



EMBRACING TECH IN FINANCIAL SERVICES EPISODE: EXPLORE TOMORROW'S RISK FUNCTION... NOW

TRANSCRIPT

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Tim: As compliance demands increase, so do the costs, and traditional methods of dealing with these challenges are no longer viable. Join

me with Tales Lopes, risk, compliance and finance lead for Australia, as we discuss the risk function of the future.

Presenter: Welcome to Embracing Technology in Financial Services, a podcast brought to you by Accenture. In this series we will hear from experts to uncover the latest in technology and trends in financial services. Now, here's your host, Tim Broome.

Tim: Welcome everybody to today's podcast. I'm joined by Tales Lopes, who's the risk compliance and finance lead for Australia. Tales, how are you?

Tales: Hey Tim, I'm fine, thanks much for the invite, how are you doing?

Tim: Yeah, look, I'm very, very good, thank you.

Tales: Good.

Tim: We last did a podcast together about a year ago and that was pre royal commission, so a year's passed. How do you think things have



evolved since then?

Tales: That was quite interesting to observe what was happening in the markets and all the tension coming from that. But all the expectations about what's next, what's coming from that and the new regulations popping up after the Royal Commission. I think massive expectations around risk, culture, conduct risk. So let's see.

Tim: The topic for today is risk so I've got the right person. And what exactly do you think risk function in the future? I think we've seen a lot of evolution in this space. What's your thoughts?

Tales: So the risk function is definitely being challenged by relevant changes in the industry. So I think we have digital threats and enablers. I think customer expectations have changed significantly as well in the recent years. There are lots of concerns on in terms of data privacy, data protection. So considering all the huge amount of local and global regulations, shareholder expectations, I think a big concern about the cost to be compliant as well. Thinking about the overall ecosystem also around financial services.

Tim: So you've seen the cost increase just to remain compliant?

Tales: Yes, absolutely. Absolutely. Year after year, year after year. I can tell you that organisations are definitely after ways to try to contain this cost. I think that's something that they are after and there's no way to skip.

Tim: I was chatting with Dave Powell, who's the security lead. Part of that conversation was well, the cost of security and securing a bank is increasing. Now we're saying that the cost of remaining compliant is increasing. That's a tough environment.

Tales: Absolutely. Being a banker today is quite tough.

Tim: Tales, we've got increasing costs. What should the risk function of the future look like

then to deal with this challenge?

Tales: What we see is that some specific areas are gaining more importance and I can talk about some of them as I can illustrate that. So, risk analytics definitely is becoming a more and more relevant. If you think about that, in the past that was something just being used by a few specialists and we see that really being a democratized function to some extent. So we see the use of analytics more and more. So banks can take smarter decisions, faster decisions, be more efficient.

Another aspect also is considering all the new regulations and risks present at banks, the level of controls in place because of that. We see lots of initiatives or a lot of focus in terms of control automation as well. Thinking about the control environment at banks, that was I can tell you something very manual in the past and we see more and more automation on that including some interesting cases providing real time, early warnings when you have some type of risk emerging or happening in your organisation.

I think some big discussions also around clouds. I think cloud definitely something already being discussed also and considering for [risk management](#). There are some interesting regulations, a massive volume of data and then cloud infrastructure is the right solution to allow banks to process that at base. What is interesting, that is one regulation in market risk called the fundamental review of the trading book. Considering the amount of data that is needed to run these models, ideally banks should take this in the cloud.

Tim: There's a bit of give and take there. Cloud is, you're completely correct. Cloud is a great place to be able to consume that large amount of data in a quick and reasonably cost-effective way. But on the take, you've shifted a large amount of data off premises, you've created in theory under the risk, or at least at the very least, there's another set of compliance that you will be expected to meet in shifting that data to a new place. So it's absolutely the right thing to do, but you do need to be conscious that there are some new things you'll need to think about in that cloud



adoption and where we're absolutely seeing, to your point on automation, the prevalence of data in and around even the cloud services that you use and ability to automate the compliance, checking and making sure that you actually meet your obligations without needing hundreds of people to follow the whole process behind you.

Tales: Yeah, but then on the other hand, if you think about all these companies providing cloud solutions, this is the core business of these companies.

Tim: Yeah, absolutely.

Tales: For what reason would a bank believe that they can do better than these companies in the cloud for instance? I think it's food for thought. It's interesting. I had a discussion with the CTO of one of the banks the other day and we were exactly talking about that.

Tim: I completely agree with you. I think from a physical perspective, there is no reason why anybody should think that they can provide a more secure physical premises than one of these big cloud providers because that is their job. However, when you're adopting those services, there are then expectations upon you to secure this cloud environment that you've provisioned and there are extra things that you need to think about that if you don't, you'll shift that data and it's just gone into the open and anybody can find it.

Tales: That's true. You are not really outsourcing your responsibility.

Tim: Absolutely.

Tales: I think that's the main thing. Just something that I would like to highlight also, thinking about responsibilities and I think banks definitely are concerned about that. There is a reputational risk aspect also behind that. I'm very convinced that banks will move and are already moving into clouds and are taking into consideration key aspects related to security, related to privacy to ensure that their customers

are protected as they should be.

Tim: Yeah, look, and what I'm seeing in this space is the tools and technologies available in the adoption of the cloud and around the cloud actually support the ability to gather the information and show compliance in a way that if you look at a lot of the historical on premises solutions, that capability just doesn't exist. And in adopting these new technologies, and we look at capabilities like all the tools and approaches around dev ops, it's all around capturing information and being able to automate a process. And you can actually audit what's gone on, who did what when they did it.

Tales: All the traceability is there.

Tim: All the traceability in a way that has been very, very difficult to do in a lot of the historical technologies. So, I totally agree with what you're saying. I also think that it actually gives us an opportunity to be more compliant than we were before.

Tales: Yeah. And then what is special in Australia at this point and going back to our point on the Royal Commission, we are talking about being compliant. I think the momentum we have in the market goes beyond that. It's not only about being compliant but also the customer is becoming more and more a central piece on it. Because I think banks are thinking about being compliant, driving the right conduct, developing the right culture. I think that's the new way to go as well.

Tim: We touched a few times on compliance there Tales. How do we go beyond compliance? Now, what is next?

Tales: If you think about some specific processes that banks have and that these processes are typically seen as a compliance or a process that you have to be compliant, I would say that you can do more. I give an example. If you think about all your onboarding process. Let's think about a KYC. So, know your customer.



Tim: Yep.

Tales: Let's then think about some of the issues we had emerging from the Royal Commission, such as the suitability. So, if you can address your KYC process in the right way, collecting the right information, and based on that, provide better recommendations in terms of products to your customer, you are addressing a suitability issue, a business issue.

Tim: Absolutely, yeah.

Tales: And then also something that is then imaging your reputation. So I think it's going beyond compliance. It's not only about collecting data and the right information to be compliant for KYC, but also collecting the right information to provide better services and offers to your customers. So, I think it's using compliance as a driver to add value to your organisation.

Tim: And if we reflect on some of your earlier comments, you talked around the push around analytics in this space. What we're really looking at is well, there's more data available within an organisation. The process you've just talked around onboarding is a data gathering exercise. Okay, you can use that to become compliant, but you can also use that to better understand your customer. And this, is that what you're saying? That we should take the information we've got, which we use for our compliance process, but actually move that into more higher value services?

Tales: I think we can go beyond. If you think about all the data gathering and the level of automation you can impose on that, if you think about, KYC is a quite interesting process and traditionally we see banks addressing that manually. If you think about the power to have to really bring automation and collect data automatically, you have your KYC refresh as well and they don't have an army of people just collecting information that you gather. So you can leverage new technologies.

It doesn't mean that you won't need people anymore. Absolutely, you need people, you

need to have skilled people. But the point is that instead of having an army, you have a good group of professionals addressing what you could not address using technology. So, you can balance your work force, you can have the right workforce and use that workforce in the right way.

Tim: I think we're there about, so behind the process there's a set of relatively repeatable, mundane tasks and why have we got people doing repeatable, mundane tasks when we've got technology that can execute those repeatable, mundane tasks? You can actually get those people that you've got and move them on to the higher value activities, which makes it more rewarding for them, and it's a better investment for the organisation.

Tales: Absolutely, have no doubts about that.

Tim: And behind that we're talking artificial intelligence and the technologies around that are maturing to the point now where rather than artificial intelligence be a thing that we do, it's actually embedded in a lot of the processes that we execute and is almost becoming the fabric upon which many of our processes operate. Underneath that, and again, I think we've hit this a few times, is the data. You need to have good quality data. When you've got good quality data, you can train well to make algorithms that can support good decision making, but you can never really get away from the point that you need people to be understanding what the algorithms are doing and tuning to make sure that they're making the right decisions on the data and not just assuming that they can figure it out for themselves.

Tales: So, we are talking about artificial intelligence, we are talking about automation and how that seemed bad in the organisation. What is interesting is that if you think about risk management, I think there is an interesting reflection. I have discussed with some chief compliance officers or risk managers across different banks in Australia. And one of the topics I have discussed with banks is about the need to also adapt the workforce they have working in risk management today and compliance as well.

It's not only about applying these new technologies for managing obligations or for mitigating risks among other things, but also about understanding the risks that these technologies can bring to your organisation.

Tim: Absolutely, yes.

Tales: And interestingly, when I ask the question about are you preparing yourself for that, I think the majority of these organisations are reacting saying we understand that we have to, but we are not there yet.

Tim: I did some research, must be two years ago now. And one of the questions was on does your organisation think it's ready for the technology side to embrace artificial intelligence? And there was a question, and do you think you're already on the people side? Generally, the view was yeah, on the technology side we think we're ready. On the people side, not at all. I think that's, to your point, if we look at a risk function on one side, this has the ability to reduce the number of the risks in that you can have better insights. On the other side, this is an increased risk of well, do I really know what this technology is doing to, can I hand on heart say I know exactly why a decision was made? And that's still a gray territory.

If I was in a risk position, I think I myself would be probably a bit more stressed than as a technologist, where I look at it more of a view of great, just think of all the things I can do with this. Being less concerned with within my organisation am I actually allowed to do this?

Tales: If you think about the past and before having all of these new technologies present as they are today, it was relatively easy to delegate this type of expertise to technology per se. But thinking about today, with the democratization of these technologies in the use you have and the application in multiple processes, areas and everything else, you have to understand. I would say that when I think about the risk workforce of the future, they need to have a broad and deep technical expertise to be able to articulate what they want and to use these technologies in the

right way.

So, we were talking about cloud. It's the same principle. It's not only about privacy, but also thinking about all the models they have to build. If they want to build massive, magnificent models, what's the right infrastructure for that? And they will need to understand that and then be able to articulate that with technology and shape the right solution.

Tim: The use of these technologies and how they are allowed to be used within an organisation, and I'm thinking of things like bias and all the other challenges that come in, is that for risk to decide? Or is that for a different part of an organisation to decide?

Tales: I think it's a joint decision. That's my view. That's definitely an emerging topic. If I think about the collateral effect you have because you had some bias or something like this, that's definitely a risk.

Tim: Absolutely.

Tales: It's an organisational risk. That's why I see risk management definitely being part of this discussion as well.

Tim: Where else would you see artificial intelligence and the whole risk function connecting? Are there other areas where you see an important use of artificial intelligence in this space?

Tales: Absolutely. And back to the Royal Commission, a very relevant topic was conduct risk. So thinking about all the misconduct, misbehavior, challenges we had, and an area that we see as an emerging area for the use of machine learning, for instance, is conduct risk and how organisations can have a forward looking conduct risk just crunching data, having more insights, establishing co-relations, triangulations and then being able to investigate potential issues they have and then address that at the root cause.

Tim: So, in this case, I'm assuming we're talking



about really being proactive around conduct risk and looking for what might happen before it does happen so that you can step in and course correct.

[End of recording.]

Tales: And I would strongly recommend people listening to these podcasts to reach out to some of our recent points of view. There is one very interesting talking about the risk function of the future, talking about all these emerging technologies and what's going on in risk functions and where these risk functions are going. That is another one that we are publishing also. And that's very tailored to Australia but also applicable across the globe called [KYCB](#). And we are talking exactly about know your customer and how to better know your customer and then address the suitability issue, provide the right offers in line to what we discussed before.

There is a third one also being published on [the use of artificial intelligence, machine learning for obligations management](#) as well and how organisations can capture the obligations they have to comply to and then transform that into policies, processes, controls, so on and so forth.

If you want to read one of these, you can go to our Accenture websites, you can Google it. Otherwise you can reach out to me or to Tim and we will send it out to you.

Tim: On that note, we'll be bringing this podcast to a close, so Tales thank you very much for your time.

Tales: Thank you.

Tim: And for anybody who's listening, if you want any more information, please reach out to me, Tim Broome on LinkedIn. Thank you very much.

Presenter: You've been listening to Embracing Technology in Financial Services. You can hear the entire series on the Accenture vision by visiting accenture.com/embracingtech. For more information on all our podcasts, please visit accenture.com.

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