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FROM REACTIVE TO PROACTIVE

How the Risk & Compliance Insights Platform Can Transform Compliance Risk Management in Australia

SUMMARY

THE PROBLEM:
A Growing Burden

Compliance teams in financial services companies in Australia face a testing time with the arrival of a regulatory tsunami. The pace of change is likely to accelerate: regulatory spending might soon take up as much as half of financial services firms' investment portfolios, crowding out the funds available to pursue vital strategic initiatives like enhancing customer experience, improving productivity and innovating.

It is not just a matter of investment opportunity costs. The growth of compliance and risk burdens, and the very short lead time to react to change, is putting compliance functions under enormous operational pressure.

Adding to this is the introduction this year of the Banking Executives Accountability Regime (BEAR), announced in May last year and due to take force on July 1st 2018.[1] Under BEAR, banks need to demonstrate their organisation is not just compliant with the letter of the law but also with the spirit and intent of legislation and regulation.

This demands a reimagining of risk and compliance from a reactive to a proactive approach. Financial services firms across Australia urgently need to get an improved understanding of their control environment, to understand where conduct risk issues are critical, and to gauge how existing controls are performing to pre-empt potential problems.

THE SOLUTION:
The Risk and Compliance Insights Platform

The Accenture Risk and Compliance Insights Platform (RCIP) offers a solution to the challenges facing risk and compliance functions: it is designed specifically to address the issues arising from legislation like BEAR, which demands a holistic, proactive compliance regime.

The RCIP connects systems that support making effective risk and compliance decisions via a consolidated mechanism, for instance a personalised dashboard or chatbot. RCIP can receive risk and compliance information from multiple systems; convert the input information into a predetermined format and use natural language processing, machine learning and other forms of artificial intelligence to analyse it; and provide the risk and control information to a storage device for display to a user directly, via a range of interfaces.

In an era where the analytics ecosystem is rapidly changing, skills are in short supply, interoperability validation and testing can be burdensome, security considerations are paramount, and the lag between investment and return on bespoke systems is often considerable, having a ready-built environment that can solve all these issues relieves a lot of headaches.

Moreover, the RCIP yield the following key benefits:

- Top-down integration

- End-to-end visibility

- Internal comparability

- Continuous data quality improvement

Accenture is already working with major Australian financial services providers using RCIP to help them meet their regulatory obligations. RCIP empowers any enterprise with the ability to move from reactive to proactive and position themselves for ongoing change.

In the words of one senior banking executive: "The RCIP helps us to meet the continued onslaught of regulatory changes by better management of the complexities in a high-fidelity and cost-effective manner."

THE GROWING BURDEN

Compliance teams in financial services companies in Australia face a testing time, with the challenge of keeping up with a regulatory tsunami and rebuilding trust among consumers and public authorities after a series of scandals.

The pace of change has been intense and is likely to accelerate. Recent reports show that in the decade since the global financial crisis, in Australia alone there have been 57 inquiries into banks, resulting in 420 policy recommendations, many of which have either been implemented or are being studied.[2]

The scrutiny of financial services firms is getting more intense as a royal commission into their conduct continues in Australia.[3] Ahead of its report, banks will also have to implement their own revised Code of Practice, which was updated at the end of 2017 and is enforceable in courts and ombudsman schemes (and which is itself being examined by the royal commission).[4]

The approaching BEAR

Adding to the pressure on banks is the introduction this year of the Banking Executives Accountability Regime (BEAR), announced in May last year and due to take force on July 1st 2018.[5] The BEAR aims at improving accountability through the creation of sound risk cultures and effective governance, principally through the threatened imposition of sanctions at the senior executive level.[6] Under the BEAR, banks need to demonstrate their organisation is not just compliant with the letter of the law but also with the spirit and intent of legislation and regulation.

As a result of these changes the cost of compliance has soared and is likely to continue to rise. We estimate that the average spent on compliance in Australia in recent years has been around 3% of banks' net operating income, but this is expected to rise to around 5%. This will result in banks rapidly ramping up their compliance team numbers over the next three years.

In fact, we estimate that regulatory spending might take up as much as half of financial services firms' investment portfolios, crowding out the funds available to pursue vital strategic initiatives like enhancing customer experience, improving productivity and innovating.

It is not just a matter of investment opportunity costs. The growth of compliance and risk burdens, and the very short lead time to react to change, is putting regulatory functions under enormous operational pressure. The mushrooming of middle and back office compliance teams has disrupted reporting systems and processes. Accountable managers have a limited overview and control over the risk profile of the business areas under their oversight.
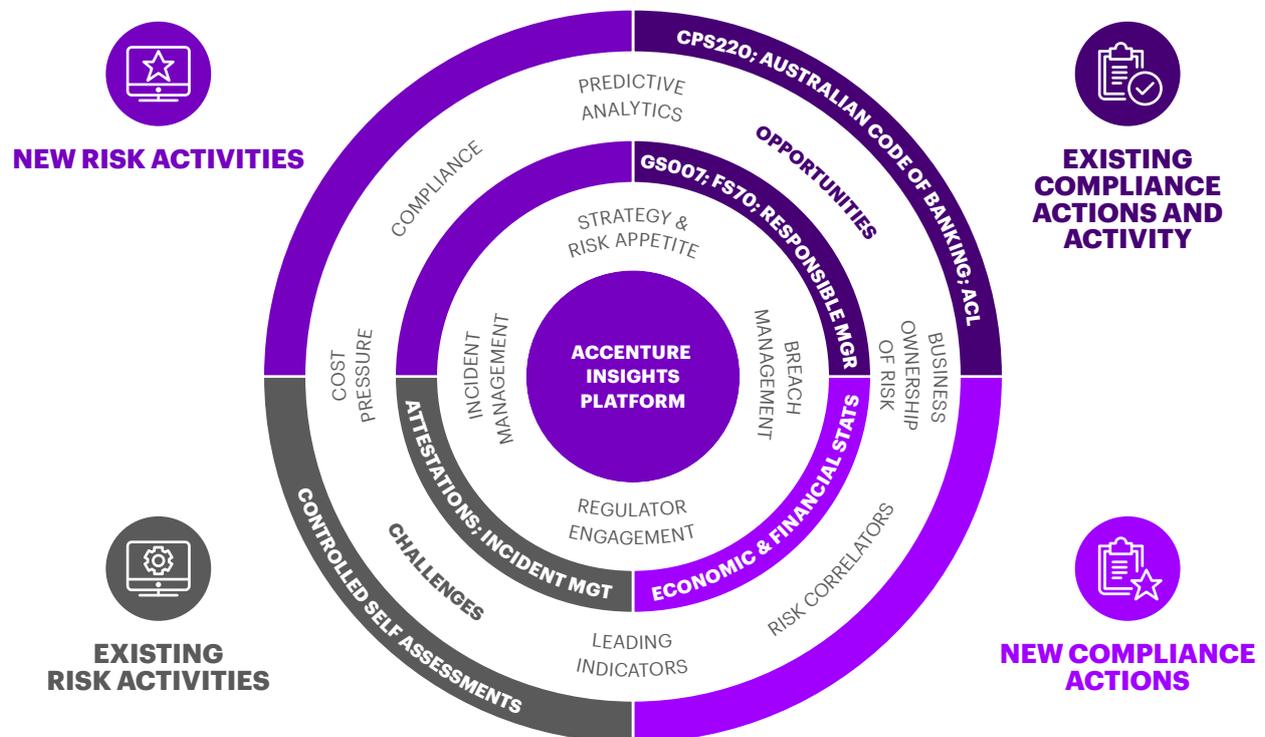
This is linked to the fact that often outdated IT setups are no longer able to fulfil integrated and granular reporting demands, raising the risk of non-compliance. The most common challenge stated by accountable managers is that they are drowning in data and are finding it hard to find their relevant information.

From reactive to proactive

In practical terms this means that risk managers need clear end-to-end visibility over the control environment to ensure they are giving front-line staff the support they need to comply with the intent of new regulation as well as specific obligations it imposes. Being internal "policemen" is no longer sufficient; compliance risk management will have to move from a reactive stance to a proactive one.

The upshot of this is that financial services firms across Australia urgently need to get an improved understanding of their control environment, to understand where conduct risk issues are critical, and to gauge how existing controls are performing to pre-empt potential problems. They need to do this while also managing the strategic issues disrupting the industry, in an era of always-on digital service delivery.[7] Without a better risk control environment, it will be almost impossible to decide which areas are deserving of priority attention.

The need is easy enough to articulate, but given the pace of disruption (prompting numerous complaints about "change fatigue"[8]) the solution has rarely been clear. Until now.

NEW RISK ACTIVITIES

EXISTING COMPLIANCE ACTIONS AND ACTIVITY

EXISTING RISK ACTIVITIES

NEW COMPLIANCE ACTIONS

ACCENTURE INSIGHTS PLATFORM

PREDICTIVE ANALYTICS

COMPLIANCE

COST PRESSURE

INCIDENT MANAGEMENT

ATTESTATIONS: INCIDENT MGT

CONTROLLED SELF ASSESSMENTS

CHALLENGES

STRATEGY & RISK APPETITE

REGULATOR ENGAGEMENT

LEADING INDICATORS

GS007: FS70: RESPONSIBLE MGR

OPPORTUNITIES

CPS220: AUSTRALIAN CODE OF BANKING: ACL

BREACH MANAGEMENT

ECONOMIC & FINANCIAL STATS

BUSINESS OWNERSHIP OF RISK

RISK CORRELATORS

THE RISK AND COMPLIANCE INSIGHTS PLATFORM

When faced with a complex personal task or chore many would ask, "Is there an app for that?"

Executives trying to solve complicated issues like the need to improve their compliance oversight, and perhaps used to paying for unwieldy custom-built systems or solutions, might ask the same question. Actually, if they did so, the answer would be "yes": the Risk and Compliance Insights Platform (RCIP).

As one senior banking executive describes it, "The RCIP solution gives the executive team a level of comfort that we can cost effectively meet our regulatory obligations. We are looking forward to unlocking further value through the advanced technologies embedded in the solution."

The comprehensive compliance app

The RCIP runs on the Accenture Insights Platform (AIP), a solution that delivers a cloud-based suite of best-in-class tools in a scalable, secure environment. RCIP is a comprehensive app for risk and compliance functions that is designed specifically to address the issues arising from legislation like BEAR, which demands a holistic, proactive compliance regime.

The RCIP connects systems that support making effective risk and compliance decisions via a consolidated mechanism, for instance a personalised dashboard or chatbot. The RCIP may be hosted in a cloud, partial cloud or non-cloud environment as required.

There are three key stages to the platform: Input, Process and Output.

Input:
The RCIP receives input risk and compliance information from one or more of an institution's systems.

Process:
It then converts the input information into a predetermined format and uses natural language processing, machine learning and other forms of artificial intelligence to analyse it. This information processing uses complex algorithms to analyse datasets far larger than humans can process. It can recognise patterns among the data and make predictions without needing specific instructions programmed by a human.

Output:
The RCIP can provide the risk and control information to a storage device for display to a user directly, via a hyperlink or other interface. Displays can include personalised dashboards, AI-powered virtual assistants, and a range of potential audio or text based chatbots.

The RCIP, for which a patent has been filed, has various characteristics that make it particularly suited to addressing the compliance challenges facing financial services providers in Australia, as follows:

PRINCIPLE	RCIP CHARACTERISTIC
Top-down integration Since BEAR is based on the principle of ensuring sound organisation-wide risk cultures and effective governance, control systems need to be top-down integrated.	RCIP can reflect strategy principles mandated from the top but can be designed to manifest these principles at every level, including operations, as opposed to ad-hoc, bottom-up solutions.
Upstream and downstream interpretability Front-line employees must be able to interact with control systems in a language they understand – that is, in terms of customers, products and processes rather than "risk speak" familiar to middle and back office operators.	AIP design principles mean the RCIP can incorporate a dashboard format that is interpretable upstream and downstream, and enables compliance managers to join the dots between the two.
Internal comparability Systems must be comparable between functions and adaptable based on results between them: control owners facing problems need to establish whether peers are getting better results and, if so, learn from internal best practice quickly.	RCIP machine learning and analytics can compare systems between different parts of the institution; they can also enable diagnostic analysis to examine whether control systems are robust enough and identify potential weaknesses ahead of an issue manifesting itself.
Adjustability for data quality Solutions must address the potential issue of variable data quality between functions and departments, since different units may manage control issues in different ways and have different protocols for naming and setting policies, and linking them to risks and obligations.	Using machine learning functionality RCIP can take a "clean" dataset and determine patterns related to control functions; then apply those rules to a less clean dataset and identify where issues are apparent, enabling the rapid standardisation of control terminology and response.

The RCIP solution enables financial services organisations to reconfigure the compliance function by reducing time, effort and resources allocated to data collection, reporting and one-off tasks, and by reallocating the freed capacity to high value activities focused on analysis and actionable insights generation, powered by advanced intelligence.

CASE STUDY:
Major Australian Bank

Accenture is already working with a major Australian bank deploying an RCIP roadmap, through multiple releases, to help it meet its regulatory obligations. In a five-year contract Accenture will design, build, host and support a series of visualisations of the bank's risk and compliance data that will provide it with insights about the regulatory environment.

In common with its peers, the bank faces increasing costs and regulatory scrutiny, and wanted an efficient way to help it understand its risk and compliance environment, improve understanding of the risk being managed, and enhance the controls established to manage those risks.

Accenture has developed an approach which leverages the full spectrum of RCIP capabilities. This will enable the bank to reconfigure its risk and compliance activities by reducing time, effort and resources allocated to data collection, analysis, reporting and one-off tasks.

According to one senior executive, "The RCIP helps us to meet the continued onslaught of regulatory changes by better management of the complexities in a high-fidelity and cost-effective manner."

CONCLUSION: AIP ENABLING CHANGE

The stakes for financial services firms in the region have never been higher.

Recent penalties handed down by the Australian Prudential Regulation Authority (APRA) are a stark reminder of the sanctions that can result if problems go unchecked.

With the burden of compliance and risk monitoring only likely to grow heavier, and the penalties for senior executives of control failures set to become more stringent, banks, insurers and wealth managers in Australia need to establish proactive, top-down control systems. Using the RCIP they can leverage cutting-edge analytics tools to do so, safe in the knowledge that it entails no trade-off between function, usability, flexibility and cost.

The RCIP enable institutions to reimagine compliance:

- It provides a single source of truth, combining GRC data; logic tests; analytics; leading indicators; Natural Language Programming for queries on policies and artificial intelligence;

- It enables institutions to become proactive in managing critical future regulatory requirements, such as the BEAR, with an embedded conduct risk toolset;

- It strengthens the overall control framework by creating clear accountabilities and actions across all risk and compliance activity whilst reducing duplication and redundant assurance and testing and improving the overall governance and audit trail.

Moreover, RCIP is just one app on the AIP. Beyond risk and compliance, there are many discrete middle and back office functions to which AIP solutions can be applied, across issues as varied as the fundamental review of the trading book to best execution to regulatory reporting.

The impact of AIP solutions can be dramatic. For instance, by moving from a deterministic model to using the AIP Claims Fraud App, which incorporates predictive analytics, one of the largest insurance groups in the world cut its false positives rate from 62-69% to 48% in three quarters. In another case, using the AIP Early Warning App to identify credit risk factors, one of the largest banking groups in Europe was able to intercept potential substandard and past due credit and lower its non-performing loans ratio from 3.2% to 2.5% - implying savings of €1.2 billion (A$1.91 billion) in just one year.

Wherever they are deployed, AIP solutions like the RCIP provide a clear-cut way to reduce the burden of capital expenditure and stop vital investment in user experience, product and innovation being crowded out. It is investment and success in these factors, Accenture research suggests,[9] that will differentiate between winners and losers in the long term. The sustainability of the business depends first on reimagining the compliance function – and using the right tools to do so.

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