



# Compliance Transformation

## A road towards **strategic growth**

*In the past decade institutions have spent millions to ramp up their Compliance operations in an effort to regain consumers' trust, allocating a majority of these resources to regulation adherence. However, this year there has been a shift away from this trend to a focus on coordinating Compliance initiatives with business growth initiatives. This means financial institutions now more than ever are looking into deep technology solutions that can automate processes that were traditionally manned by trained employees.*



## SUPPORTING EVOLVING BUSINESS ACTIVITIES

In order to better understand the ways Compliance can aid a company's growth initiatives, it's important to understand the ways major business activities have evolved in recent years. 'Transforming Compliance in Financial Services', a report by KPMG (2019), identified 5 key business activities that are evolving in enterprise today:



***“The use of deep tech is becoming more of a necessity than it is a bonus.”***

**1** With the increasing importance of regulation in business strategy, front-office management has become more involved in the regulatory reform process.

**2** These front-line business functions have now undertaken more responsibility for customer due diligence and other regulatory requirements (e.g. credit and insurance underwriting, sanctioning, surveillance activity, etc.). The pressure to lower costs while supporting growth means many responsibilities that were previously performed by Compliance are now being passed to Operational Management, such as Know Your Customer (KYC) and testing. (According to a recent Accenture report, 60% of Compliance officers agreed that responsibilities previously performed by Compliance in the second line of defense are now shifting to the first line.)

**3** Many organisations are turning to fintech, data and outsourcing when addressing both front-line business activities and operations. Because Compliance needs to keep up with quickly -changing regulatory landscapes, the use of deep tech is becoming more of a necessity than it is a bonus.

**4** Business models and enterprise structures are changing as a result of recent political activities (e.g. Brexit), fierce competition and market developments.

**5** In many organisations there is a shift from silo-based and risk-based Compliance to functions that support individual services lines (e.g. private banking, life insurance, investment banking, etc.).

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In sum, what these business activities show is that Compliance functions need to adapt to changes in the business itself. What was once a function used primarily for preservation, maintenance, and conciliation, is now being used as a strategic one. What was once a function mostly highlighted post-process, is now one that is becoming both proactive and predictive.

# EMERGING COMPLIANCE CHALLENGES

While Compliance professionals have dealt with a myriad of challenges post-2008 (keeping pace with constantly-changing consumer laws, protection from cyberattacks, and data security), a new set of obstacles has emerged alongside the shift in Compliance's role.

## BUDGET CUTS

*A study by Accenture found that 71% of financial institutions' Compliance departments are facing budget cuts, and that **of which nearly 64% are targeting reductions of between 10 - 20% over the next 3 years.** For that reason, compliance professionals are on the hunt for technology-led solutions to ease the blow.*

## EMPLOYEE COSTS & HIGH ATTRITION RATES

*The high cost of funding and retaining qualified talent, coupled with the fact that many organisations are seeing a high rate of employee attrition, it's easy to see the challenge Compliance officers are facing whilst trying to keep costs low. In Accenture's 2019 Global Compliance Risk Study of 151 senior Compliance officers in the financial services sector, **50% of respondents said they faced a level of unmanaged employee attrition that was above expectations.***

## CONTROLLING COSTS

*In a 2017 survey carried out by professional services firm Duff & Phelps, **Compliance costs are projected to more than double by 2022**, rising from 4% of a firm's total revenue on Compliance to 10%. Included in these costs were not only the cost of implementing rules, but expenditure on Compliance officer's salaries, fines, and personal liabilities of senior executives in cases of wrongdoing.*

## ADVANCING TECH & DIGITAL TRANSFORMATION COMPLEXITIES

*On the one hand, advancements in fintech are enabling enterprises to automate once-manual business process. On the other hand, digital transformation is creating a complex hybrid IT environment that makes the protection of sensitive data even more complex. Existing platform-based security solutions cannot protect data as it flows throughout the enterprise's multiple cloud-based and on-premises environments. Compliance professionals must go about this implementation balancing risk management, data security, and business growth.*

# 2022

**Year in which Compliance costs are projected to rise from 4% of a firm's total revenue on Compliance to 10%**

**Percentage of Compliance departments within financial institutions facing budget reductions of between 10 - 20% over the next 3 years**

# 64%

# 50%

**Percentage of senior Compliance officers facing a level of unmanaged employee attrition that was above expectations**



## DATA AND TECHNOLOGY GAINS IN COMPLIANCE

The use of data and technology are imperative in addressing the aforementioned issues and improving effectiveness and efficiency of Compliance functions. Implemented successfully, the marriage of data and deep tech applications can have substantial benefits for financial services firms. KPMG's 2019 report laid out 6 examples of these types of benefits:



### **BUILDING CAPACITY**

The use of technology can increase, enhance, or streamline processes, building reports that enable Compliance professionals to focus on more targeted risks or business activities.



### **ROBOTIC AUTOMATION OF EXISTING MANUAL PROCESSES**

AI software can allow employees to spend less time on manual, repetitive and rudimentary tasks and spend more time focusing on anomalies and tasks that require more creativity.



### **REGULATORY CHANGE**

Advanced technology can now help create inventories of regulations and laws from global regulatory sources with real time alerts of new rules or changes.



### **FINANCIAL CRIME PREVENTION**

Firms can improve the monitoring and surveillance of financial crime using data mining, advanced analytics and by monitoring different communication channels using technological tools.



### **CLIENT DUE DILIGENCE, ANTI-MONEY LAUNDERING & RELATED ALERT SYSTEMS**

Intelligent software and bespoke cloud-based solutions can be used to employ an end-to-end managed service solution that leverages information already submitted by the customer and produces an audit trail to perform risk checks.



### **INNOVATIVE TRAINING**

New agile training approaches can be implemented to design and deliver digital based micro-lending modules that use leading practice learning methods to enhance engagement and drive better understanding of regulatory requirements.

# ROADMAP TO AUTOMATING COMPLIANCE PROCESSES AND ACTIVITIES

KPMG's 2019 report also laid out a roadmap for Compliance professionals to follow when looking to automate their processes and activities:



*Establish a plan ensuring that the level of automation is integrated with Compliance strategy and with the firm's culture and risk tolerance.*



*Identify Compliance process, data and analytics that can be integrated and automated (including evaluating data availability and integrity) in order to allow an overall risk assesment.*



*Set priorities by measuring benefits and limitations to help determine budgets, resourcing for pilots and timelines.*



*Define a governance structure and change management approach including communication strategy and training plans.*



*Select a solution through partnering with the right solution provider or IT function.*



*Evalutate existing technology and develop and integrate data and technology as needed and ensure it remains future-proof.*



*Design detailed implementation plan.*



*Execute the plan and upskill the Compliance team in analytics to facilitate full data analysis use and an ability to identify and address risk and to communicate insights to senior management as appropriate.*



## CONCLUSION

Compliance functions in the financial services industry, after having dealt with over a decade of volatility and damage-control, are entering a new era; one that is shifting away from spending on regulatory standards to one that is aligned with supporting the business' growth initiatives and needs. The transition compliance officers face will not be simple, but will demand training, substantial investment in technology, strategic planning, more digitally-fluent talent, and strong leadership. If employed successfully, though, the payoff will be a multi-purposed Compliance process that not only acts as a preventative measure for business, but one that propels growth and profits.



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## ABOUT US

**Nexus FrontierTech** is a London-based tech company specialising in the development and integration of AI solutions that help organisations save time, money and resources by tackling process inefficiencies and data waste. Whilst industry-agnostic, many clients are in the financial services space and are seeking to streamline their operations.

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