BALANCING INTERNAL, EXTERNAL AND VIRTUAL WORKFORCES: AN EVOLVING ANTI-MONEY LAUNDERING OPERATING MODEL FOR 2020
Due to increased regulatory scrutiny and pressures, banks have invested heavily in Anti-Money Laundering (AML), adding headcount to both establish and maintain compliance. Many banks’ AML-related activities suffer from a high cost base, often as the result of an inefficient operating model.

This has led to “regulatory fatigue” among overworked staff. It has also created a bidding war for individuals with AML-related skills and experience.

Banks, facing continual pressure to increase margins and reduce operating costs, are exploring technological solutions, including Robotic Process Automation (RPA) and Artificial Intelligence (AI), as well as process-oriented approaches such as Managed Services.

New players in the financial services ecosystem, such as FinTech (financial technology) payments companies and new “online only” banks are even choosing to build “virtual” AML functions, outsourcing all or most of their operational AML processes.

These “point” solutions are helpful, and should be applied as part of an overarching AML Operating Model that can scale and innovate with changing technology. A comprehensive model can help financial institutions balance the competing challenges of regulatory compliance, flexibility and efficiency.
In determining where best to implement point solutions to help reduce cost and drive efficiency, banks should evaluate where they can derive the greatest benefit by reallocating resources with targeted skills.
CAPABILITY GROUPS IN THE AML OPERATING MODEL

Every financial institution should establish a Bank Secrecy Act (BSA) and AML operating model which can deliver the foundational capabilities to meet the “four pillars” of AML compliance, as listed below.

1. A system of internal controls for ongoing compliance.
2. Independent testing of BSA/AML compliance.
3. A specifically designated person or persons responsible for managing BSA/AML compliance (BSA/AML compliance officer).
4. Training for appropriate personnel.

As outlined in Figure 1, these capabilities fall into two major groupings:

1. **Core operational capabilities**, including Customer Due Diligence (CDD) at Onboarding and Refresh, Transaction Monitoring and Screening. These are passive capabilities which do not provide competitive differentiation, and scale with increasing transaction volumes and regulatory demands.

2. **Oversight capabilities**, including capabilities such as Risk Assessment, AML Training and Learning Development, Controls Testing, and Quality Assurance. Typically, these are higher complexity, active capabilities requiring an in-depth understanding of the bank’s customers, risk appetite and organization.

In determining where best to implement point solutions to help reduce cost and drive efficiency, banks should evaluate where they can derive the greatest benefit by reallocating resources with targeted skills. This necessitates taking a closer look at both core operational (passive) and at oversight (active) capabilities and deciding which capabilities to carry out in-house, which to automate, and which to outsource.
Figure 1. BSA/AML and Sanctions Compliance Program Functional Operating Model

Source: Accenture, September 2017
UPGRADING CORE OPERATIONAL CAPABILITIES

Operational processes have been the focus of investment for banks in recent years.

Banks typically respond to AML-related Consent Orders or Matters Requiring Attention (MRAs) by adding staff to conduct transaction monitoring alert investigations, Know Your Customer (KYC) reviews for onboarding and refresh activities, and screening alert reviews, among other activities.

Although 50 percent of banks say they have added employees to keep up with KYC compliance over the past year, banks still indicate they do not have enough people with the right skills. In fact, 70 percent of respondents to a recent survey said they had to dedicate more time to KYC-related issues over the previous 12 months, diverting attention and resources from more strategic, revenue-related activities.

Core operational capabilities are characterized by high volume and low complexity, but they are often labor-intensive, requiring significant manual processing. These are typically “passive” functions that consume resources without providing a competitive advantage.

Rather than hiring or assigning employees for these functions, banks should use a combination of virtual and external workforce elements to create value in these areas. Experience has shown that the combination of RPA and managed services can help reduce internal operations headcount by up to 70%, providing an efficient, scalable and cost-effective solution for AML processes (see Figure 2).

A non-physical or virtual workforce, comprised of RPA and, to a growing extent, AI can automate low-value activities, increasing efficiency and reliability.

RPA and AI-based solutions can perform labor-intensive activities that do not rely upon human judgment (for example, gathering basic customer information like the customer’s correct registered address from third-party sources). According to an article by UiPath, Inc., companies implementing RPA solutions have reported cost reductions of 35 to 65 percent for onshore process operations and 10 to 30 percent for offshore delivery, with an investment recovery period as short as six to nine months.

For the remainder of core operational activities, banks should leverage an external workforce, using a third-party provider to perform these tasks via managed services. Managed services can provide an extended workforce to supervise and conduct activities characterized by low complexity and high volume, freeing the existing workforce to scale to more strategic tasks. External sourcing could provide significant benefits, including:
• The flexibility and/or scalability to address peaks and troughs in demand, with access to appropriate skills
• The transfer of the managerial burden of staffing and supervising day-to-day operations, as well as the application of HR requirements, to a third party
• Improvements in overall quality due to specialization and concentrated expertise
• Cost and efficiency savings realized through a variable cost structure, and using a managed services model for AML and/or KYC activities—these are reported to be in the 20 to 60 percent range.5
• Increased capacity of the internal workforce to focus on more strategic, higher value-added activities

Banks then face the question of how to descale the remaining workforce, migrate and upskill talent to address oversight capabilities, and address their organizational culture to avoid attrition.

Figure 2. BSA/AML and Sanctions Program Opportunities for Transformation

Source: Accenture, September 2017
UPGRADING OVERSIGHT CAPABILITIES

In contrast with operational capabilities, oversight capabilities are active capabilities requiring a skilled workforce with specific knowledge of the bank’s organizational structure and risk appetite.

As seen in Figure 3, target skills for these resources can be grouped into performance drivers, functional competencies, and, to some degree, specialist skills for non-manual processing functions. Executives with oversight responsibilities over these resources require decision-making authority to perform their roles.

Oversight capabilities have not been an area of focus for banks’ AML compliance programs, with focus traditionally centered on evidence of compliance to regulatory change. In recent AML compliance audits, these functions have increasingly been cited as key areas for potential improvement, particularly in more robust training programs, closer traceability between policies and procedures, and in the assessment of risk.

Due to the complexity of these tasks driving the need for expertise and judgment, the internal workforce should play a key role in oversight activities. Coupled with the selective use of AI sub-components, such as Natural Language Generation to support policy documentation, virtual assistants to support AML compliance advisory activities, and Natural Language Processing to support regulatory change management, the Center of Excellence (CoE) approach is an innovative way to develop and transform strategic capabilities while reducing costs.

CoEs allow banks to meet regulatory requirements and provide independent testing for AML compliance programs; internal reviews of business controls for quality management; the performance of regular, robust risk assessments; and consistent, comprehensive AML training. Key benefits of this approach include:

- Robust AML capabilities to drive compliance
- Standardized processes across the enterprise, reducing the cost of compliance
- Clear career paths, improving morale and thus retention
- Improvements in overall quality due to specialization and concentrated skills

When building the AML operating model of the future, banks should rethink their operating models to consider what is handled in-house through scalable CoEs and existing workforce, what can be automated, and what can be sourced through managed services. This allows banks to have the right capabilities to drive compliance, without adding unnecessary headcount and cost in response to consent orders or MRAs.
Figure 3. Target Skills for Resources

<table>
<thead>
<tr>
<th>#1 – Performance Drivers</th>
<th>#2 – Functional Competencies</th>
<th>#3 – Specialist Skills</th>
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<tbody>
<tr>
<td>Performance drivers are behavioral, management and leadership competencies that underpin high performance, rather than acceptable performance, in any role or function. A company-wide focus on these skills can help drive towards a high-performance organization.</td>
<td>Functional competencies are specific and key skills, knowledge and behaviors to be performed in specific areas of the organization. For example, within sales, one may require a detailed understanding of account management that may not be required in other functional areas.</td>
<td>Specialist skills are specific industry, process and/or technical solution skills related to the completion of particular roles. These skills help identify subject matter knowledge within business areas.</td>
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<tr>
<td>Customer &amp; Client Centricity</td>
<td>Banking Industry Knowledge</td>
<td>Policy Definition &amp; Management</td>
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<tr>
<td>Performing Through our People</td>
<td>General Financial Crime Knowledge</td>
<td>Case Investigations &amp; Analysis</td>
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<tr>
<td>Managing Risk – Financial Crime, Reputation, etc.</td>
<td>Legislative &amp; Regulatory Environment</td>
<td>AML &amp; Economic Sanctions Specific Knowledge</td>
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<td>Communicating for Impact</td>
<td>Account Planning, Development &amp; Management</td>
<td>Training Design, Development &amp; Delivery</td>
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<td>Written &amp; Verbal Communication</td>
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<td>Developing Talent &amp; Skills</td>
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<td>IT &amp; System Integration</td>
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Source: Accenture, September 2017
CHALLENGES IN TRANSFORMING THE AML OPERATING MODEL

Many banks may find that internal staff lack the skills needed for high value-added strategic activities. In addition, because of frequent technology changes and new regulations, internal staff should be able to adopt new skills quickly.

To take on new strategic roles, banks should also teach new skills to the internal workforce in a fast, effective manner.

When transforming their AML operating model, banks face a significant obstacle in identifying, developing and retaining a workforce with the skills to perform the appropriate tasks. This difficulty is compounded by the scarcity and high cost of talent. Rather than recruiting externally, banks should focus on sourcing internally, helping their workforce develop the skills needed to focus on higher value-added activities.

After leveraging RPA, AI and managed services to streamline core operational processes, banks can release talent to focus on oversight activities. Developing talent internally helps provide growth opportunities and new career paths (both important for increasing employee engagement) while reducing costs.

Cultural issues can also present a challenge. Banks should work to make it clear that the company culture supports employee growth and education. This can help reduce attrition caused by organizational change, or by the fear that roles and headcount are tied only to changing regulatory requirements.

Internal development of talent requires a robust talent management program with scalable roles, responsibilities, and clear career paths to give talent the right combination of skills for the new roles being created. The objective is to provide more interesting, enriching work as employees perform new tasks required by the regulatory environment.

A review of learning effectiveness, as illustrated in Figure 4, can support the revised talent framework. The purpose of the review is to:

- Identify needed new behaviors and leadership skills
- Determine proper employee proficiency levels
- Measure success against agreed-upon key performance indicators (KPIs)
- Increase employee engagement and exposure to new concepts
Another challenge to the implementation of an AML operating model is having a flexible and adaptive workforce. Employees engaged in oversight activities require different skills and the ability to make decisions. Evolved Operating Models push technology and outsourced resources to cover previously staffed roles, allowing employees formerly involved in operating activities the time and focus to obtain new skills. When properly trained, these employees can exercise judgment and elevate issues as circumstances dictate.

The return on investment in training and development is measured by the financial return on the reallocation of talent to increasingly complex roles. The bank should realize savings on recruitment costs, on reduced attrition, and on a shorter time to competency for new skills. The culture of opportunity and growth should make it easier to attract and retain top talent.

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Figure 4. Measuring Learning Effectiveness

Learning Effectiveness and Impact
To be effective, learning programs should have a number of positive, measurable impacts

- Gain new behaviors and leadership skills
- Employee proficiency levels
- Improvement in business performance (identified through success measures)
- Employee engagement
- Exposure and networking opportunities

**METRICS/DATA AVAILABLE**

1. Learning satisfaction
2. Maintain or increase performance ratings
3. Increase in number of self-initiated trainings
4. Improvement in proficiency score
5. Improvement in success related metrics or KPIs

**POTENTIAL NEW WAYS TO MEASURE**

1. 1-5 Kirkpatrick Levels
2. Direct Impact of Learning
3. Indirect Impact of Learning

Note: The Kirkpatrick model is a worldwide standard for evaluating the effectiveness of training. See: http://www.kirkpatrickpartners.com/Our-Philosophy/The-Kirkpatrick-Model
Source: Accenture, September 2017
CONCLUSION

Regulatory pressure related to AML issues is likely to continue and may increase. Financial institutions are encouraged to balance regulatory compliance requirements with demands for greater efficiency.

A blended and scalable AML operating model is essential for establishing and maintaining this balance.

This innovative approach to operating models also helps banks set out a clear strategy for the application of RPA, AI and managed services, helping improve ROI. It helps determine which capabilities can be assigned to third-party providers, which can be automated and which should be retained in-house.

To support this transformation, banks should consider a targeted talent development program to give their internal workforce the skills and competencies needed to perform increasingly complex assignments.

In our view, this approach to AML operating model transformation can provide banks with the flexibility and scalability to meet fluctuating regulatory demands. This should not be static in nature. New demands will arise and a properly designed model can align itself with other risk functions, such as operational risk and cyber risk, as the risk environment evolves. In addition to cost efficiency, banks can also realize quality gains through increased automation and improved training of individuals involved in oversight functions. In addition, the bank’s commitment to internal sourcing and training can create new opportunities for employees, reducing attrition and making it easier to develop talent internally.
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