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Managing Compliance Risk in Banks: the role of the Compliance Function

Gestion du Risque de non-conformité dans les banques : le rôle de la Fonction de Conformité

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Abstract :

This article examines the role of the compliance function in managing compliance risk within Moroccan banks. Recent financial crises and scandals have underscored the critical importance of robust compliance mechanisms in maintaining stability and public confidence in the banking system. Drawing on agency theory, institutional theory, and stakeholder theory, we investigate how Moroccan banks are strengthening their compliance functions to effectively manage compliance risks in an evolving regulatory landscape.
Our study employs a qualitative approach, utilizing semi-structured interviews with eight compliance professionals from various Moroccan banks. Thematic analysis of the interview data reveals five key themes: (1) the centrality of compliance in Moroccan banks, (2) the robustness of compliance functions, (3) challenges in implementing compliance practices, (4) interaction between compliance and other bank departments, and (5) future outlook for banking compliance in Morocco.
The findings support our hypotheses that banking compliance is central to the concerns of Moroccan banks and that they have developed rigorous compliance functions. However, challenges remain, particularly in resource allocation, cultural integration, and managing the complexity of international compliance. The study highlights the strategic importance of compliance, its role in risk management, and its integration with other bank functions.
Our research contributes to the literature by providing empirical insights into compliance practices in an emerging market context, bridging the gap between theoretical frameworks and real-world implementation. The article concludes with practical recommendations for banks seeking to enhance their compliance functions and suggests avenues for future research in this evolving field.

Keywords: Compliance Function, Compliance Risk, Bank Compliance
Classification JEL: G21, G28, G32
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1. Introduction

The global financial landscape has undergone significant transformations in recent decades, characterized by increasing complexity, interconnectedness, and regulatory scrutiny (Moshirian, 2011; Claessens & Van Horen, 2014). The 2008 financial crisis and subsequent scandals have not only exposed vulnerabilities in the financial system but also underscored the critical importance of robust compliance mechanisms within banking institutions (Avgouleas, 2009; Baxter, 2011; Goodhart, 2011). As regulatory frameworks evolve rapidly in response to these challenges, banks face mounting pressure to effectively manage compliance risks to maintain stability, protect stakeholders, and preserve public trust in the financial system (Weber & Arner, 2007; Armour et al., 2016).

Compliance risk, defined by the Basel Committee on Banking Supervision (2005) as the risk of legal or regulatory sanctions, financial loss, or reputational damage resulting from failures to adhere to applicable laws, regulations, codes of conduct, and standards of good practice, has emerged as a central concern for financial institutions worldwide (Carretta et al., 2010; Karpoff, 2012; Akhigbe et al., 2016). The increasing focus on compliance is not merely a regulatory obligation but a strategic imperative for banks seeking to safeguard their operations and reputation in an era of heightened scrutiny and potential for severe penalties (Nguyen et al., 2016).

The evolving nature of compliance risk is evident in the rapid expansion of regulatory requirements across various jurisdictions. For instance, the introduction of the Dodd-Frank Act in the United States (Kroszner & Strahan, 2011), the implementation of Basel III globally (Barth & Miller, 2018), and the establishment of the Single Supervisory Mechanism in the European Union (Ferran, 2016) have all contributed to a more complex regulatory environment. This complexity is further compounded by the emergence of new technologies and business models in the financial sector, such as fintech and digital banking, which present novel compliance challenges (Arner et al., 2017; Zetzsche et al., 2017).

Recent studies have explored various aspects of compliance risk management in banking, reflecting the growing importance of this field. Birindelli and Ferretti (2013) examined the evolution of the compliance function in European banks, highlighting its growing strategic importance and the need for a more integrated approach to risk management. Prorokowski and Prorokowski (2014) investigated the challenges faced by banks in implementing compliance programs across different jurisdictions, emphasizing the need for a global perspective on compliance issues. Losiewicz-Dniestrzanska (2015) analyzed the role of compliance in mitigating operational risks in banks, underscoring the interconnected nature of various risk categories in financial institutions.

Furthermore, Gozman and Currie (2014) explored the impact of regulatory change on compliance management in financial organizations, highlighting the dynamic nature of compliance requirements and the need for adaptive strategies. Stryker (2017) examined the transformation of the compliance function in response to evolving regulatory landscapes, emphasizing the need for a more proactive and integrated approach to compliance management.

Despite these advances, there remains a significant gap in understanding how banks can effectively strengthen their compliance function to manage compliance risks in practice. While existing research has predominantly focused on regulatory frameworks and theoretical models (Packin, 2013; Calomiris, 2017), there is a paucity of empirical studies that provide insights into the practical implementation and optimization of compliance functions within banks, particularly in emerging markets (Naheem, 2016; Ozili, 2018).

This research gap is particularly evident in the context of developing economies, where the banking sector often faces unique challenges related to regulatory environments, market structures, and institutional frameworks (Beck & Cull, 2013; Berger et al., 2015). The

Moroccan banking sector, for instance, has undergone significant reforms and expansion in recent years, yet there is limited research on how banks in this context are adapting their compliance functions to meet evolving regulatory demands and manage compliance risks effectively.
This study aims to address this gap by examining the role of the compliance function in managing compliance risks within banks, with a particular focus on the Moroccan banking sector. By combining theoretical insights from the Basel Committee recommendations (BCBS, 2005; 2010; 2015) with empirical data from semi-structured interviews with banking compliance professionals in Morocco, we seek to answer the following research question: How can banks strengthen their compliance function to effectively manage compliance risks in the context of an evolving regulatory landscape?
To explore this question, we adopt a qualitative approach, drawing on the experiences and perspectives of compliance professionals in Moroccan banks. This methodology allows for an in-depth exploration of the nuances and complexities of compliance management in practice, providing rich, contextual data that can inform both theory and practice (Creswell & Creswell, 2018; Yin, 2017; Mabwe et al., 2016). Our study contributes to the existing literature by providing empirical insights into the practical challenges and strategies employed in managing compliance risks, thereby bridging the gap between theoretical frameworks and real-world implementation (Ramakrishna, 2015; Arndorfer & Minto, 2015; McConnell, 2013).
The significance of this research extends beyond the immediate context of Moroccan banks. As globalization continues to shape the financial landscape, insights from diverse markets can provide valuable lessons for banks and regulators worldwide (Acharya et al., 2016; Claessens, 2017). Moreover, by examining the compliance function through the lens of organizational theory and risk management frameworks, this study contributes to the broader academic discourse on corporate governance and regulatory compliance in financial institutions (Hopt, 2013; Macey & O'Hara, 2016).
The remainder of this paper is structured as follows: First, we present a comprehensive review of the literature on banking compliance, including the Basel Committee's recommendations and relevant theoretical frameworks. This review provides the foundation for our empirical investigation and helps situate our findings within the broader academic discourse. Next, we outline our research methodology, detailing our data collection and analysis processes. We then present our findings, discussing the key themes that emerged from our interviews and analyzing their implications for compliance management in banking. Finally, we conclude with practical recommendations for strengthening the compliance function in banks and suggest avenues for future research.
By integrating theoretical perspectives with practical insights, this study aims to provide valuable guidance for banks seeking to enhance their compliance functions and contribute to the ongoing academic discourse on effective compliance risk management in the banking sector. As regulatory landscapes continue to evolve and new challenges emerge, understanding how to build robust, adaptive compliance functions will be crucial for the stability and integrity of the global financial system (Blunden & Thirlwell, 2012; Agarwal et al., 2014).

2. Concept definition and theoretical framework

2.1. Contextual overview

The concept of compliance risk was officially incorporated into the vocabulary of banking risk management professionals and researchers in 2003. Prior to this date, the concept was neither explicitly recognized nor fully integrated into the banking sector. As a result, compliance issues were mainly dealt with from the point of view of ethics, with no function specifically dedicated to dealing with incidents of non-compliance, or to managing and controlling this risk.

The Basel Committee's 2003 consultative document and the one published in 2005 remain a key reference on the role and missions of the compliance function in banks and credit institutions. These documents present the views of the supervisory authorities and provide basic guidance to banks. Although they do not impose a uniform approach, they establish a clear set of general principles for the compliance function within banks. The Committee also recognizes the diversity of internal compliance structures, influenced by the legal and regulatory environment in each jurisdiction.

In its 2003 document, the Basel Committee defined 11 general standards for the implementation of a compliance function in banks. These standards emphasize the importance of a compliance policy and an independent function dedicated to applying that policy. The compliance function is described as "an independent function responsible for identifying, assessing, advising and reporting on compliance risk".

The document stresses that banks that adopt high standards of behavior at all levels are more effective in managing compliance risk. This approach is in line with the literature on business ethics (Paine, 1994) and underlines the importance of effective bank governance. In addition, senior management plays a crucial role in promoting an ethical culture within the organization, in line with the work of Sims (1991) and Weaver et al. (1999). The involvement of all staff in adopting and respecting the organization’s ethical values is also essential.

The document encourages the establishment of an internal compliance charter to guarantee the independence of the compliance function, clarify its responsibilities and define its relationship with the bank's other departments. The eleven principles include the responsibility of the Board of Directors and senior management, as well as the independence, role and responsibilities of the compliance function.

The objectives of the compliance function (Figure 1), although not explicitly defined in the Basel Committee document, encompass several essential aspects such as the protection of consumers, depositors and investors, the preservation of market integrity, the guarantee of systemic stability and the fight against the moral hazard (Edwards et al., 2004). These objectives are defined in terms of each bank's overall compliance policy, taking into account factors such as its size, scope of activity, geographical reach and internal culture.

In the Moroccan context, Bank Al-Maghrib (BAM) plays a crucial role in regulating the Moroccan financial sector by issuing directives and circulars to credit institutions and similar bodies. These documents provide essential guidelines for managing compliance risk and establishing robust internal control systems.

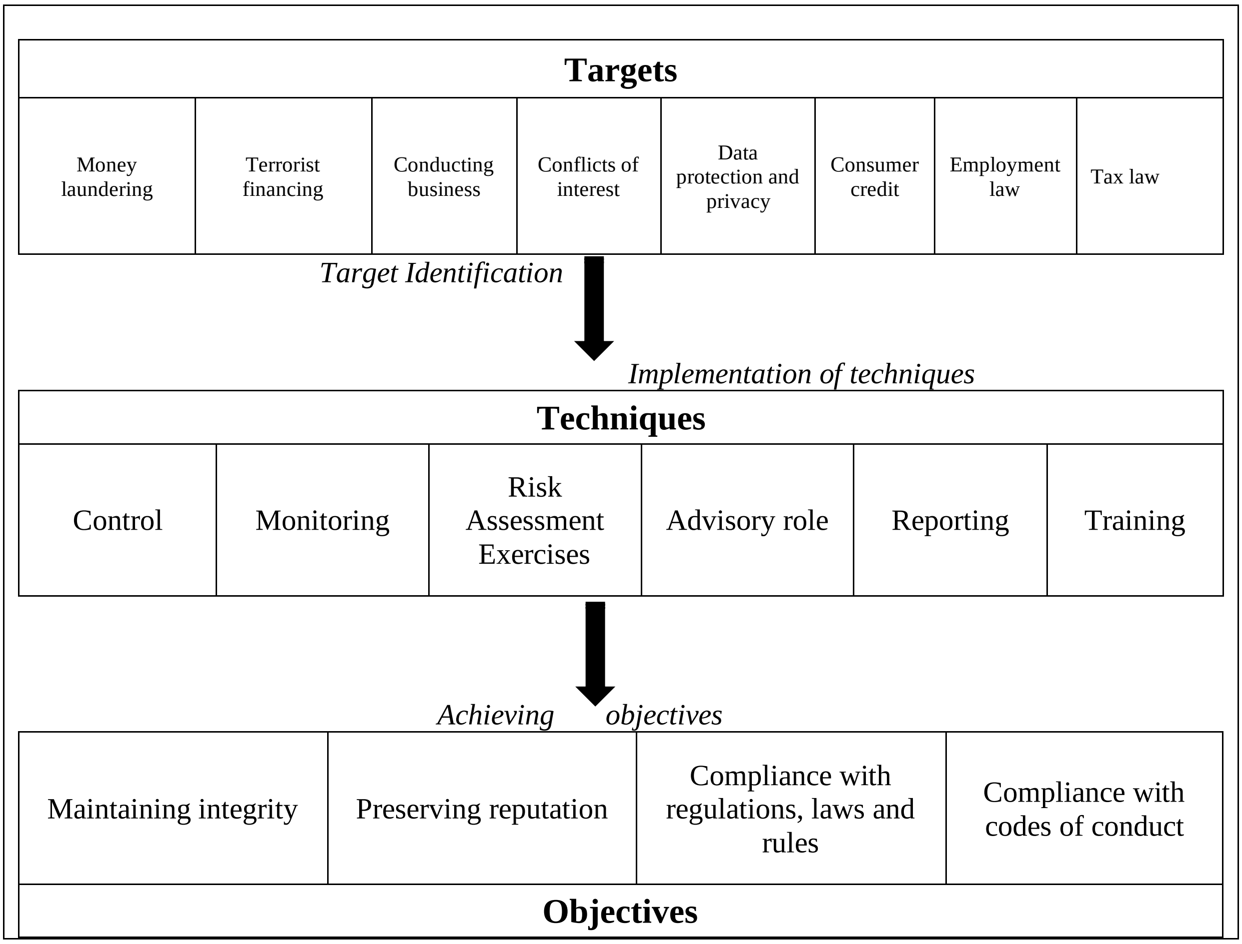
BAM's directive DN° 49/G/2007, for example, sets out the minimum rules for the creation of a compliance function within credit institutions, aligned with the requirements of the second pillar of Basel II. It also stipulates the responsibilities of the governance and management bodies in setting up and supervising this function, as well as the characteristics and tasks of the compliance function itself.

Similarly, Circular CN° 4/W/2014 sets out the criteria and requirements for establishing an effective internal control system, emphasizing the importance of compliance in these arrangements. It details the operating procedures for these systems, highlighting the need to monitor and control internal operations to ensure compliance with the legislative, regulatory and ethical standards in force.

In addition, Directive DN° 3/W/2019 introduces the risk-based approach to combating money laundering and terrorist financing. This directive, inspired by the FATF (Financial Action Task Force) recommendations, requires credit institutions to identify and assess the risks associated with these activities, and to adjust their monitoring and control measures accordingly. It also defines the criteria for classifying risks and stresses the importance of periodically revising this classification to adapt to changing circumstances.

These BAM guidelines and directives, combined with other laws and regulations, provide a solid framework for ensuring compliance and strengthening internal control systems in the Moroccan banking sector.

Figure 1: Components of the Compliance Function



Source: Adapted from Edwards & Wolf (2004)

2.2. Theoretical perspectives on banking compliance

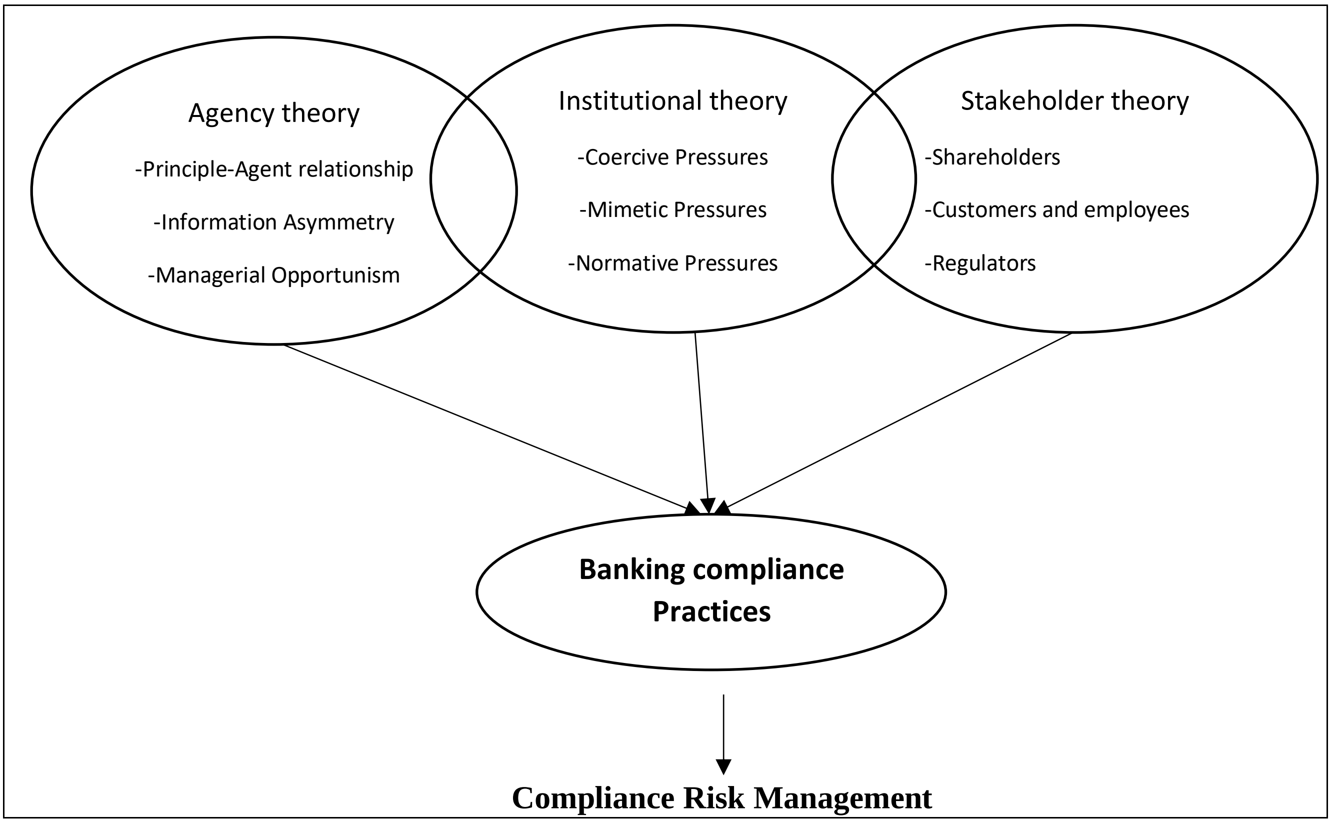
The study of banking compliance is underpinned by several key theoretical perspectives that help explain its importance, structure, and effectiveness. These theories, coupled with empirical studies, provide a comprehensive framework for understanding the role of compliance in the banking sector (Figure 2).

Agency theory, developed by Jensen and Meckling (1976), offers a crucial lens for examining compliance in banking. This theory posits that in principal-agent relationships, such as those between shareholders and bank managers, potential conflicts of interest arise. In the context of banking compliance, agency theory explains why robust compliance mechanisms are necessary to align the interests of bank management with those of shareholders and regulators (Eisenhardt, 1989). Mülbert (2010) applied this theory to banking regulation, arguing that compliance functions serve as a mechanism to reduce agency costs by monitoring management's adherence to regulatory requirements. Building on this, Macey and O'Hara (2016) demonstrated how effective compliance can mitigate the risk of managerial opportunism in banks, acting as an internal control mechanism to ensure managers operate within regulatory bounds and in shareholders' best interests.

Complementing agency theory, institutional theory, as developed by DiMaggio and Powell (1983), provides insights into why banks adopt similar compliance structures and practices.

This theory suggests that organizations within the same field tend to become more similar over time due to coercive, mimetic, and normative pressures. Hu et al. (2018) found that these institutional pressures significantly influence the adoption of compliance practices in banks. Their study of Chinese banks revealed that coercive pressures from regulators, mimetic pressures from peer institutions, and normative pressures from professional associations all contribute to the development of compliance functions. Oliver (1991) proposed a typology of strategic responses to institutional processes, ranging from passive conformity to active resistance, which can be applied to understand how banks respond to compliance requirements. Stakeholder theory, proposed by Freeman (1984), provides another valuable perspective, highlighting how compliance functions in banks serve multiple stakeholders, including shareholders, customers, regulators, and society at large. Anand and Green (2012) applied this theory to banking regulation, arguing that effective compliance serves the interests of multiple stakeholders by ensuring bank stability, protecting customer interests, and maintaining market integrity. Their study of Canadian banks found that institutions with more robust compliance functions tended to have better relationships with various stakeholders. Laeven and Levine (2009) further used stakeholder theory to examine how the competing interests of various bank stakeholders influence risk-taking behavior, emphasizing the importance of considering multiple stakeholder interests in compliance and risk management.

Figure 2 : Theoretical Framework of the study



Source : Authors

Empirical studies have further enriched our understanding of banking compliance. Birindelli and Ferretti (2013) studied the evolution of compliance functions in Italian banks, finding that while these functions had become more formalized and integrated into bank structures, significant variation in implementation remained. Prorokowski and Prorokowski (2014) conducted a global study of compliance practices across financial institutions, identifying key challenges in implementing compliance programs, including resource constraints, regulatory complexity, and difficulties in fostering a compliance culture.

Losiewicz-Dniestrzanska (2015) examined the role of compliance in mitigating operational risks in banks, finding that effective compliance monitoring could significantly reduce operational risk incidents. Gozman and Currie (2014) investigated how regulatory changes impacted compliance management systems in financial organizations, revealing that such changes often led to the displacement of existing compliance systems, highlighting the need for adaptable compliance structures.

Akhigbe et al. (2015) examined the impact of the Dodd-Frank Act on risk in the financial services industry, finding that while the Act reduced overall risk, its effects were not uniform across all institutions. This highlights the need for tailored compliance strategies. Nguyen et al. (2016) investigated whether bank boards can prevent misconduct, finding that board characteristics, such as financial expertise and diversity, were associated with lower incidences of enforcement actions, emphasizing the importance of corporate governance in compliance management. Karpoff et al. (2008) studied the reputational penalties for corporate financial misconduct, finding that the reputational costs of non-compliance often exceed legal penalties. This provides a strong incentive for banks to invest in robust compliance functions, aligning with both agency and stakeholder theories.

Based on the theoretical perspectives and empirical studies discussed, we formulate the following hypotheses:

H1: Banking compliance is central to the concerns of Moroccan banks.

This hypothesis is grounded in institutional theory, suggesting that regulatory pressures and industry norms would push Moroccan banks to prioritize compliance. It also aligns with stakeholder theory, as effective compliance serves multiple bank stakeholders' interests.

H2: Moroccan banks have rigorous and robust compliance functions.

This hypothesis is based on agency theory and empirical findings on the importance of compliance in mitigating risks and maintaining stakeholder trust. Given the potential costs of non-compliance (both financial and reputational), we expect banks to invest in robust compliance functions to mitigate these risks and align management behavior with regulatory expectations.

By testing these hypotheses, our study aims to contribute to existing literature by providing insights into the practical implementation of compliance functions in an emerging market context, thereby bridging the gap between theoretical frameworks and real-world practices.

3. Methodology

This study employs a qualitative research approach to explore and understand the reality of banking compliance as perceived by practitioners in Morocco. We chose this method due to its ability to provide rich, contextual data and insights into complex phenomena (Creswell & Poth, 2017). The qualitative approach allows us to delve into the nuances of compliance practices, challenges, and perceptions within the Moroccan banking sector, aligning with our theoretical framework that draws on agency theory, institutional theory, and stakeholder theory.

Our research design (Figure 2) is informed by the theoretical perspectives discussed earlier. Agency theory (Jensen & Meckling, 1976) guides our investigation into how compliance functions serve to align the interests of bank management with those of shareholders and regulators. Institutional theory (DiMaggio & Powell, 1983) frames our examination of why banks adopt similar compliance structures and practices. Stakeholder theory (Freeman, 1984) underpins our exploration of how compliance functions serve multiple stakeholders in the banking ecosystem.

We conducted semi-structured interviews with a sample of banking compliance professionals in Morocco. The sample was selected using purposive sampling to ensure that participants had the relevant experience and knowledge to provide meaningful insights into banking compliance

practices (Patton, 2014). We applied the principle of empirical saturation, continuing interviews until no significant new information was obtained (Saunders et al., 2018; Pires, 1997).
Our final sample comprises eight professionals working in various credit institutions in Morocco, occupying positions of varying responsibility. Table 1 provides details of the interviewees, including their job titles, years of experience, and the duration of each interview. This diverse sample allows us to capture a range of perspectives across different levels of seniority and experience in the field of banking compliance.
Regarding the representativeness of our sample, we took several steps to ensure it reflects the broader population of compliance professionals in Moroccan banks. First, we selected participants from a diverse range of banks, including both large national banks and smaller regional institutions, to capture variations in compliance practices across different organizational contexts. Second, we ensured our sample included professionals at various levels of seniority, from compliance analysts to chief compliance officers, to gain perspectives from different hierarchical levels. Third, we considered the years of experience of our participants, selecting a mix of seasoned professionals and those newer to the field to capture both established practices and emerging trends.

Table 1: Details of semi-structured interviews

Code	Job title	Years of experience	Duration of interview
CO1	Compliance Officer	8	1H
CCO1	Chief Compliance Officer	12	30 min
CA1	Compliance analyst	5	1,5H
CICO4	Compliance and Internal Control Officer	10	1H
CA2	Compliance analyst	6	1H
CA3	Compliance analyst	4	1H
CA4	Compliance analyst	3	40 min
CO2	Compliance Officer	7	50 min

Source: Authors

While our sample size of eight participants is relatively small, the diversity in our sample, allows us to capture a significant range of perspectives and experiences within the Moroccan banking compliance field. However, we acknowledge that qualitative research of this nature does not aim for statistical representativeness, but rather for a rich, in-depth understanding of the phenomenon under study (Lincoln & Guba, 1985). Our sampling strategy aligns with the principle of 'maximum variation sampling' as described by Patton (2014), which aims to capture and describe central themes that cut across participant variation.
We developed a semi-structured interview guide based on our literature review, theoretical framework, and research objectives. The guide covered several key themes: current compliance practices and structures, challenges in implementing compliance functions, interaction between compliance and other bank departments, perceptions of the importance of compliance, and future outlook for banking compliance in Morocco. These themes were designed to elicit responses that would help us understand how the theoretical concepts manifest in practical settings.
Interviews were conducted in person or via video conferencing, depending on the participant's preference and availability. All interviews were audio-recorded with the consent of the participants and later transcribed manually for analysis. This approach allowed for a thorough examination of the participants' responses and ensured that no critical information was missed.

For data analysis, we employed thematic analysis to process the information gathered from the interviews (Braun & Clarke, 2006). This method involves familiarization with the data, initial coding, searching for themes, reviewing themes, defining and naming themes, and producing the report. The analysis was conducted manually, allowing for a deep engagement with the data. To ensure reliability and validity, we employed triangulation techniques, comparing findings across different interviewees and cross-referencing with existing literature (Fallery and Rofhain, 2007; Denzin, 2017).

Throughout the research process, we adhered to ethical research principles. All participants were informed about the study's purpose and gave their informed consent. Confidentiality and anonymity were maintained, with participants assigned codes (e.g., I1 for Compliance Officer 1) to protect their identities while allowing for direct quotations in the results section.

We acknowledge certain limitations in our methodology. While our sample size is appropriate for qualitative research, it limits the generalizability of findings. Additionally, the focus on Morocco may not capture the full spectrum of compliance practices in other contexts. However, these limitations open avenues for future research in different geographical and institutional settings.

This methodology allows us to address our research question: How can banks strengthen their compliance function to effectively manage compliance risks? It also provides a framework for testing our hypotheses about the centrality of compliance concerns and the robustness of compliance functions in Moroccan banks. By integrating our theoretical framework with this qualitative approach, we aim to contribute meaningful insights to the field of banking compliance, particularly in the context of emerging markets.

The results obtained will be presented in textual form and will be analyzed from the point of view of different professional compliance frameworks.

4. Results: Towards a model of good banking compliance practices

Based on current practices in banks, the recommendations of the Basel Committee and the results of the semi-structured interviews, various conclusions emerge:

4.1. Overview of Thematic Analysis

Our thematic analysis of the interview data revealed five major themes that provide comprehensive insights into banking compliance practices in Morocco. These themes not only address our research question and hypotheses but also illuminate the complex landscape of compliance management in Moroccan banks.

4.2. Theme 1: Centrality of Compliance in Moroccan Banks

Our findings strongly support the first hypothesis (H1) that banking compliance is central to the concerns of Moroccan banks. All interviewees emphasized the critical importance of compliance in their institutions, highlighting its role in strategic decision-making and risk management.

A Chief Compliance Officer (CCO1) stated: "*Compliance is not just a department; it's a core part of our bank's culture and strategy. It's discussed at every board meeting and factors into all major decisions. We've seen a significant shift over the past decade, with compliance moving from a back-office function to a strategic partner*."

This centrality aligns with institutional theory, as banks respond to increasing regulatory pressures both domestically and internationally. A Compliance Officer (CO3) noted: "*We're constantly adapting to new regulations, both local and international. It's a top priority for management. The pace of regulatory change has accelerated, and we've had to become more agile in our approach to compliance.*"

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Stakeholder theory is also evident, as banks recognize compliance's role in maintaining trust across various stakeholder groups. One Compliance Analyst (CA2) explained: "*Our compliance efforts are crucial for maintaining relationships with customers, regulators, and shareholders. It's about protecting everyone's interests. We've seen how compliance failures in other countries have eroded trust in banks, and we're determined to maintain the highest standards to prevent that here.*"

Furthermore, the interviews revealed that compliance is increasingly seen as a competitive advantage. CO1 stated: "*Strong compliance isn't just about avoiding fines; it's about building a reputation for integrity that attracts customers and investors. We've seen increased interest from international partners due to our robust compliance practices*."

4.3. Theme 2: Robustness of Compliance Functions

Our second hypothesis (H2) that Moroccan banks have rigorous and robust compliance functions was also supported by the data, though with some variations across institutions.

A Compliance and Internal Control Officer (CICO1) described their bank's approach: "*We've invested heavily in our compliance function. We have a dedicated team, advanced monitoring systems, and regular training programs for all staff. Our compliance budget has increased by 30% over the past three years, reflecting its importance to our bank*."

This robustness aligns with agency theory, as banks seek to mitigate risks and align interests. CCO1 explained: "*Our robust compliance function helps ensure that all parts of the bank are working towards the same goals, reducing potential conflicts of interest. We've implemented a three-lines-of-defense model, with compliance playing a crucial role in the second line*."

The interviews also revealed sophisticated risk assessment and monitoring processes. CA4 stated: "*We conduct regular risk assessments across all business units. Our monitoring systems use data analytics to flag potential issues in real-time. We're also piloting an AI-based system to enhance our transaction monitoring capabilities*."

However, some interviewees noted room for improvement. CA4 added: "*While we have a strong foundation, there's always more we can do to enhance our compliance capabilities, especially in emerging areas like cybersecurity and data privacy. We're constantly benchmarking against international best practices.*"

4.4. Theme 3: Challenges in Implementing Compliance Practices

Despite the overall robustness, interviewees identified several challenges in implementing effective compliance practices, providing nuanced insights into the practical realities of compliance management.

Resource constraints were a common theme. CO2 noted: "*Keeping up with the pace of regulatory change is resource-intensive. We sometimes struggle to allocate sufficient budget and manpower. There's a constant need to justify compliance investments to senior management, especially when the benefits are often about avoiding negative outcomes rather than generating revenue."*

Cultural challenges were also frequently mentioned. CA1 explained: "*Creating a culture where every employee sees compliance as their responsibility, not just the compliance department's job, is an ongoing challenge. We've made progress through training and communication, but it's a continuous effort.*"

The complexity of international compliance was another key challenge. CICO1 stated: "*As we expand our international operations, we're grappling with diverse regulatory requirements across different jurisdictions. Ensuring consistent compliance practices while adapting to local nuances is a significant challenge*."

These challenges reflect the ongoing nature of institutional isomorphism, as banks work to adapt to changing norms and expectations. They also highlight the dynamic nature of compliance management, requiring continuous adaptation and improvement.

4.5. Theme 4: Interaction Between Compliance and Other Bank Departments

The interaction between compliance and other departments emerged as a critical factor in effective compliance management, highlighting the integrated nature of modern compliance functions.

CICO1 emphasized the importance of collaboration: "*Compliance isn't isolated. We work closely with risk management, legal, and operations to ensure a comprehensive approach to risk management. We've established cross-functional teams to address complex compliance issues*."

This aligns with stakeholder theory, as compliance serves to balance various internal stakeholder interests. CO4 added: "*We've worked hard to position compliance as a business enabler rather than just a control function. Our early involvement in new product development, for example, helps ensure compliance is built-in from the start rather than bolted on at the end*."

However, tensions can arise. CO3 noted: "*Sometimes there's friction between compliance and business units. We're working on better communication to show how compliance supports, rather than hinders, business objectives. Regular workshops and joint training sessions have helped improve understanding and cooperation*."

The interviews also revealed evolving reporting structures. CCO1 explained: "*Our compliance function now reports directly to the board, enhancing our independence and authority. This has significantly improved our ability to address compliance issues proactively*."

4.6. Theme 5: Future Outlook for Banking Compliance in Morocco

Interviewees expressed optimism about the future of banking compliance in Morocco, while acknowledging upcoming challenges and opportunities.

CCO1 predicted: "*I see compliance becoming even more integrated into strategic decision-making. Banks that excel in compliance will have a competitive advantage, especially as Morocco continues to position itself as a regional financial hub*."

Technological advancements were frequently mentioned as a key trend. CA3 stated: "*We're exploring AI and machine learning to enhance our compliance monitoring capabilities. It's an exciting frontier. These technologies have the potential to dramatically improve our ability to detect and prevent compliance issues.*"

The increasing importance of non-financial risks was also highlighted. CO2 noted: "*We're seeing a growing focus on areas like conduct risk, cybersecurity, and environmental compliance. These are becoming as important as traditional financial compliance areas*."

Regulatory harmonization was another key theme. CICO1 explained: "*We anticipate further alignment of Moroccan banking regulations with international standards. This presents both challenges and opportunities for us to enhance our global competitiveness*."

These perspectives align with institutional theory, suggesting continued evolution of compliance practices in response to changing regulatory, technological, and societal landscapes.

4.7. Summary of Key Findings

Our results strongly support both hypotheses, indicating that compliance is central to Moroccan banks' concerns and that they have developed robust compliance functions. The findings reveal a sophisticated understanding of compliance among Moroccan banking professionals, with practices that often align with international standards.

However, challenges remain, particularly in resource allocation, cultural integration, and managing the complexity of international compliance. The interaction between compliance and

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other departments emerged as crucial for effective risk management, highlighting the need for an integrated approach to compliance.
Looking ahead, technological advancements, strategic integration of compliance, and an expanding scope of compliance concerns are expected to shape the future of banking compliance in Morocco. The sector appears well-positioned to adapt to these changes, with a strong foundation of compliance practices already in place.
These findings provide valuable insights into how Moroccan banks can further strengthen their compliance functions to effectively manage compliance risks, addressing our main research question. They also highlight the complex interplay of institutional pressures, agency concerns, and stakeholder interests in shaping banking compliance practices in an emerging market context.

5. Conclusion

Compliance risk management is a crucial issue for banks, both in terms of financial stability and reputation. In this article, we have highlighted the essential role of the compliance function in this context, based on the recommendations of the Basel Committee and on practices within Moroccan banks through semi-directive interviews with professionals in the field. The compliance function must be independent, well integrated and adequately resourced to identify, assess, monitor and report compliance risks effectively.
We have explored the main objectives of the compliance function, such as protecting consumers, preserving market integrity and ensuring systemic stability. Interaction with other departments, such as senior management, internal audit and legal, is crucial for coherent and integrated risk management. In addition, the importance of a compliance culture promoted by senior management cannot be underestimated.
For banks, it is not just a question of complying with regulatory requirements, but also of seeing compliance as a strategic element in building the confidence of customers, investors and regulators. By adopting a proactive and integrated approach, banks can turn compliance challenges into opportunities to strengthen their governance and resilience in the face of future crises.
In short, implementing the principles and best practices described in this article will help banks to navigate the complex regulatory environment effectively and protect their interests and those of their stakeholders. A well-designed and well-executed compliance function is an indispensable component of a modern, responsible bank. By investing in this function, banks can not only protect themselves against compliance risks but also contribute to the stability and health of the overall financial system.

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Appendix 1: Interview guide for determining good banking compliance practices

Experience and current practices:

- Can you describe your role and responsibilities in banking compliance?
- How has the compliance function evolved in your bank over the past few years?
- In what ways does compliance factor into strategic decision-making in your bank?

Interactions between departments:

- How does the compliance function interact with other departments in the bank?
- Can you provide examples of successful collaboration between compliance and other departments?
- Have you experienced any conflicts between compliance objectives and business goals? How were these resolved?

Regulatory environment and institutional pressures:

- How do you stay updated on regulatory changes?
- In what ways do international standards influence your compliance practices?
- Do you feel pressure to adopt certain compliance practices because other banks are doing so?

Stakeholder management:

- How does your compliance function consider the interests of different stakeholders (e.g., shareholders, customers, regulators)?
- Can you describe how compliance contributes to maintaining trust with these stakeholders?

Challenges and opportunities:

- What are the main compliance challenges facing your bank?
- How do you balance the costs of compliance with its benefits?
- In what ways do you see technology impacting compliance practices in the future?

Robustness of compliance function:

- Can you describe the resources allocated to compliance in your bank?
- How do you measure the effectiveness of your compliance function?
- In what ways does your bank go beyond minimum regulatory requirements in compliance?

Future outlook:

- How do you see the role of compliance evolving in Moroccan banks over the next 5-10 years?
- What emerging risks or trends do you think will shape the future of banking compliance in Morocco?