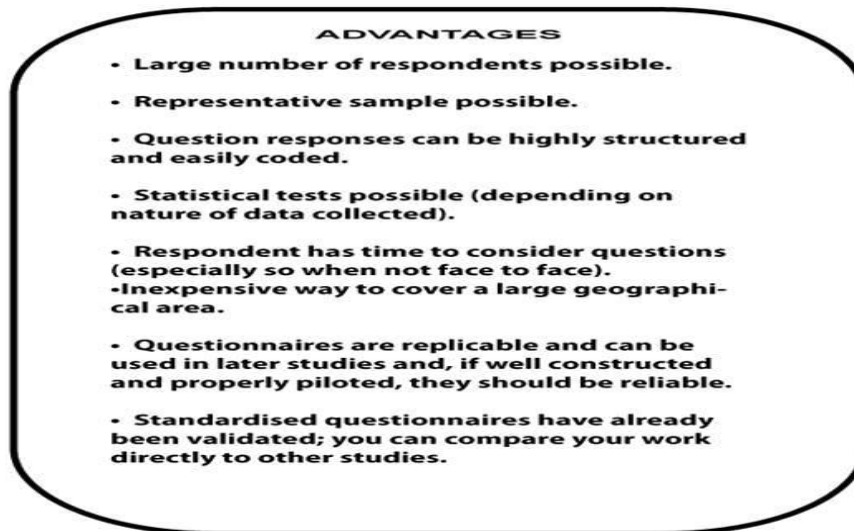
Blaxter, Hughes and Tight (2006:164) states that selection is separated by groups which are a probability and non-probability selection method. For this study, a convenience sampling, which is a non-probability selection method will be used to determine the sample of the research. Sekaran (2003) suggests a population of 1 000 000 can have a sample of 384 participants. For the purposes of this study 132 respondents will be chosen, to ensure representativeness.

3.8 RESEARCH INSTRUMENTS

Mellenbergh (2008) states that questionnaires are printed questions on a document which are mainly referred to as instruments in which the respondent responds to. Brink (1996) further describes a questionnaire as a written question on a paper, however they are usually mentioned as self-report tools in which the participants answer to it. Data gathered on completing the questionnaire may be the key to solving the problem(*Joseph et al, 2006:434*). To ensure credibility of the instrument, the instrument will be piloted with the actual sample of the study before it can be administered. This will be done by testing the instrument and limited number of participants from the same target population as that for which the research is intended. The questionnaires have been designed to demonstrate the effectiveness of Regulatory Compliance framework in the banking sector.

3.8.1 BENEFITS OF A QUESTIONNAIRE

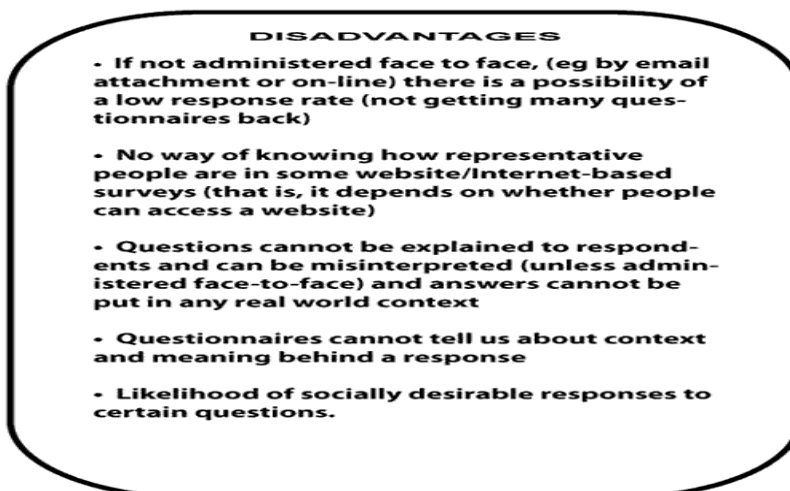
Figure 2 outline the benefits of a questionnaire.



Source (Gault, 2007)

3.8.2 NON-BENEFITS OF A QUESTIONNAIRE

Figure 3 outlines the disadvantages of using a questionnaire



Source (Gault, 2007)

The questionnaire comprises of close-ended questions founded on the following sections namely: Regulatory Universe major banks. The proposal of the questionnaire is separated into four subdivisions namely:

- Section A- Factors influence the effectiveness of the regulatory compliance framework.
- Section B- Factors that causes non-compliance with regulatory requirements.
- Section C-Strategies to improve regulatory compliance process.
- Section D- Perceptions of the regulator on compliance framework.
- Section 1. The objective is to compute the segments of participants and their work experience as well as level of education.
- Section 2. The objective is determining the awareness of bank regulatory compliance framework by the participants in the bank.
- Section 3. The objective to measure the effectiveness of regulatory compliance monitoring process at four major banks.
- Section 4. To determine how effective the regulatory compliance framework in the bank.

3.9 DATA COLLECTION

The purpose of collecting data is to address the research problem stated above and reach the necessary conclusions that are aimed at responding to the research questions stated and hence achieving the objectives of the study. There are various instruments that can be used to collect data for purposes of analysis in research. Such instruments are required to fulfil the most important criteria of reliability and validity (Melville 1995). In this regard questionnaires are the best instruments for data collection in this study. According to Kumar

(2014) a questionnaire is a written list of questions addressed to respondents. It is supposed to be structured in an easy and simple format for respondents to understand it as this has a major bearing on the reliability of the questionnaire (Melville 1996). In addition to that, data collected from the banks will be classified into scales of demographic and compliance function. This is vital for illustration and will assist in gathering significant data for decision -making.

3.10 DATA ANALYSIS

Kumar (2014) views data analysis as a procedure of conferring logic answers provided by the respondents in this study. This study will rely on literature review as well as the information gathered from the questionnaires. The researcher used a quantitative methodology to populate the collected data on spreadsheets and made use of descriptive statistics to analyse the data. Data was analysed according to the questionnaires designed and was grouped according to the four research objectives. The average important scores were used to weigh the significance for each objective. This study relied on literature review as well as the information gathered from the questionnaires.

3.11 VALIDITY

The rationality of the research tool determines the achievement of this study. According to Golafshani (2003) validity is to test and quantify the correctness of the size and valid number of participants. This study, questionnaire will be developed to address a research question. As a result, the approval regarding an instrument in collecting correct measurements in this study.

3.12 RELIABILITY

Golafshani (2003) reliability refers to the ability of an instrument to measure consistently. Therefore, the measuring instrument must produce the same results under comparable conditions. In this study, tested the questionnaires to establish, confirm and validate relationships. Brink (1993) reliability is relatively associated with characteristics such as consistency, stability, and repeatability of the informer's explanations as well as the researcher's ability to gather and record information accurately. For this study, reliability will be improved by first using a pilot version of a measurement before applying the final version.

3.13 PILOT STUDY

In this study, a draft of the questionnaire was sent to Statistical Consultation Services of the North-West University to assist in structuring of the questionnaire and formulation of the questions. Response from all pilot testing will be carefully considered to form a final questionnaire. Rivera and Rivera (2007) suggests that instruments used in collecting data research must be reliable and valid.

3.14 ETHICAL CONSIDERATIONS

According to Sekaran and Bougie (2013:13) ethics in research refers to the code of conduct or anticipated societal standards of conduct during research. This study will explain the purpose of the study to all respondent and request that they sign consent form and code of ethics to be considered. All research information collected from other sources, publications or other individuals will be correctly recognized in this study. Therefore, the information gathered from the banks was treated with all the confidentiality it deserved.

3.15 CONCLUSION

The section detailed the research method to be utilised as well as the questionnaire as the research instrument which will be used for data collection. The self-administered questionnaires are simple and unambiguous. The next chapter emphasise data analysis and interpreting results into meaningful information.

CHAPTER 4

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4. INTRODUCTION

The section presents data acquired through questionnaires distributed to the employees of the bank. For purposes of this study, the analysis and discussions in this chapter are relied on the outcome articulated in research objectives. Outcome of analysis and discussions put forward in this study will inform conclusions and recommendations.

SECTION 1: DEMOGRAPHICS

Table 4.1: Indicate your part in the organisation

Role in the organisation	Frequency	%
General Manager	15	12.6
Head of Compliance	15	12.6
Compliance Manager	25	21
Compliance Officer	45	37.8
Compliance Analyst	19	16
Total	N = 119	100

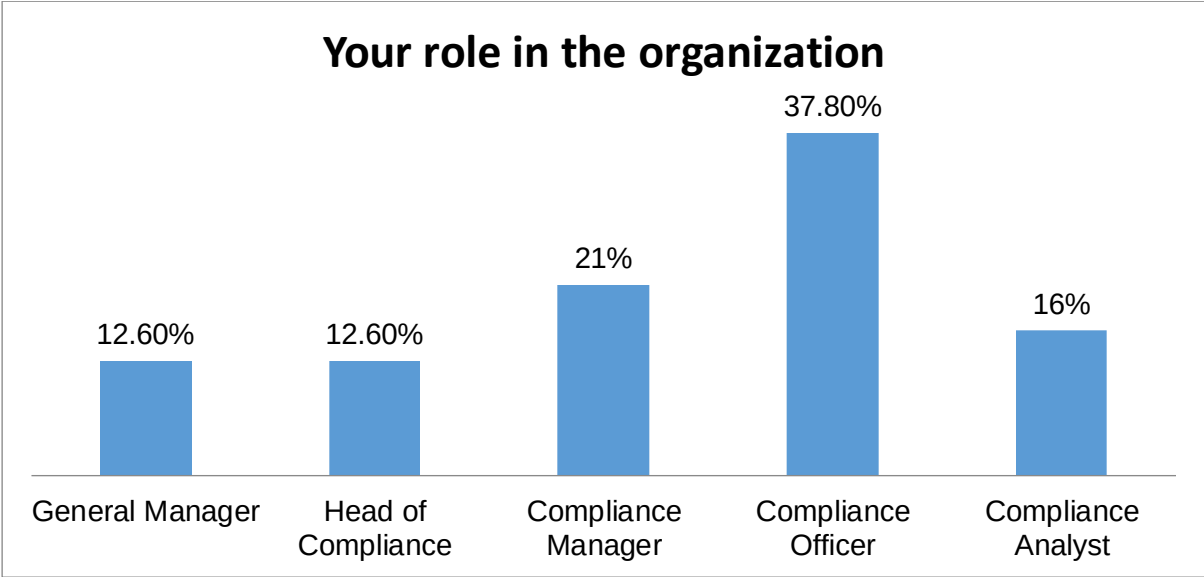
Table 4.1: What position do you hold?

Outcomes around the role of the participants are as follows:

The participants who made up, 37.8% are compliance officer, were above the compliance manager by 21%, head of the compliance 12.6% and general manager 12.6%, and 16% of respondents were compliance analyst.

The respondents of the questionnaires are made of employees in various levels in the bank ranging from senior management to entry level roles. The study illustrates that staff in lower level roles comprising of compliance officer have the largest percentages (37.8%) in the banks.

Figure 4.1: Indicate your role in the organisation



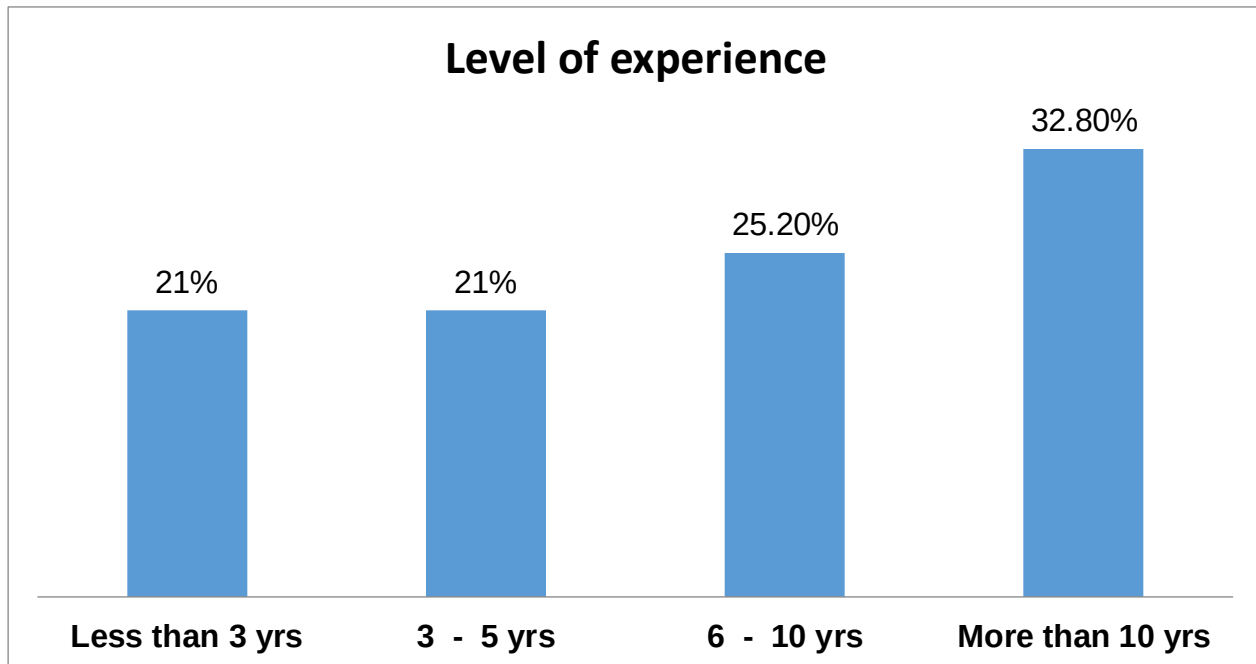
Position in the Bank

Diverse employees occupying different roles answered the questionnaire ranging from senior management to the lower most level position in the bank. The study recognised that employee in management and compliance officers had the major fractions (37.80% and 21% separately). These people were found to have the most years of experience and offered highly credible and consistent information during the conduct of the study.

Table 4.2: Level of experience

Level of experience	Frequency	%
Less than 3 years	25	21
Between 3 and 5 years	25	21
Between 6 and 10 years	30	25.2
More than 10 years	39	32.8
Total	N = 115	100

Figure 4.2: Level of experience

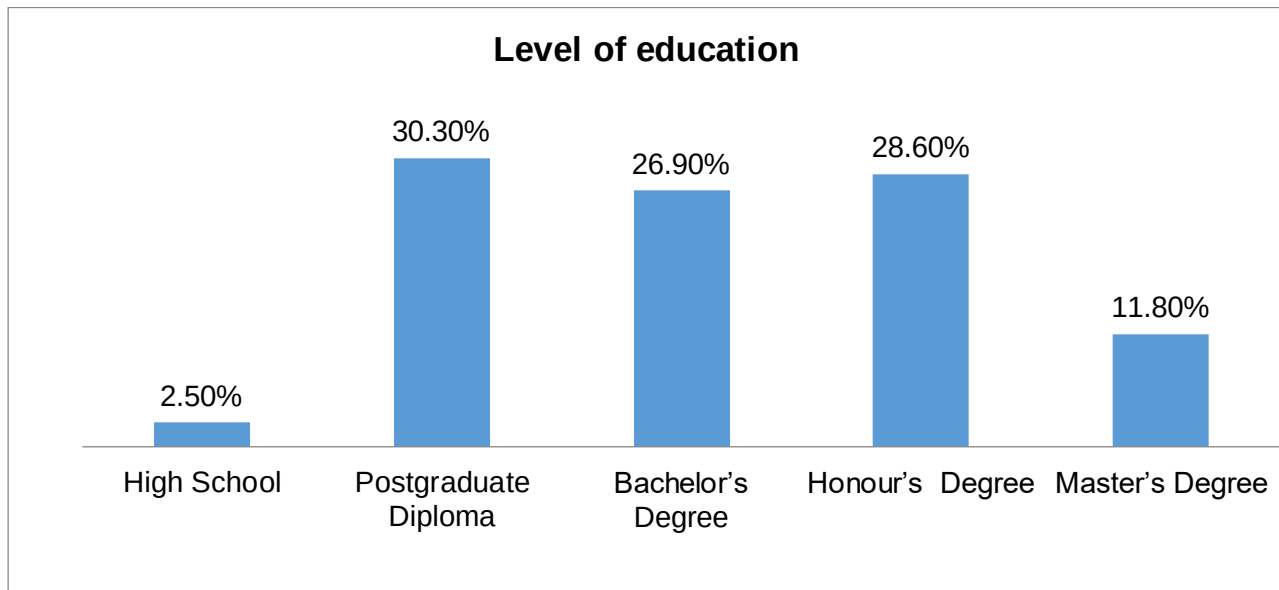


The study reveals that more than 32.80% of respondents have been with the bank for more than 10 years. This means that respondents have the right experience in the bank. While, 25.20% have been with the bank for 6-10 years, 21% have been with the bank for 3-5 years and 21% have been with the bank for less than 3 years.

Table 4.3: Level of education

Level of education	Frequency	%
High School	3	2.5
Postgraduate Diploma	36	30.3
Bachelor's Degree	32	26.9
Honours Degree	34	28.6
Master's Degree	14	11.8
Total	N = 119	100

Figure 4.3: Level of education



The results regarding to the highest qualifications of participants are as follows: The study reveals that 2.5 %obtained matric certificates, 30.30% postgraduate diplomas and 26.90% has bachelor's degree; 28.60 % honours degrees and only 11.80 % master's degrees. This indicates that most of the respondents are educated.

SECTION 2: RELIABILITY ANALYSIS

Cronbach's alpha (α) dependability coefficient whose numerical value ranges from 0 to 1, measures the reliability (or internal consistency) of a questionnaire (or survey) consisting of Likert-type scales and items. A high value (close to 1) for Cronbach's alpha dependability coefficient shows a good internal consistency of the items in the scale.

Table 4.4: Reliability analysis on regulatory compliance monitoring process

Subscale	Cronbach's Alpha (α)	N of Items	Mean	Standard Deviation	Internal consistency
Efficiency in regulatory compliance framework	0.92	38	4.50	0.08	Excellent
Causes of non-compliance with regulatory requirements	0.86	5	4.06	0.09	Good
Strategies to improve regulatory compliance process	0.88	6	4.33	0.09	Good
Perceptions of the regulator on compliance framework	0.93	5	4.45	0.05	Excellent
Total	0.92	54	4.44	0.15	Exceptional

The Cronbach's alpha coefficients in **Table 4.4** are all greater than 0.7 and this implies that the questionnaire used for this study was proven to be reliable. The variables with a great internal consistency were the factors that influence the regulatory compliance framework,

perceptions of the regulator on compliance framework, strategies to improve regulatory compliance process and causes of non-compliance with regulatory requirements.

SECTION 3: PERCENTAGES

Table 4.5: Factors that influence the effectiveness of the regulatory compliance framework (percentages)

Key: SD = strongly disagree, D = disagree, NS = not sure, A = agree, SA = strongly agree

		SD (%)	D (%)	NS (%)	A (%)	SA (%)
	Organisation					
4	In my opinion, Regulatory compliance framework guide the establishment, implementation and monitoring of regulatory compliance for the bank. (N = 119)	0	0	0	57.1	42.9
5	In my opinion, Regulatory compliance framework comprises of the principles, process and tools to manage compliance risk. (N = 119)	0	0.8	0.8	42.9	55.5
6	In my opinion, Regulatory compliance framework outlines how compliance with laws, regulations and standard embedded in the bank. (N = 119)	0	0	3.4	43.7	52.9
7	In my opinion, Bank has a responsibility to identify existing and emerging legislation relevant to the bank business. (N = 119)	0	0	4.2	43.7	52.1
8	In my opinion, Compliance officer function in relation to compliance framework is to identify monitor, reporting non-compliance deficiencies. (N = 119)	0	0	2.5	43.7	53.8

9	In my opinion, Regulatory Compliance framework must be effectively and managed to support full compliance with all applicable laws. (N = 119)	0	0	1.7	44.5	53.8
10	In my opinion, Regulatory Compliance framework key activities should be performed by various divisions of the Bank to understand and manage their Compliance Risks. (N = 119)	0	0	4.2	42	53.8
11	In my opinion, Regulatory Compliance Framework must contain key compliance related laws, policies and standards. (N = 119)	0	0.8	5.9	39.5	53.8
	Individual capacity					
12	In my opinion, I frequently acquire information about regulatory principles pertinent to the banks. (N = 119)	0	0	1.7	54.6	43.7
13	In my opinion, regulatory universe is the rule for banks in performing my responsibilities. (N = 119)	0	0.8	1.7	48.7	48.7
14	In my opinion, do you believe that the regulatory universe that is applicable to the bank is justifiable? (N = 119)	0	0	1.7	51.3	47.1
	Factors to Monitor the Effectiveness of Compliance Programs					

15	In my opinion, I contribute to the success of compliance monitoring programme of the bank. (N = 119)	0	0.8	4.2	50.4	44.5
16	In my opinion, Compliance programs are routinely evaluated to ensure they meet regulatory requirements. (N = 116)	1.7	0.8	5	40.3	52.1
17	In my opinion, Assessment processes are in place and adequately supported by the management of the bank. (N = 117)	1.7	2.5	2.5	45.4	47.9
	Factors Influencing Compliance Monitoring Process					
18	Compliance Identification In my opinion, Regulatory universe should include the identification of all legislation applicable to the bank (N = 119)	0	0	1.7	43.7	54.6
19	In my opinion, Compliance officer identifies the nature of the compliance risk in the bank. (N = 119)	0.8	0	2.5	47.9	48.7
20	In my opinion, Compliance officer identifies, why does the compliance risk occur and underlying reasons? (N = 119)	0	0.8	3.4	42	53.8
21	In my opinion, Compliance officer identifies, what is the impact of the compliance regulatory outcome?	0	0.8	2.5	42	54.6

	(N = 119)					
22	In my opinion, Compliance officer identify compliance risks that arise from the compliance obligations. (N =119)	0	0.8	1.7	38.7	58.8
23	In my opinion, Compliance officer translate compliance related rules, laws and regulations into compliance obligations (N = 119)	0	1.7	0.8	58	39.5
24	In my opinion, Compliance officer ensure agreed upon compliance obligation(s) and resolution(s) appear in the framework. (N = 115)	0	1.7	2.5	46.2	49.6
25	Compliance Risk Assessment In my opinion, Compliance officer must ensure compliance risks are included in the risk assessment process. N = 119)	0	0.8	0.8	47.9	50.4
26	In my opinion, Compliance risk assessment will benefit the financial institution in understanding their risk appetite. (N = 119)	0	0	1.7	34.5	63.9
27	In my opinion, Compliance officer must ensure they conduct compliance audit with respect to applicable laws and regulations. (N = 119)	0	1.7	3.4	41.2	53.8
28	In my opinion, Compliance Audit in the bank is to measure, monitor and control compliance risk in the bank. (N = 119)	0	2.5	2.5	33.6	61.3

29	In my opinion, Compliance officer must participate in all high-level risk assessments and when appropriate, detailed risk assessment. (N = 118)	0	0.8	2.5	45.8	50.8
30	In my opinion, Compliance officer must ensure reports from risk assessment include compliance relates information. (N = 119)	0	0	2.5	38.7	58.8
31	Compliance Risk Monitoring In my opinion, Compliance officer must work with the business to document an annual plan for monitoring. (N = 119)	0	0.8	0	38.7	60.5
32	In my opinion, Compliance officer must ensure compliance risk monitoring makes it possible for the bank to test if its risk mitigation activities are working properly. (N = 119)	0	0	0	33.6	66.4
33	In my opinion, Compliance monitoring is a continuous process that ensures that the banks are complying with the relevant regulatory obligation. (N = 119)	0	0	1.7	58.8	39.5
34	In my opinion, Monitoring and review are essential and integral step in the compliance risk management process. (N = 119)	0	0	2.5	46.2	51.3

35	In my opinion, Compliance officer conducts on-going monitoring of adherence to compliance risk policy. (N = 119)	0.8	0	2.5	47.1	49.6
36	In my opinion, Compliance officer must execute second line of defence monitoring and report deficiencies to management. (N = 119)	0	0.8	0.8	42.9	55.5
37	In my opinion, Compliance officer must evaluate the bank conduct in compliance with regulatory requirements. (N = 119)	0	0.8	2.5	41.2	55.5
38	Compliance Reporting In my opinion, Compliance reporting must be acknowledged within the compliance framework of the bank. (N = 119)	0	0	2.5	43.7	53.8
39	In my opinion, Compliance officer must work with the business to document an annual plan for monitoring. (N = 119)	0	0	1.7	34.5	63.9
40	In my opinion, Compliance officer must report information relating to breach of bank principles, applicable laws and regulations. (N = 119)	0	0	1.7	32.8	65.5
41	In my opinion, Compliance officer must report information relating to reputational damage and regulatory sanctions. (N = 119)	0	0	3.4	35.3	61.3
	AVERAGE RESPONSE (%)	0.1	0.5	2.3	43.8	53.3

The effectiveness in introducing compliance monitoring process are determined by factors that influence Regulatory Compliance framework. Regulatory compliance framework is a critical guide to establish, implement and monitor the regulatory compliance requirements for the bank. The results of this study (57%) and (42.9%) agree strongly and recognise that regulatory compliance framework functions in the bank. This concurs with the observation made by USC (1998) that regulatory compliance framework is vital elements in the bank.

In addition, (55.5%) of agree strongly and (42.9%) respondents agreed which means they have a clear awareness of advocating laws, guidelines and rules and effective of compliance risk management in the bank. Significant respondents who strongly agreed (52.9%) and agree (43.7%) that regulatory compliance structure in the bank must be efficiently managed to support the regulatory universe. These results mean the respondents are aware of the compliance framework that is embedded in the bank. Deloitte (2016) states that banks have a responsibility to identify legislations applicable to the business it operates. The results of this study further reveal that strongly (54.6%) agreed (43.7%) regulatory framework should include the identification of all legislation applicable to the bank. This agrees with the statement made, that banks must ensure that its employees are adequately trained (Westpac, 2015). About (48.7%) agreed strongly and agreed (47.9%) are aware about regulatory universe in the bank. The study reveals that (50.4%) strongly agreed and (47.9%) agreed. This agrees with the statement by Agarwal (2011) that banks need to consider compliance risks during the phase of risk assessment. Most of the respondents (60.5%) strongly agreed that they are aware of their obligation to document an annual plan for monitoring and (38.7%) participants agreed. Hart (2006) agrees that compliance monitoring is important to measure the risk mitigation actions.

Table 4.6: Factor that influence the effectiveness of the regulatory compliance framework (Percentages)

Key: SD = strongly disagree, D = disagree, NS = not sure, A = agree, SA = strongly agree

		SD (%)	D (%)	NS (%)	A (%)	SA (%)
42	I believe that non-adherence to regulations results in the failure to implement an effective program. (N = 119)	0.8	1.7	7.6	62.2	27.7
43	I believe that risk management decisions result in failing to identify, monitor and control compliance risk in the bank. (N = 119)	2.5	8.4	10.9	47.1	31.1
44	I believe that maladministration results from failure of management to control the business and ensuring compliance is laid down with procedures. (N = 119)	0.8	5.9	7.6	56.3	29.4
45	I believe that fraud and corruption are seen to be caused by mismanagement, fraud and deregulation. (N = 119)	3.4	5	13.4	47.1	31.1
46	I believe that operational risk results from inadequate or failed processes and external events if not properly managed. (N = 119)	0.8	5	9.2	47.9	37
	AVERAGE RESPONSE (%)	1.7	5.2	9.7	52.1	31.3

Respondents who agreed (62.2%) and strongly agreed (27.7%) indicated that the non-adherence to regulations results in the failure to implement an effective program is one of

the contribution factors. This was supported by the South African Reserve Bank Supervision Report (2015) stating that ineffective programs and monitoring activities within the bank are not effective. In addition, (47.1%) and (31.1%) of the respondents strongly agreed and agreed that poor compliance monitoring process will results in banks failing to identify, monitor and control compliance hazard. Statement was supported by Hempel and Simonson (2014:388) that poor risk management procedures are the causes on non-compliance. A significant majority agreed (56.3%) strongly and (29.4%) that maladministration results from failure of management to control the business and ensuring compliance is laid down with procedures. Deloach (2016) state that maladministration results failure by the leadership of the bank by ensuring compliance with laid down rules and processes. A major agreed (47.1%) and strongly agreed (31.1%) respondents believe that fraud and corruption are seen to be reason for misconduct and deception. This means that criminal deception and corruption has been the general reasons as to why the bank are failing. However, White (1993) believes that the bank's lack of success is understood to be affected by misconduct and deception.

Table 4.7: Strategies to improve regulatory compliance process (Percentages)

Key: SD = strongly disagree, D = disagree, NS = not sure, A = agree, SA = strongly agree

		SD (%)	D (%)	NS (%)	A (%)	SA (%)
47	In my opinion, the competence and training need to achieve compliance regulatory obligation is effective in the bank. (N = 117)	0	4.3	7.7	51.3	36.8
48	In my opinion, Compliance strategy is to help embed good compliance management practice	0	0.8	4.2	50.8	44.1

	throughout business with a bank risk appetite. (N = 118)					
49	In my opinion, Compliance recognition strategy encourages staff to understand advocates the rules. (N = 117)	0	2.6	6.8	47	43.6
50	In my opinion, Compliance reporting strategy helps to detect and manage non-compliance within the banks. (N = 119)	0	2.5	6.7	53.8	37
51	In my opinion, Compliance disclosure strategy foster compliance culture and increase culture of trust, integrity and accountability. (N = 119)	0	2.5	5.9	47.9	43.7
52	In my opinion, it is vital for the bank to comply with their compliance requirements and keep abreast with new legislations and amendments. (N = 119)	0	0.8	5	42.9	51.3
	AVERAGE RESPONSE (%)	0	2.2	6	49	42.8

A major number of participants agreed (36.8%) agreed strongly (51.3%) specified training and competency enhance the value of their work only when it's effective in the workplace. The results suggest that the staffs think training and development as important in completing their roles or tasks in the working environment. Ji (2012) specify staff development is vital to support the banks to improve on banks performance. Responses from the questionnaires show that (44.1%) believe compliance strategy must be embedded in good compliance management practice and (50.8%) agreed as well. This means that compliance lays out prospects for banks' employee to stay focused on the banks' broader goals

and helps to drive the compliance strategy and operations to run smoothly. O'Neal (2015) supports the statement stating that the importance of compliance obligation is critical for banks to comply with legislative requirements. The results of the study further reflect that (51.3%) and (42.9%) of the respondents strongly agreed and agreed that it is vital for the bank to comply with their compliance requirements and keep abreast with new legislations. LexisNexis (2016) advocate for compliance framework to align to the regulatory universe to comply with legislative obligations.

Table 4.8: Perceptions of the regulator on compliance framework (Percentages)

Key: SD = strongly disagree, D = disagree, NS = not sure, A = agree, SA = strongly agree

		SD (%)	D (%)	NS (%)	A (%)	SA (%)
53	Management will act ethically in submissions of report(s) to the regulator(s) on an annual basis. (N = 118)	0	0.8	5.1	50	44.1
54	Management has a good knowledge of what is required from the regulator. (N = 118)	0	0.8	4.2	43.2	51.7
55	Management has a good knowledge of severe regulatory penalties that may be imposed for failure to comply with legislative requirements. (N = 118)	0	1.7	3.4	44.9	50
56	Management must maintain a good relationship with the regulator. (N = 118)	0	0	3.4	39.8	56.8

57	Management understand the value added by the regulator towards the business activities. (N = 118)	0	0.8	5.1	40.7	53.4
	AVERAGE RESPONSE (%)	0	0.8	4.2	43.7	51.2

The banking sector's perception on effectiveness of the Regulatory Compliance framework is deemed as a critical driver in successful implementation of the framework.

Based on the results of the study, (44.1) % strongly agreed and (50%) agreed that management will act ethically in submissions of report(s) to the regulator(s) yearly submission. This means that bank administration is aware of their regulatory obligation pertaining to the bank. Most participants agreed strongly (51.7%) and (43.2%) agreed management has a good knowledge of what is required from the regulator. This means management of the bank understand the mandate of the regulator, addressing governance and rules that influence the power of the regulator to the bank (Stream 2018). The results of the study further reflect (50.%) and (44.9%) of the participants separately agreed strongly and agreed on management has a good knowledge of fines and penalties the regulator will impose on non-compliance with regulatory obligations. Therefore, responsibility of regulatory compliance is a critical component of a compliance audit exercise by the banks, to ensure compliance with relevant laws and policies (Shanapinda 2015). Based on the results of the study (56.8%) and (39.8%) of the participant agreed strongly and agreed management must maintain a good relationship with the regulator. This means transparency, clarity, reliability, proactivity and foundations of trust are the key components that builds a strong relationship between the banks and the regulators. Effective communication between the

banks and the regulators is an essential part of professionalism (Stoker 2012). Management understand the value added by the regulator towards the business activities. Most participants agreed strongly (53.4%) and (40.7%) agreed that the regulator add value towards the business activities in terms of guidance and advisory on complying with the laws. This study results concur with FSCA (2018) that regulators are aimed at promoting fair customer treatment focuses on the conduct of business of the banks.

SECTION 4: DESCRIPTIVE STATISTICS

Table 4.10: Factors that influence the effectiveness of the regulatory compliance framework (Descriptive)

Likert scale: 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree, 5 = strongly agree

		N	Mean	Standard Deviation	Skewness
	Organisation				
4	In my opinion, Regulatory compliance framework guides the establishment, implementation and monitoring of regulatory compliance for the bank. (N = 119)	119	4.43	0.50	0.29
5	In my opinion, Regulatory compliance framework comprises of the principles, processes and tools to manage compliance risk. (N = 119)	119	4.53	0.56	-0.98
6	In my opinion, Regulatory compliance framework outlines how compliance with laws, regulations and standard embedded in the bank. (N = 119)	119	4.50	0.57	-0.55

7	In my opinion, Bank has a responsibility to identify existing and emerging legislation relevant to the bank business. (N = 119)	119	4.48	0.58	-0.58
8	In my opinion, Compliance officer function in relation to compliance framework is to identify, monitor, reporting non-compliance deficiencies. (N = 119)	119	4.51	0.55	-0.52
9	In my opinion, Regulatory Compliance framework must be effectively and managed to support full compliance with all applicable laws. (N = 119)	119	4.52	0.53	-0.42
10	In my opinion, Regulatory Compliance framework key activities should be performed by various divisions of the Bank to understand and manage their Compliance Risks. (N = 119)	119	4.50	0.58	-0.64
11	In my opinion, Regulatory Compliance Framework must contain key compliance related laws, policies and standards. (N = 119)	119	4.46	0.65	-1.00
	Individual capacity				
12	In my opinion, I often read and acquaint myself with legislative framework relevant to the banks. (N = 119)	119	4.42	0.53	-0.02
13	In my opinion, I am always guided by the regulatory universe which govern banks in executing my duties. (N = 119)	119	4.45	0.58	-0.75

14	In my opinion, do you believe that the regulatory universe that is applicable to the bank is justifiable? (N = 119)	119	4.45	0.53	-0.15
	Factors to Monitor the Effectiveness of Compliance Programs				
15	In my opinion, I contribute to the success of compliance monitoring programme of the bank. (N = 119)	119	4.39	0.61	-0.68
16	In my opinion, Compliance programs are routinely evaluated to ensure they meet regulatory requirements. (N = 116)	119	4.40	0.77	-1.85
17	In my opinion, Assessment processes are in place and adequately supported by the management of the bank. (N = 117)	119	4.35	0.80	-1.84
	Factors Influencing Compliance Monitoring Process				
18	Compliance Identification In my opinion, Regulatory universe should include the identification of all legislation applicable to the bank (N = 119)	119	4.53	0.53	-0.46
19	In my opinion, Compliance officer identifies the nature of the compliance risk in the bank (N = 119)	119	4.44	0.63	-1.49

20	In my opinion, Compliance officer identifies, why does the compliance risk occur and underlying reason? (N = 119)	119	4.49	0.61	-0.98
21	In my opinion, Compliance officer identifies, what is the impact of the compliance regulatory outcome? (N = 119)	119	4.50	0.59	-1.00
22	In my opinion, Compliance officer identify compliance risks that arise from the compliance obligations. (N =119)	119	4.55	0.58	-1.16
23	In my opinion, Compliance officer translate compliance related rules, laws and regulations into compliance obligations. (N = 119)	119	4.35	0.59	-0.79
24	In my opinion, Compliance officer ensure agreed upon compliance obligation(s) and resolution(s) appear in the framework. (N = 115)	119	4.44	0.63	-1.08
25	Compliance Risk Assessment In my opinion, Compliance officer must ensure compliance risks are included in the risk assessment process. N = 119)	119	4.48	0.57	-0.78
26	In my opinion, Compliance risk assessment will help the bank understand the full range of its exposure. (N = 119)	119	4.62	0.52	-0.87

27	In my opinion, Compliance officer must ensure they conduct compliance audit with respect to applicable laws and regulations. (N = 119)	119	4.47	0.65	-1.22
28	In my opinion, Compliance Audit in the bank is to measure, monitor and control compliance risk in the bank. (N = 119)	119	4.54	0.67	-1.66
29	In my opinion, Compliance officer must participate in all high-level risk assessments and when appropriate, detailed risk assessment. (N = 118)	118	4.47	0.59	-0.86
30	In my opinion, Compliance officer must ensure reports from risk assessment include compliance relates information. (N = 119)	119	4.56	0.55	-0.73
31	Compliance Risk Monitoring In my opinion, Compliance officer must work with the business to document an annual plan for monitoring. (N = 119)	119	4.59	0.54	-1.17
32	In my opinion, Compliance officer must ensure compliance risk monitoring makes it possible for the bank to test if its risk mitigation activities are working properly. (N = 119)	119	4.66	0.47	-0.70

33	In my opinion, Compliance monitoring is a continuous process that ensures that the banks are complying with the relevant regulatory obligation. (N = 119)	119	4.38	0.52	0.14
34	In my opinion, Monitoring and review are essential and integral step in the compliance risk management process. (N = 119)	119	4.49	0.55	-0.42
35	In my opinion, Compliance officer conduct on-going monitoring of adherence to compliance risk policy. (N = 119)	119	4.45	0.63	-1.52
36	In my opinion, Compliance officer must execute second line of defence monitoring and report deficiencies to management. (N = 119)	119	4.53	0.56	-0.98
37	In my opinion, Compliance officer must evaluate the bank conduct in compliance with regulatory requirements. (N = 119)	119	4.51	0.59	-1.03
38	Compliance Reporting In my opinion, Compliance reporting must be acknowledged within the compliance framework of the bank. (N = 119)	119	4.51	0.55	-0.52
39	In my opinion, Compliance officer must work with the business to document an annual plan for monitoring. (N = 119)	119	4.62	0.52	-0.87

40	In my opinion, Compliance officer must report information relating to breach of bank principles, applicable laws and regulations. (N = 119)	119	4.64	0.52	-0.96
41	In my opinion, Compliance officer must report information relating to reputational damage and regulatory sanctions. (N = 119)	119	4.58	0.56	-0.91
			4.49		

All the mean values in **Table 4.10** are greater than 4. The study result indicate that respondents tend to agree with the items listed in the Table 4.10 as per Likert scale. These low standard deviations specify that the responses are gathered nearer to their own means. **Table 4.10** indicates that majority of the participants agree with the items registered. Therefore, items listed on Table 4.10 are considered to assess the causes that impact the efficiency of the regulatory structure for banks in South Africa, except for 2 statements (4 & 33) out of 41 statements on the Skewness. All values with a positive (or p-values 0.29) do not have a significant relationship.

In addition to above items that are designed to assess factors considered to measure effectiveness of Regulatory Compliance framework. The results of the study show there is an understanding, knowledge and level of education of respondents regarding the factors that influence the Regulatory Compliance framework implementation in the banking sector. Botha and Makina (2011) further indicate the implementing of regulatory compliance framework in the banks, is to establish robust and solid financial system.

Table 4.11: Factors that influence the effectiveness of the regulatory compliance framework (Descriptive)

Scale: 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree, 5 = strongly agree

		N	Mean	Stand- ard Devia- tion	Skew- ness
42	I believe that non-adherence to regulations results in the failure to implement an effective program. (N = 119)	119	4.14	0.69	-1.13
43	I believe that risk management decisions result in failing to identify, monitor and control compliance risk in the bank. (N = 119)	119	3.96	0.99	-1.07
44	I believe that maladministration results from failure of management to control the business and ensuring compliance is laid down with procedures. (N = 119)	119	4.08	0.83	-1.16
45	I believe that fraud and corruption are seen to be caused by mismanagement, fraud and deregulation. (N = 119)	119	3.97	0.98	-1.16
46	I believe that operational risk results from inadequate or failed processes and external events if not properly managed. (N = 119)	119	4.15	0.85	-1.14
	OVERALL MEAN		4.06		

Table 4.11 shows that all the means are nearer to 4 (Likert scale) and this suggests that the participants incline to agree with the listed items in **Table 4.11**. Negative skewness values support this research finding. Low standard deviations (< 1) imply that the response values deviate slightly from their respective mean responses. **Table 4.11** indicates that many of the respondents agree with that are items listed. Table **4.11** shows there is an understanding by bank employees on the factors that influence the regulatory structure in the bank. In addition, the above items are designed to assess the factors to be considered on the usefulness of legislation framework.

Table 4.12: Strategies to improve regulatory compliance process (Descriptive)

Scale: 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree, 5 = strongly agree

		N	Mean	Standard Deviation	Skewness
47	In my opinion, the competence and training need to achieve compliance regulatory obligation. Is it effective in the bank? (N = 117)	117	4.21	0.76	-0.96
48	In my opinion, Compliance strategy is to help embed good compliance management practice throughout business with a bank risk appetite. (N = 118)	118	4.38	0.61	-0.67
49	In my opinion, Compliance recognition strategy encourages staff to understand advocates the rules. (N = 117)	117	4.32	0.71	-0.98

50	In my opinion, Compliance reporting strategy helps to detect and manage non-compliance within the banks. (N = 119)	119	4.25	0.69	-0.85
51	In my opinion, Compliance disclosure strategy foster compliance culture and increase culture of trust, integrity and accountability. (N = 119)	119	4.33	0.70	-1.01
52	In my opinion, it is vital for the bank to comply with their compliance requirements and keep abreast with new legislations and amendments. (N = 119)	119	4.45	0.63	-0.91
	OVERALL MEAN		4.32		

Table 4.12 shows that all the means are greater than 4 (Likert scale) and this suggests that the respondents tend to agree with the listed items in **Table 4.12**. Negative skewness values support this research finding. Low standard deviations (< 1) imply that the response values deviate slightly from their respective mean responses. **Table 4.12** shows most of the participants agree with that items listed. Table **4.12** shows there are understanding by bank employees on the importance of regulatory compliance. The employees are mindful of the bank's compliance needs and make compliance visible. The results of the study concur with BASA (2010) that banks must have regulatory compliance monitoring process in place and have better compliance culture, to minimise non-compliance.

Table 4.13: Perceptions of the regulator on compliance framework (Descriptive)

Scale: 1 = strongly disagree, 2 = disagree, 3 = not sure, 4 = agree, 5 = strongly agree

		N	Mean	Standard Deviation	Skewness
53	Management will act ethically in submissions of report(s) to the regulator(s) on an annual basis. (N = 118)	118	4.37	0.62	-0.68
54	Management has a good knowledge of what is required from the regulator. (N = 118)	118	4.46	0.62	-0.92
55	Management has a good knowledge of severe regulatory penalties that may be imposed for failure to comply with legislative requirements. (N = 118)	118	4.43	0.65	-1.09
56	Management must maintain a good relationship with the regulator. (N = 118)	118	4.53	0.57	-0.71
57	Management understands the value added by the regulator towards the business activities. (N = 118)	118	4.47	0.64	-0.98
	OVERALL MEAN		4.45		

Table 4.13 shows that all the means are greater-than 4 (Likert-scale) and this suggests that the participants agree with the item listed in Table 4.13. Negative skewness values indicate that the tail is on the left side of the distribution. Low standard deviations (< 1) imply

that the response values deviate slightly from their respective mean responses. **Table 4.13** is designed to test the perceptions of the regulators on the effectiveness of the regulatory compliance framework. Table **4.13** explores the banks' acceptance of the rationale behind regulation and respect authorities being the regulators. Furthermore, strategies to improve compliance process are vital to understand how effective the framework is, based on talking about the regulatory obligation, O'Neal (2014). It is critical for the success of the bank that they interact with the regulator in a constructive way in each of these circumstances.

SECTION 5: CORRELATION ANALYSIS

Spearman's rank rho test

This test is concerned with the correlation between two ranked variables (X and Y). The correlation is statistically significant if the p-value is less than 0.05 level of significance.

The coefficient of Spearman's rank correlation is given by

$$r = 1 - \frac{6 \sum D^2}{N(N^2 - 1)}$$

Where

D = differences of ranks of corresponding values of X and Y

N = number of paired values in the data

$-1 \leq r \leq 1$

Table 4.14: Spearman's rank correlation between level of experience and views (perceptions) of respondents about the regulatory compliance

Items		
In my opinion, the Bank has a responsibility to identify existing and emerging legislation relevant to the bank business. (N = 119)	Correlation coefficient (r)	0.199*
	p - value	0.030
	Correlation coefficient (r)	0.238**

In my opinion, I often read and acquaint myself with legislative framework relevant to the banks. (N = 119)	p - value	0.009
In my opinion, I am always guided by the regulatory universe which govern banks in executing my duties. (N = 119)	Correlation coefficient (r)	0.269**
	p - value	0.003
In my opinion, do you believe that the regulatory universe that is applicable to the bank, is justifiable? (N = 119)	Correlation coefficient (r)	0.207*
	p - value	0.024
Compliance Identification In my opinion, Regulatory universe should include the identification of all legislation applicable to the bank. (N = 119)	Correlation coefficient (r)	0.188*
	p - value	0.040
In my opinion, Compliance officer translate compliance related rules, laws and regulations into compliance obligations. (N = 119)	Correlation coefficient (r)	0.189*
	p - value	0.040
In my opinion, Compliance risk assessment will help the bank understand the full range of its exposure. (N = 119)	Correlation coefficient (r)	0.218*
	p - value	0.017
In my opinion, Compliance strategy is to help embed good compliance management practice throughout business with a bank risk appetite. (N = 118)	Correlation coefficient (r)	0.197*
	p - value	0.032

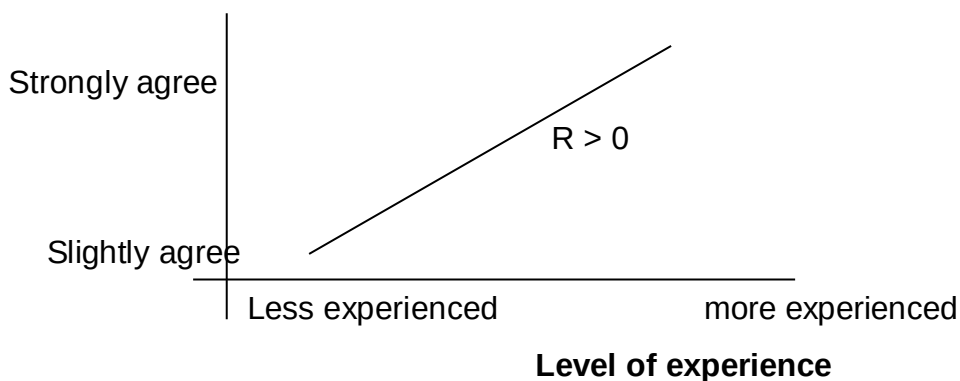
*Correlation is significant at the 0.05 level (2-tailed)

**Correlation is significant at the 0.01 level (2-tailed)

Since all the p-values are less than 0.05 level of significance, then the correlation between level of experience and views of respondents about the items listed in **Table 4.14** is statistically significant. Positive correlation coefficients ($r > 0$) mean that more experienced employees tend to strongly agree with the items listed in **Table 4.14**, whereas less experienced employees tend to slightly agree. **See Figures 4.4** below to display the finding. This means there is a statistically important relation on more experienced staff in the bank. Therefore, it means an approval of the measurements are reliable and valid (Bless, 2014). The items with this high score (0.269) were the regulatory universe which govern banks in executing my duties. The study established that management of the bank ensures that it identify emerging legislation applicable to the bank. Management is constantly guided by the regulatory universe which oversee banks in performing their roles or duties.

See **Figure 4.4** below to display this research finding.

Figure 4.4: Views of respondents versus level of experience ($r > 0$)



Teasdale (2011) further indicate that the level of experience and awareness should determine the placement of employee to perform his role and responsibilities in the workplace.

CONCLUSION

The results of this study indicate that the introduction of regulatory compliance framework in banking sector is effective and data clearly illustrates that the respondents appear to understand the factors influencing compliance monitoring process, perception of the regulators and strategies to improve regulatory compliance process that are applied to measure the compliance monitoring process. The respondents view compliance regulatory universe as instrumental to the resilient, stable and designed to adhere to regulatory compliance requirements. It can further be concluded that the compliance regulatory universe applicable to the banking industry is justifiable, beneficial and is achieving the intended objectives. In addition, regulatory compliance framework lead to South African banks to act responsibly. Non-adhere to rules as required by the law, can result to serious penalties by the regulator.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODCUTION

Chapter five introduces and deliberates the findings from the study. The discussion is based on the results obtained on each of the research objectives. Based on the discussions, conclusions and recommendations are made.

5.2 COMPLIANCE FRAMEWORKS

The study explores the effectiveness of the Compliance Monitoring Process in the South African banking sector. Compliance framework has been proven to be a guideline detailing the financial institution procedures outline to maintain and comply with established rules and legislation. Wilton (2014) has stated that compliance structure must be efficiently implemented and well managed to drive the regulatory universe of the banks. It is important for compliance framework to be successfully executed to the banks to accomplish compliance aims and objective as well as compliance with regulatory requirements.

5.3 RESEARCH METHODOLOGY AND DESIGN

The study was conducted through the quantitative methodology as the choice of the method was perceived as most appropriate on the population of the bank and a fair representation was needed. Data collection tool used in the study was in a form of questionnaire. From 132 distributed within the banks, 119 returned and it was a worthy response or reply. It answered questions from the research problem identified.

5.4 DISCUSSION OF RESULTS

5.4.1 Sub-Objective 1: To establish the knowledge and understanding of Banks' compliance framework

Majority of the respondents were in favour of the all the statements under this research objective, namely that: They know regulatory compliance framework exist in the bank and tools to manage compliance risk in the bank. They know how compliance with laws, regulations and standard embedded in the bank. They know factors influencing compliance monitoring process.

Sub-Objective 2: To identify and measure awareness and knowledge of respondents pertaining indicators about factors that causes non-compliance with regulatory requirements by banks

To conclude the factors considered by respondents regarding the causes of non-compliance, remained assembled to measure the causes. The study indicates the following:

- Supervision, the risk of non-compliance is the risk of legal or statutory sanctions, material financial loss,
- Loss of good reputation, to which the bank is exposed as a result of not adhering to laws,
- Fraud and Corruption are the reason for non-compliance.

Taylor (2014) agrees with results that the conduct of the employees is a key part reflecting core values and overall bank culture. Therefore, it is vital for management of the banks to maintain clear lines of authority and ensure that employees understand and carries out the bank's compliance policies. Banks' fraud is mostly likely to be done by employees.

Sub-Objective 3: To identify the strategies to be employed to improve the effectiveness of regulatory compliance monitoring by the banks

Horwath (2016) state that regulatory compliance is a major attention for the bank's management, to map and provide regulatory insight about new legislation and improve operational excellence. The study results noted the following:

- Keeping abreast with legislation improve the effectiveness of regulatory compliance monitoring by the banks.
- Introduce automated controls will able to identify compliance risk in hand and able to mitigate the risk identified.
- Competence and training it will help employees who are in complying function to be adequately trained and perform their roles in a way that achieve compliance with regulatory obligations.

Objective 4: To establish the perceptions of the regulators regarding legislative requirements

The perception of the regulator on the effectiveness of the Regulatory Compliance Framework is critical driver in the successful of compliance monitoring process in the banks. The study results noted the following:

- Implementation of Regulatory compliance Framework to South African banks to design regulatory universe in order to identify all the acts that govern the activities of the banks.
- Regulatory compliance framework enhances solid regulatory and supervisory banking environment.

5.5 RECOMMENDATIONS

Considering both theoretical and empirical findings on this study. The following recommendations for the shortcoming identified were developed:

- Regulatory bodies to conduct more inspection to the banks to ensure that bank comply with legislative requirements. Risk based approach must be implemented to ensure that banks identify, assess and understand compliance risks to which the bank is exposed and to take measures proportionate to those risks for the purpose of mitigating them effectively.
- Furthermore, bank policies should be workshopped to all bank employees to enable them to execute their duties within legislative requirements.
- The bank should analyse and send out alerts on new regulation to the employees to inform them about new requirements.
- The bank leadership should set the tone by implementing regulatory compliance framework, in order to monitor non-compliance with legislative obligations.
- Stringent compliance rules within the bank should be set. The financial sector authority and the Prudential authority as regulators must be given more discretionary powers to decisively deal with the malcontents in the banking sector.

5.6 LIMITATION OF THE STUDY

While the study is only limited to the effectiveness of regulatory compliance monitoring process for banks in South Africa “banking sector”, there is a potential to conduct further studies relating to the effectiveness of regulatory compliance monitoring process broad financial services sector” for example the Insurance Industry.

5.7 CONCLUSIONS

In conclusion, compliance culture is defined as the culture of shared values, beliefs, assumptions and behaviours that all business should be conducted in compliance with laws, rules, codes and standards. For example, the compliance function assists with the development of a compliance culture that stimulates awareness and recognition of the value of compliance

risk identification, assessment, management, monitoring and reporting as part of ongoing activities. Compliance culture will reduce compliance risks. It is expected that regulators will consider the culture of organisations when assessing their regulatory risk.

REFERENCES

Agarwal, S. (2011). Why Do Banks Reward Their Customers to Use Their Credit Cards FRB of Chicago Working Paper 2011-11.

Anderson, K and Black, J. (2013). Legal risk and risk for lawyers. <https://www.lse.ac.uk/law/people/academic-staff/Julia-black/Documents/black9.pdf>. [Accessed on 01 July 2019].

Anderson, D. J. and Eubanks, G. (2015). Leveraging COSO across the three lines of defense. The Institute of Internal Auditors. Available: <https://na.theiia.org/standards-guidance/Public Documents/2015-Leveraging-COSO-3LOD>. [Accessed on 08 April 2019].

Babin B.J. and Harris, G.E. (2013). Consumer behavior. 9th Ed. New York: Cengage Learning. [Accessed on 22 April 2018].

Bacharach, S. B. (1989). Organizational theories: Some criteria for evaluation. Academy of Management Review, 14(4), 496 - 515.

Basel Committee on Banking Supervision (BCBS 2005). Compliance and the Compliance Function in Banks [Online]. Basel, Switzerland. Available: <http://www.bis.org/publ/bcbs113.pdf>. [Accessed on 07 April 2018].

Basel Committee on Banking Supervision.(BCBS 2013). [Accessed on 17 May 2019]. 2013). A brief history of the Basel Committee.

Banking Supervision Department (BSD 2015). Bank Supervision Department Annual Report. Available at <https://www.resbank.co.za/prudential> Authority. [Accessed on 17 July 2018].

Banking Supervision Department (BSD 2016) .Bank Supervision Department Annual Report. Available at [https://www.resbank.co.za/prudential authority](https://www.resbank.co.za/prudential%20authority). [Accessed on 07 July 2018].

BIS (2013) .International regulatory framework for banks. <http://www.bis.org/bcbs/basel3>. [Accessed on 17 May 2019].

BIS (2014). History of Basel. <http://www.bis.org/bcbs/>. [Accessed on 17 May 2019].

Blair, J., Czaja ,R. F., and Blair, E. A. (2014). Designing Surveys. 3rd ed. *Thousand Oaks, CA: Sage Publication*.

Blaxter, L., Hughes, C. and Tight, M. (2007). *How to research*. 3rd edition. New York: McGraw.

Bless, C. & Higson-Smith, C. (2000). 3rd ed. Fundamentals of social research methods. An African perspective. Cape Town: Juta.

Brink, H. (1993). Validity and reliability in qualitative research. *Curationis*, 16(2):35-37.

Brownbridge, M. (1998). The causes of financial distress in local banks in Africa. In: UNCTAD Discussion Papers. RePEc: unc:dispap:132.

CFA (2018). Ethical and Professional Standards.<https://www.cfainstitute.org/-/media/documents/study-session/2019-l1-readings.ashx>. [Accessed on 02 August 2019].

Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2007). Enterprise Risk Management. US. Available at: [https://www.coso.org/ Pages/default.aspx](https://www.coso.org/Pages/default.aspx). [Accessed on 02 February 2019].

Coovadia, C. (2011). Banking sector overview://www.epiccommunications.co.za/sites/epic/files/cascoovadia_1_0.pdf . [Accessed on 02 May 2019].

Compliance Alert, (2015). Effective compliance monitoring programs: Available at <https://www.alert.infor.com>. [Accessed on 02 August 2019].

Clarke, (1998). Bank Failure an Evaluation of the Factors Contributing to the Failure of National Banks. Available at <https://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/pub-bank-failure.pdf> . [Accessed on 02 August 2019].

Creswell, J.W. (2009). Research Design: Qualitative, Quantitative and Mixed Methods Approaches. 3rd ed. London: Sage Publications Ltd.

Creswell and Plano Clark, (2011). *Research design: Qualitative & quantitative, and mixed approaches. 3rd Edition. California: SAGE Publication.*

Crowther, D. and Lancaster, G. (2008) “Research Methods: A Concise Introduction to Research in Management and Business Consultancy” Butterworth-Heinemann.

Darcy, K. (2015) .Corporate Culture: The Center of Strong Ethics and Compliance. <https://www2.deloitte.com>). [Accessed on 14 March 2019].

Deloitte (2016).Ensuring Regulatory Compliance.Integrating Risk Advisory and Assurance.<https://www2.deloitte.com>). [Accessed on 05 March 2019].

De Vos, A.S., Strydom, H., Fouche, C.B. and Delport, C. (2007) .Research at grass roots. 3rd ed. Pretoria: Van Schaik Publishers.

De Vos, A.S. (2014). Research at grass roots. 3rd ed. Pretoria: Van Schaik Publishers

Dhar, R.L. (2015). Service quality and the training of employees: The mediating role of organisational commitment. (Vol 2).Sage: Los Angeles.

Dorogovs, (2013). New tendencies of management and control of operational risk in financial institutions. Procedial- Social and Behavioral Sciences, 99(1):911-918.

Ernest and Young, (2015). Financial Sector Regulation Act, Implementing Twin Peak and the impact on the industry. [https://www.ey.com/Publication/vwLUAssets/ey-financial-sector-regulation-act-twin-peaks/\\$FILE/ey-financial-sector-regulation-act-implementing-twin-peaks-and-the-impact-on-the-industry.pdf](https://www.ey.com/Publication/vwLUAssets/ey-financial-sector-regulation-act-twin-peaks/$FILE/ey-financial-sector-regulation-act-implementing-twin-peaks-and-the-impact-on-the-industry.pdf). [Accessed on 05 March 2019].

Ferreira, S.J. (2014). Analysing reputational risk in the South African Banking sector. Vanderbijlpark: NWU. (Mini-dissertation-unpublished).

Ferreira, S. (2015). Measuring reputational risk in the South African banking sector. NWU. (Mini-dissertation-unpublished).

Given, L.M. (2008). The Sage Encyclopedia of Qualitative Research Methods. (Vol 2).Sage: Los Angeles.

Golafshani, N. (2003). Understanding reliability and validity in qualitative research. The Qualitative Report, 8(4):597-607.

Hall, D. and Hall, I. (2010). Practical social research. Project work in the community. London: Macmillan Press.

Hempel, G. H., and Simonson, D. G., (1999). Bank Management Text and Cases, 5th ed.

Heffernan, S., (1996). Banking in Theory and Practice. John Wiley & Sons Ltd, England.

Hunter, L. and Leahey, E. (2008). Collaborative research in sociology: Trends and contributing factors. *The American Sociologist*, 39(4):290pp.

Institute of Directors in South Africa, IODSA (2002). Report on Corporate Governance for South Africa 2002 (King II Report). [Accessed on 16 February 2019].

Institute of Directors in South Africa, IODSA (2011). Compliance Guidance: Date of access: [Accessed on 16 February 2019].

Ijabadeniyi, A. (2014). The influence of cultural diversity on marketing communication: A comparison of Africans and Indians in Durban.

Jankowicz, A.D. (2005). *Business Research Projects*. 4th ed. London: Thomson Learning.

Ji, L. (2012). The effects of employee training on the relationship between environmental attitude and firms' performance in sustainable development. *The International Journal of Human Resource Management*, 23(14):2995–3008.

Jonathan, W. (2010). *Essentials of Business Research: A Guide to Doing Your Research Project*. London. SAGE Publications. India Pvt Ltd, 2010, 316 pp.

Kumar, R. (2014). *Research methodology: A step-by-step guide for beginners*. 3rd Edition. New York. McGraw-Hill.

Leedy, P.D. and Ormrod, J.E. (2014). *Practical Research: Planning and Design*. 10th ed. Boston: Pearson Education Ltd.

LexisNexis, (2011). South African Financial planning seventh biggest in the world: International financial planner reveal state of South Africa's planning industry in face of

economic downturn AT Annual FPI convention.

<https://www.fanews.co.za/article/intermediaries-brokers/7/general/1227/south-africa-s-financial-planning-population-seventh-biggest-in-world/9896>. [Accessed on 16 February 2019].

Losiewicz-Dniestrzanska, E, (2014). Ryzyko braku zgodnosci w banku (Non-compliance risk in the bank), *Annales UMCS, Sectio H Oeconomia*, 107-116.

Makowicz, B., (2011). Compliance in the enterprise. *Oficyna a Wolters Kluwer business*, Warsaw. *Procedia Economics and Finance* 26 (2011) 800 – 805.

Makhubela, S, (2006). Causes of bank failure in the post democratic South Africa. <https://researchspace.ukzn.ac.za/xmlui/handle/10413/1295>. [Accessed on 16 February 2018].

Marx J, Mynhardt R, (2011). The case of South African Banks corporate ownership and control. *Volume 2 Issue 3*, 116 pp.

Maphakela, R., Pottas, D., (2005). An Investigation into Information Security Regulation Compliance in the South African Financial Paper, Presented at: ISSA Conference 2005, Sandton, Johannesburg.

Maphakisa, M, D, (2014). Effectiveness of Absa customer relationship management practices in maintaining loyalty among customers in Eastern Cape. <http://ir.cut.ac.za/handle/11462/273>. [Accessed on 16 February 2018].

Manatt Phelps & Phillips LLP (2018). How-to-monitor-the-effectiveness-of-your-compliance-program.<https://www.manatt.com/Insights/Newsletters/Health-Update/The-Eight-Key-Elements-of-Effective-Compliance-Pro>. [Accessed on 21 September 2019].

Meiring I, (2012). The Banking Regulation Review - Edition 7. South Africa. <https://www.werksmans.com/wp-content/uploads/2013/04/safinal.pdf>. [Accessed on 12 May 2019].

Mellenbergh, G.J. (2008). Tests and Questionnaires. Construction and administration. Chapter 10 , 211-236pp.

Metric Stream, (2018). Sound and effective Compliance Risk Management in Banks. https://www.metricstream.com/insights/effective_compliance_risk_management_banks.htm. [Accessed on 12 May 2019].

Misha, E. (2016). The compliance function in Banks and the need for increasing and strengthening its Role-Lessons learned from practice” . European Journal of Sustainable Development (2016), 5, 2, 171-180 ISSN: 2239-5938 Doi: 10.14207/ejsd.2016.v5n2p171.

Nyaude A, (2015). The compliance duties of commercial banks. <https://repository.up.ac.za/handle/2263/53175>. [Accessed on 12 May 2019].

O’neal, B, (2014). 360 Factors: Key Steps to Improve Regulatory Compliance <https://www.360factors.com/blog/5-key-steps-to-improve-regulatory-compliance>. [Accessed on 12 May 2019].

Pajares F.(2007). Elements of proposal. www.des.emory.edu/mfp/proposal.html.
[Accessed June 18, 2008]

Quiding, C, (2006).The cost–benefit of regulation in South African Banking.
<https://pdfs.semanticscholar.org/beec/c8989cc26be4b8a8214c7fd815087832c0be.pdf>.
Accessed on 12 May 2019].

Rivera, M.M. and Rivera, R.V. (2007). Practical guide to thesis and dissertation writing.
Philippines. Katha Publishing Inc.
<https://www.stu.edu/Portals/library/HowTo/docs/WritingLiteratureReviewResources.pdf>.
Accessed on 2 May 2019].

Rose, P.S. (2013). Bank management and financial services. (Int'l Ed) (Paperback, 9th edition).

Sekaran, U. and Roger, B. (2013). Research methods for businesses:A skill-building Approach. 6th Edition. Wiley, New York.

Sezibera, J, (2002). Some causes of Bank failures. A case study of Ghana Co-Operative Bank Ltd. International Accounting and Finance Master Thesis No 2002:54.

Shanapinda,S,(2015).Namibia's Communications Regulatory Framework
SSRN: <https://ssrn.com/abstract=2961892> or <http://dx.doi.org/10.2139/ssrn.2961892>
Accessed on 2 May 2019].

Simbanegavi, W., Greenberg, J., and Gwatidzo, T. (2012). Testing for competition in South African banking sector. <https://mpra.ub.uni-muenchen.de/43627/>. [Accessed on 14 March 2018]

Spiegel, J., Gart, A., & Gart, S. (1996). Banking Redefined: How Superregional Powerhouses are Reshaping Financial Services.

Spollen, A. L., (1997). Corporate Fraud: The Danger from Within, Oak Tree Press, Ireland.

Soile-Balogun, A, (2016). Bank failures and the impact of regulatory reforms in Africa. A Thesis Submitted to Wits Business School, Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg.

South African Institute of Chartered Accountant (SAICA 2008). Available at <https://www.saica.co.za/>. [Accessed on 2 January 2019].

Spencer, C. (2002). Motivations that maintain substance use among individuals with psychotic disorders. <https://psycnet.apa.org/record/2003-06009-007>. [Accessed on 2 May 2019].

Taylor, A. And Taylor, M. (2014). Factors influencing effective implementation of performance measurement systems in small and medium-sized enterprises and large firms: a perspective from Contingency Theory. International Journal of Production Research, 52(3):847-866.

Tavalok, M. and Denick, R. (2011). Making sense of Cronbach's alpha. International Journal of Medical Education, 2, 53-55.

Tchankova, L. (2002). Risk Identification—Basic Stage in Risk Management. *Environmental Management and Health*, 13, 290-297. <http://dx.doi.org/10.1108/0956616021043108>. [Accessed on 2 May 2019].

Terblanche, JR. (2013). Legal risk and Compliance risk in the Banking in South Africa. Dissertation submitted in fulfillment of the requirements for the degree Doctor Legum at the Potchefstroom Campus of the North-West University.

Teasdale, S. (2013). Playing with numbers: a methodological critique of the social enterprise growth myth. *Volume 4, Issue 2, 2013pp*.

Tijane N, (2016). Curatorship of banks as a measure to rescue failing banks. <http://hdl.handle.net/2263/53196>. [Accessed on 12 Januaary 2018].

The Compliance Ethics Manual (2010):<https://www.worldcat.org/title/complete-compliance-and-ethics-manual/oclc/537546735>. [Accessed on 2 May 2019].

TMF Group Paper (2007). Global reach : Local knowledge. *Romania%20Summary%20Paper%20EN.pdf*. [Accessed on 2 May 2019].

University of the Sunshine Coast:<https://www.usc.edu.au/explore/policies-and-procedures/compliance-management-framework-governing-policy>. [Accessed on 01 June 2019].

Welch, K. (2005). Corporate Compliance Insights: Does Your Compliance Program Contain the 5 Essential Elements? <https://www.corporatecomplianceinsights.com/does-your-compliance-program-contain-the-5-essential-elements>. [Accessed on 2 May 2019].

West (2015). Full year 2015 Financial Results. www.westpac.co.au. [Accessed on 2 May 2019].

Wilton, H. (2014). Barloworld Group Ethics and Compliance Framework. <https://www.barloworld.com/pdf/about-barloworld/ethics-compliance.pdf>. [Accessed on 25 March 2018].

Wong, T. (2006). Effective compliance for financial advisers. <https://www.wongpartnership.com/people/detail/elaine-chan>. [Accessed 4 October 2019].

Appendix 1: Questionnaire.

QUESTIONNAIRE ON REGULATORY COMPLIANCE MONITORING PROCESS

This questionnaire measures the following factors:

- a) Factors influence the effectiveness of the regulatory compliance framework?
- b) Causes the non-compliance with regulatory requirements?
- c) Strategies to improve regulatory compliance process?
- d) Perceptions of the regulator on compliance framework?

DEMOGRAPHICS

- e) Mark the description most appropriate to your situation with an X

1. Please indicate your role in the organization

General Manager	
Head of Compliance	
Compliance Manager	
Compliance Officer	
Compliance Analyst	

2. Level of experience

Less than 3 years	
Between 3 and 5 years	
Between 6 and 10 years	
More than 10 years	

3. Level of education

High School	
Postgraduate Diploma	
Bachelor's Degree	
Honours Degree	
Master's Degree	
PHD	

SECTION A: FACTORS INFLUENCE THE EFFECTIVENESS OF THE REGULATORY COMPLIANCE FRAMEWORK.

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
	Organization					
4	In my opinion, Regulatory compliance framework guide the establishment, implementation and monitoring of regulatory compliance for the bank.	1	2	3	4	5
5	In my opinion, Regulatory compliance framework comprises of the principles, process and tools to manage compliance risk.	1	2	3	4	5
6	In my opinion, Regulatory compliance framework outlines how compliance with laws, regulations and standard embedded in the bank.	1	2	3	4	5
7	In my opinion, Bank has a responsibility to identify existing and emerging legislation relevant to the bank business.	1	2	3	4	5
8	In my opinion, Compliance officer function in relation to compliance framework is to identify, monitor, reporting non-compliance deficiencies.	1	2	3	4	5
9	In my opinion, Regulatory Compliance framework must be effectively and managed to support full compliance with all applicable laws.	1	2	3	4	5
10	In my opinion, Regulatory Compliance framework key activities should be performed by various divisions of the Bank to understand and manage their Compliance Risks.	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
11	In my opinion, Regulatory Compliance Framework must contain key compliance related laws, policies and standards.	1	2	3	4	5
	Individual capacity					
12	In my opinion, I often read and acquaint myself with legislative framework relevant to the banks.	1	2	3	4	5
13	In my opinion, I am always guided by the regulatory universe which govern banks in executing my duties.	1	2	3	4	5
14	In my opinion, do you believe that the regulatory universe that is applicable to the bank is justifiable?	1	2	3	4	5
	Factors to Monitor the Effectiveness of Compliance Programs					
15	In my opinion, I contribute to the success of compliance monitoring programme of the bank.	1	2	3	4	5
16	In my opinion, Compliance programs are routinely evaluated to ensure they meet regulatory requirements.	1	2	3	4	5
17	In my opinion, Assessment processes are in place and adequately supported by the management of the bank.	1	2	3	4	5
	Factors Influencing Compliance Monitoring Process					

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
18	Compliance Identification In my opinion, Regulatory universe should include the identification of all legislation applicable to the bank	1	2	3	4	5
19	In my opinion, Compliance officer identify the nature of the compliance risk in the bank.	1	2	3	4	5
20	In my opinion, Compliance officer identify, why does the compliance risk occur and underlying reasons.	1	2	3	4	5
21	In my opinion, Compliance officer identify, what is the impact of the compliance regulatory outcome.	1	2	3	4	5
22	In my opinion, Compliance officer identify compliance risks that arise from the compliance obligations.	1	2	3	4	5
23	In my opinion, Compliance officer translate compliance related rules, laws and regulations into compliance obligations.	1	2	3	4	5
24	In my opinion, Compliance officer ensure agreed upon compliance obligation(s) and resolution(s) appear in the framework.	1	2	3	4	5
25	Compliance Risk Assessment In my opinion, Compliance officer must ensure compliance risks are included in the risk assessment process.	1	2	3	4	5
26	In my opinion, Compliance risk assessment will help the bank understand the full range of its exposure.	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
27	In my opinion, Compliance officer must ensure they conduct compliance audit with respect to applicable laws and regulations.	1	2	3	4	5
28	In my opinion, Compliance Audit in the bank is to measure, monitor and control compliance risk in the bank.	1	2	3	4	5
29	In my opinion, Compliance officer must participate in all high-level risk assessments and when appropriate, detailed risk assessment.	1	2	3	4	5
30	In my opinion, Compliance officer must ensure reports from risk assessment include compliance relates information.	1	2	3	4	5
31	Compliance Risk Monitoring In my opinion, Compliance officer must work with the business to document an annual plan for monitoring.	1	2	3	4	5
32	In my opinion, Compliance officer must ensure compliance risk monitoring makes it possible for the bank to test if its risk mitigation activities are working properly.	1	2	3	4	5
33	In my opinion, Compliance monitoring is a continuous process that ensures that the banks are complying with the relevant regulatory obligation.	1	2	3	4	5
34	In my opinion, Monitoring and review are essential and integral step in the compliance risk management process.	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
35	In my opinion, Compliance officer conduct on-going monitoring of adherence to compliance risk policy.	1	2	3	4	5
36	In my opinion, Compliance officer must execute second line of defence monitoring and report deficiencies to management.	1	2	3	4	5
37	In my opinion, Compliance officer must evaluate the bank conduct in compliance with regulatory requirements.	1	2	3	4	5
38	Compliance Reporting In my opinion, Compliance reporting must be acknowledged within the compliance framework of the bank.	1	2	3	4	5
39	In my opinion, Compliance officer must work with the business to document an annual plan for monitoring.	1	2	3	4	5
40	In my opinion, Compliance officer must report information relating to breach of bank principles, applicable laws and regulations.	1	2	3	4	5
41	In my opinion, Compliance officer must report information relating to reputational damage and regulatory sanctions.	1	2	3	4	5

SECTION B: FACTORS THAT CAUSES NON-COMPLIANCE WITH REGULATORY REQUIREMENT.

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
42	I believe that non-adherence to regulations results in the failure to implement an effective program.	1	2	3	4	5
43	I believe that risk management decisions results in failing to identify, monitor and control compliance risk in the bank.	1	2	3	4	5
44	I believe that maladministration results from failure of management to control the business and ensuring compliance is laid down with procedures.	1	2	3	4	5
45	I believe that fraud and corruption are seen to be caused by mismanagement, fraud and deregulation.	1	2	3	4	5
46	I believe that operational risk results from inadequate or failed processes and external events if not properly managed.	1	2	3	4	5

SECTION C: STRATEGIES TO IMPROVE REGULATORY COMPLIANCE PROCESS

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
47	In my opinion, the competence and training need to achieve compliance regulatory obligation is it effective in the bank.	1	2	3	4	5
48	In my opinion, Compliance strategy is to help embed good compliance management practice throughout business with a bank risk appetite.	1	2	3	4	5

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
49	In my opinion, Compliance recognition strategy encourages staff to understand advocates the rules.	1	2	3	4	5
50	In my opinion, Compliance reporting strategy helps to detect and manage non –compliance within the banks.	1	2	3	4	5
51	In my opinion, Compliance disclosure strategy foster compliance culture and increase culture of trust, integrity and accountability.	1	2	3	4	5
52	In my opinion, it is vital for the bank to comply with their compliance requirements and keep abreast with new legislations and amendments.	1	2	3	4	5

SECTION E: PERCEPTIONS OF THE REGULATOR ON COMPLIANCE FRAMEWORK

		Strongly disagree	Disagree	Not sure	Agree	Strongly agree
53	Management will act ethically in submissions of report(s) to the regulator(s) on an annual basis.	1	2	3	4	5
54	Management has a good knowledge of what is required from the regulator.	1	2	3	4	5
55	Management has a good knowledge of severe regulatory penalties that may be imposed for failure to comply with legislative requirements.	1	2	3	4	5
56	Management must maintain a good relationship with the regulator.	1	2	3	4	5
57	Management understand the value added by the regulator towards the business activities.	1	2	3	4	5

