



RUTHERFORD

# Building Out Your Compliance Team

*Different approaches to getting your budget approved*

[rutherfordsearch.com](http://rutherfordsearch.com) | January 2021





## intro

Building out a function is no task to take on lightly. Usually stemming from an internal need that cannot be covered by current resources or to respond to a business development strategy, a vast array of factors must be taken into account when you are thinking about increasing a department's headcount.

After all, hiring new team members directly impacts your function's bottom line and comes with its fair share of hidden costs - from onboarding to training to insurance coverage. You must therefore make sure that you make the right call at the right time - with a strong rationale.

For certain departments, the business case to hire a new employee is quite simple: new business development tactics call for additional support, a spike in demand requires more customer service specialists, new investments require additional portfolio managers, and so on. When it comes to the compliance function, though, building that case may not be as straightforward, especially if regulators (FCA, SEC) haven't knocked on the firm's door in a long time - or ever.

With this in mind, how can a Head of Compliance get final sign off from senior management to get additional resources? If the firm isn't currently in troubled waters, when should a Chief Compliance Officer make the call for hiring a new team member?

In order to find answers to these questions, the Rutherford team tapped into its vast compliance network to discuss the matter with Heads of Compliance within financial services who have had to build out a compliance team from the ground up. In the present guide, they reflect on their experience, and detail what their approach was to get final approval from the Board.

# The Quantitative Approach

Head of Compliance | Private Equity Firm

**"We used to outsource our daily adverse media monitoring for our portfolio companies before realising that we were spending way too much money for it. By taking the task in-house through an additional compliance analyst, we were able to save £1,500 a week."**

Numbers speak volumes. To get approval from senior management, I would assess the current issues we are facing as a function and present them against tangible metrics: for example, this year we reviewed and approved 800 pieces of marketing material, taking up X number of hours. Regtech could save the compliance team around 70% of that time through largely automating the process at hand. This means the outlay of X for this piece of regtech would mean that we can free up X amount of time a year, week or day for a compliance officer to focus on other tasks.

This method also works well with external counsel: for example, we have paid X amount last year for external counsel to provide advice on these issues. If we hire a compliance officer or regulatory lawyer that could take this process in-house, we would ultimately save the firm X amount. For this approach, though, you must already have in hand tangible numbers when going to the Board: knowing what the market rate is for a specific type of compliance specialist will support you with the rhetoric. Reaching out to a specialised compliance recruitment firm such as Rutherford can come in handy, as they are used to providing realistic benchmarking to clients around what costings might look like for different hires. They can even include anonymised profiles which showcase the additional skills that an in-house resource would provide, adding even more weight to your business case.



# Ineffective Controls and the Risk of the Fine

Managing Director | Investment Bank

**"You should start by setting out what your responsibilities are and how well they are being executed. Where they are not sufficiently well executed, you must lay out what the risks are and how additional or different resources can help mitigate those risks."**

I usually start by identifying pain points and challenges the team are facing in terms of processes or tasks. Then, when I go to the Board, I explain how the function is currently performing these tasks and how effective the controls in place are. Here, metrics are incredibly useful, as they speak for themselves.

Since the team is currently facing issues, the outcome of your conversation will ultimately be that controls are not effective enough. What is important here is to make sure the Board understands the implications of continuously failing and being ineffective from a compliance standpoint: in 2020, the FCA's fines for non-compliance spanned from £91,000 to £64,046,800. At the end of the day, the cost of the fine outweighs the cost of protecting the business with an additional hire.

But going to the Board only exposing a problem isn't the right approach: it is important to come in with a solution to maintain a good relationship with key stakeholders. The solution might be to bring in a junior compliance officer to focus on compliance monitoring to free up your other compliance resources, or perhaps hire a focused compliance officer on a specific subject like short-selling disclosures. No matter what the solution is, come in with estimated costs - again, speaking with a compliance headhunter beforehand will be useful to get a better picture of your solution's cost.





# Matching the Firm's Business Strategy

Head of Compliance | Hedge Fund

*"You should start by setting out what your responsibilities are and how well they are being executed. Where they are not sufficiently well executed, you must lay out what the risks are and how additional or different resources can help mitigate those risks."*

Whilst metrics on cost savings and controls' effectiveness are crucial in making your case to hire new employees, I think you must also show the Board how your proposed plan is related to the current business or future business strategy. In particular, where a business is growing, the FCA will expect firms to make sure they are investing in the right support and control functions in advance of and to prepare for expansion - not afterwards as part of some sort of remediation.

With this in mind, a Head of Compliance should go to the Board or Senior Management and clearly set out what are the personal liabilities for all SMFs - including themselves - as well as the cost of doing nothing and risk receiving a penalty. This figure should be presented against the cost of investing in additional compliance resources specialised in the growth areas of the business. After all, Heads of Compliance, individuals holding a SMF title and any regulated firm do not need - and should not need - a S166 to properly invest in compliance: it is expected to be part of the business strategy and planning process.



# About Rutherford

Rutherford is a boutique search firm located in London. Our consultants are the executive specialists in compliance, financial crime, legal, cyber security and change & transformation recruitment, all within the financial and professional services sectors in the United Kingdom and New York. We use our carefully curated relationships, networks and market knowledge to find the best fit for the clients in hand. We work with a wide range of clients, spanning from advisors, management consultants, corporate and commercial banks, brokers, exchanges, MTFs and financial tech, through to global investment managers, hedge funds, private equity firms, investment banks and technology firms. We began as a compliance recruitment firm in London and expanded to offer new resourcing expertise across legal and cyber recruitment. We have been a leading legal and compliance search agency in London for a decade and are excited about bringing our expanded offering into the technology area.

Compliance Recruitment

Legal Recruitment



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