



COMPLIANCE UNIVERSITY

July 25-26, 2017

Covington & Burling, LLP

Washington, D.C.

Elements of a Successful Compliance Management System and Vendor Management Rules of the Road

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What is a Compliance Management System (CMS)?

- According to the CFPB, a “robust and effective **compliance management system**” is a critical component of the structure of an organization.
- The CFPB defines a CMS by having four interdependent control components: **board and management oversight, compliance program, response to consumer complaints, and compliance audit.**

Why is a CMS Important?

- Helps to manage risk
 - Changing product and service offerings
 - New legislation, regulation, interpretations, court decisions that address developments in the marketplace and are relevant to the product and service offerings of the organization
- Noncompliance with consumer protection laws may result in:
 - Litigation, monetary penalties, and other formal enforcement actions; and reputation risk

Board and Management Oversight

- Compliance with law and regulation managed as an integral part of any lender's or service provider's strategy.
- The board of directors and management recognize the scope and implications of laws and regulations that apply to their organization.
- Establish a compliance management system that not only protects the organization, but also uses resources effectively and minimizes disruptions in daily activities.

Compliance Program

- Elements:
 - Policies and Procedures (subject to regular review and update)
 - Training – board, management, and staff
 - Monitoring – proactive approach and regular reviews
- Prevent or reduce regulatory violations, provide cost efficiencies, and sound business practices

Consumer Complaint Response

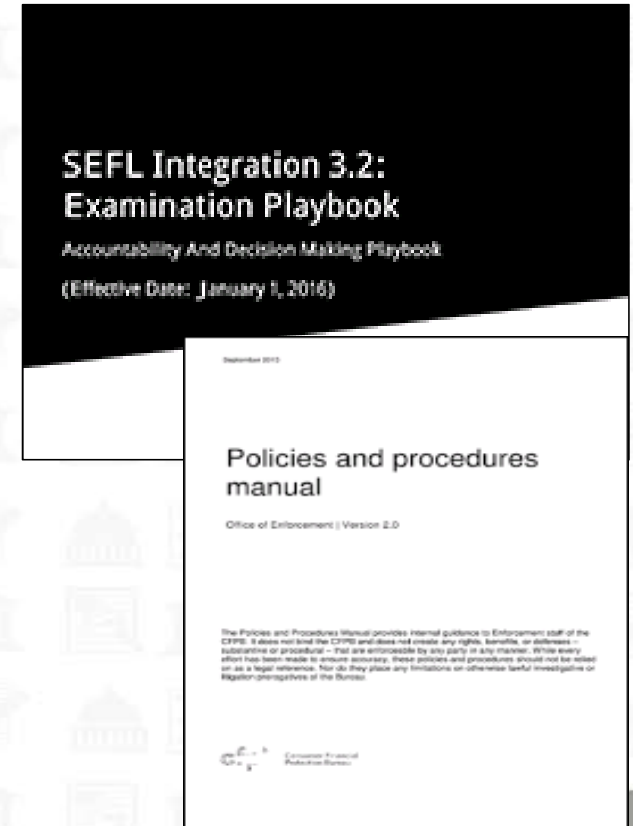
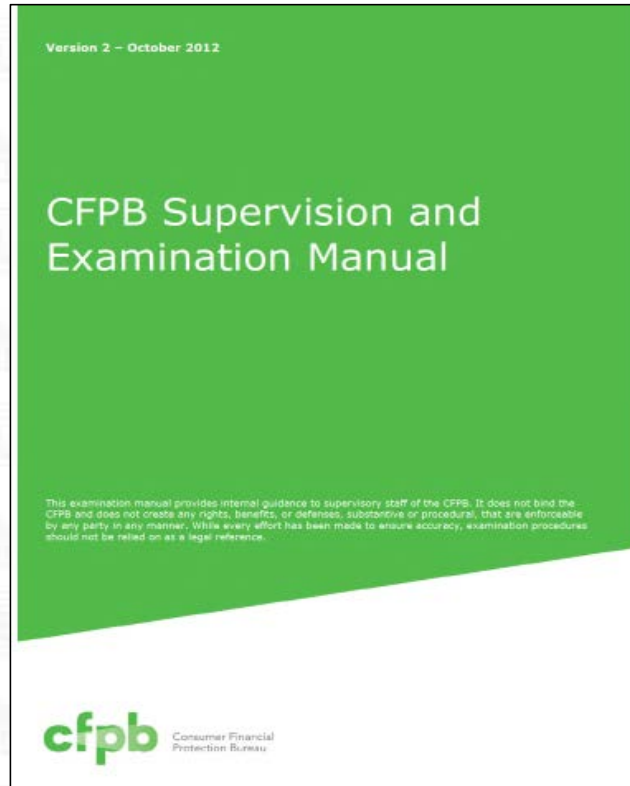
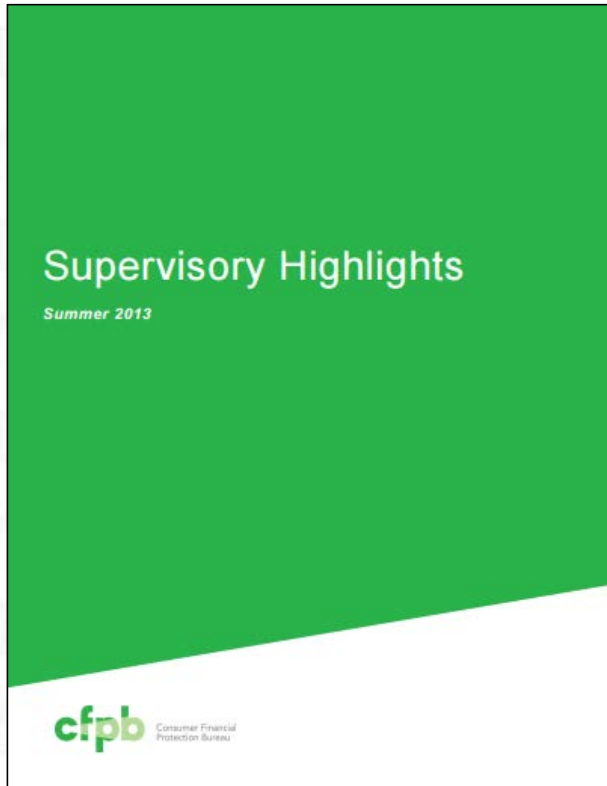
Composed of two separate prongs:

1. Consumer complaints are appropriately captured (i.e., categorized as complaints, regardless of source), resolved, and escalated as appropriate
2. Consumer complaints are evaluated to identify weakness in compliance management or other systemic issues
 - If systemic issues are present, may adjust business as a result

Compliance Audit

- A compliance audit is an independent review of an institution's compliance with consumer protection laws and regulations and adherence to internal policies and procedures.
- The audit helps management ensure ongoing compliance and identify compliance risk conditions. It complements the institution's internal monitoring system.
- The Board should determine the scope of an audit, and the frequency with which audits are conducted.
- All aspects of an audit should be documented, including scope, identified gaps, and remediation or other corrective action.

What does the CFPB / States Expect?



Questions Every Vendor Needs to be Able to Answer

- Do you have any past or present legal action(s), administrative investigations, etc. (“legal actions”) or threatened legal actions?
- Does your company have a formal compliance management system?
- Does your company have all required licenses, registrations, etc.?
- Describe your employee incentive programs?
- Do you have a complaint handling program?
- Describe your privacy and data security program?
 - Have you had any breaches?

Thank you - Questions



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