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Financial Crime and Compliance Management: Convergence of Compliance Risk and Financial Crime
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Executive Overview

Today, financial institutions are required to respond to more regulatory requests where the interaction with regulators has grown from a few times a month, to as much as a few times a week. As a result, the time to accurately respond has decreased and the expectation is better data, on-demand. This can pose a significant challenge to most, if not all, financial institutions as they go through the process of combining output and results from risk, financial crime, and financials from a variety of third party and in-house systems utilizing different technologies.

Financial institution executives are now realizing the critical need for a cohesive process to align compliance risk and financial crime through ongoing investigations, maintaining controls, and mitigating any risk exposures that have been identified. Furthermore, the need to accurately compile metrics in a timely fashion, with the comfort of knowing the data can be trusted, is a top priority as regulator demands have significantly increased.

This whitepaper outlines the market need for a single, unified platform that not only offers the needed components for the financial institution, but also can leverage existing assets going forward to provide the 360°, enterprise-wide view of financial crime and compliance management.

Introduction

There is a higher level of scrutiny in the market today as financial crime and compliance management has reached a level of maturity where regulators are able to better articulate expectations and compare established programs across financial institutions. Furthermore, Chief Credit Officers (CCO) and Chief Risk Officers (CRO) are seeing an increased expectation, both internally and externally, for concise and accurate reporting on compliance while proving those results.

Increasing regulatory pressure is resulting in a desire for a single, unified platform that allows financial institutions to fully manage compliance risk and combat financial crime covering the compliance and risk needs of a bank, insurance company, trading and brokerage firm, and money service bureau. While traditional systems offer financial crime detection or discrete risk management capabilities, this approach can leave institutions with a wide array of
disconnected homegrown and third-party applications. Constant integration, maintenance and support across multiple constituencies, combined with the changing landscape of vendors and the retirement or replacement of systems (increasingly at the urging of regulatory agencies) is driving costs up and operational efficiencies to all time lows.

Financial institutions are now experiencing a greater need for a convergence of the duties of the Chief Risk Office (CRO), Chief Credit Officer (CCO), and Chief Financial Officer (CFO); in the past these functions operated in silos and depended on a great deal of effort to merge reporting results up to the higher levels of the financial institution. Financial executives have realized the importance of a consolidated platform to:

- Manage compliance risk from onboarding of new regulations to tracking to plan on self-assessments and identifying compliance gaps
- Implement, manage, and consistently tune financial crime systems to ensure accurate reporting
- Manage financials of the institution from loss control and recovery, capitol allocation related to fraud loss and compliance risk, as well as operations costs associated with maintaining an enterprise wide financial crime and compliance management program
The Case for an Enterprise Platform

Over the last decade, financial institutions have made significant investments to combat financial crime and remain compliant with ongoing regulatory changes. In the beginning, most financial institutions were reactive in implementing systems and controls to maintain compliance as well as avoid any reputational risk. Now the market has matured to a state where financial institutions have been going through the process of consolidating these systems to reduce overhead and gain operational efficiencies, but must ask themselves if it is enough to fully manage the process of onboarding new regulations, tuning monitoring and detection systems, and ensuring the quality of results from so many disparate systems.

Several compliance related initiatives such as anti money laundering (AML), know your customer (KYC), and sanctions filtering are considered cost centers; therefore, there is always stress on doing more with less. However, compliance managers must be cautious when cutting costs; when applied in the wrong areas cost reductions may draw regulatory attention and result in hefty fines and reputational risk. It is a challenge for financial crime and compliance management stakeholders at financial institutions to employ cost cutting measures without attracting attention from regulators.

Tackling these issues at the enterprise level rather than relying on the silo’d approach increases the ease of consolidating the outputs into a trusted reporting structure. The key is to consolidate into a single financial services data model where all financial crime systems can execute the appropriate monitoring and detection, while ensuring the financial institution is tracking to the established compliance plan, allowing for mitigation of risk exposure, and incorporating financials and accounting on all levels of the organization.

The appropriate enterprise platform allows financial institutions to:

- Manage financial crime investigations and regulatory compliance through an enterprise ecosystem
- Easily exchange financial crime and compliance management intelligence across new or existing systems to automatically gain valuable insight and perspective
- Actively assess risk and controls, dig deeper with ad-hoc analyses and comply with reporting mandates within a single, enterprise-class system

High Operational Costs

While traditional systems offer financial crime detection or discrete risk management capabilities, this approach can leave institutions with a wide array of disconnected homegrown and third-party applications. Constant integration, maintenance and support across multiple constituencies, combined with the changing landscape of vendors and the retirement or replacement of systems (increasingly at the urging of regulatory agencies) is driving costs up and operational efficiencies to all time lows. Given the economic challenges over the last several years, there is a sense of urgency to improve the quality
and process of the risk and compliance areas while keeping the budget to an absolute minimum – effectively, do more with less…and do it right.

Increasing Regulatory Pressure

Traditionally, regulators have focused on validating adequate transaction monitoring, while customer risk scoring controls are in place to ensure compliance with regulatory mandates. However, regulators have become increasingly interested in the downstream investigation and resolution process of financial crime and compliance management processes. Today regulators are requiring financial institutions to adopt a holistic view of risk based financial crime and compliance management activity in their enterprise. They are actively proposing the strategy of a common investigations process across financial crime and compliance management to achieve that 360° view of activity.

Financial Crime and Compliance Management Intelligence

Financial institutions have an increasing need to get on-demand access to real-time information across a financial crime and compliance management ecosystem. They are looking for ways to automate access to information and implement a single information store for all their financial crime and compliance management information silos. A well-executed enterprise case management strategy gives stakeholders the opportunity to achieve this cross-channel, cross-program intelligence without compromising their existing application investments.

Beyond AML and Fraud

Financial crime and compliance management has traditionally been associated to AML and fraud. While this association still holds true in context of suspicious and fraudulent monitoring, institutions continue to explore options to leverage the investigation function of a financial crime and compliance management program. There is a need to meet the investigation requirements of other risk and security lines of businesses; this shift in priorities helps institutions:

- Reduce overall cost of compliance and fraud management. By incorporating other investigative units in addition to AML and fraud, financial intelligence units can deliver a higher return on investment in their programs.
- Easily establish a connection between functions where the cross program correlations can improve accuracy of the individual programs. For instance an employee onboarding investigation leveraging the same case management infrastructure as that of AML or fraud investigations can help the individual investigative units by offering cross program visibility.

Benefits of an Enterprise Financial Crime and Compliance Management Platform

Recent analyst reports have indicated the best approach in combating financial crime while maintaining compliance is to choose vendors offering a complete platform rather than multiple point solution
providers. The idea of using a unified technology within a platform not only gains efficiencies on all levels, but also provides a trusted source of the data through an encompassing data model for financial crime and compliance management. The good news is financial institutions do not have to start over and replace existing monitoring and detection engines with a new vendor. By implementing an enterprise-wide, unified platform that is open and flexible, financial institutions can leverage existing assets. More importantly, the flow of data in and out of the engines is controlled through the platform data model that provides one source of data, one enterprise case management system, an overall method to manage compliance risk, and one world-class analytical and reporting capability.

Fully Manage Compliance and Combat Financial Crime

Financial institutions gain operational efficiencies with a single platform for their financial crime and compliance management program and can streamline the investigations process by giving the investigator more data and an accurate holistic view of the customers and accounts. A complete enterprise-wide financial crime and compliance management platform must support: a single data model, operational compliance risk processes, financial crime and name filtering engines, enterprise case management, regulatory reporting, analytics, and reporting.

Comprehensive, Enterprise-wide ‘Ecosystem’

Most financial institutions already have the various financial crime engines in place and may not be able to replace these systems given the initial cost to implement. An enterprise platform is able to centrally manage and assess associated operational risks and controls as they relate to the organization’s AML, fraud, KYC, and trading and broker compliance programs. With the compliance risk and operational risk tied into the platform, it also allows for management of financial crime investigations and operations across multiple jurisdictions and multiple lines of business. Given the disparate systems in place, the enterprise platform houses the existing systems and is flexible to changes.

Gain Valuable Insight and Perspective

By implementing a platform designed for financial institutions to easily exchange financial crime and compliance management intelligence across new or existing systems financial institutions can drive operational efficiencies by integrating individual alerts and cases with existing applications from third party vendors. This allows them to manage investigations across all functional channels through intelligent and automatic alert and event correlation. Financial institutions now have the ability to measure against the overall compliance plan with a 360° view of all financial crime and regulatory compliance activity.

Leverage a Single, Enterprise-class System for Financial Crime and Compliance Management

Alert and case action and response is critical to all risk and compliance programs. The ability to leverage an intuitive mechanism for building ad-hoc and on-demand reports to evaluate financial crime and compliance management activity is key for successfully addressing any compliance or risk issues.
that may arise. Financial institutions want to be able to determine historical trends and proactively track them to prevent future compliance issues. Furthermore, the platform ensures quicker reporting for electronic filing and internal reporting across all investigational areas.

Platform Component Overview

The details below are areas of financial crime and compliance management programs that financial institutions should evaluate within their current infrastructure – both as business and IT processes.

Trusting the Data

Most financial institutions struggle with disparate systems requiring separate feeds of data into the monitoring and detection systems; this typically means each application will receive their own data feed while a large percentage of this data is also leveraged for most of the other monitoring and detection systems. In addition, this results in larger overhead for IT to maintain multiple platforms and rely on making changes to all data feeds when there is a change to the data.

This convoluted process can easily lead internal management as well as the regulators to question the reliability and accuracy of the finalized data compiled from the output of so many systems.

A single data model covering all aspects of crime and compliance for a financial institution is the natural first step in consolidating data to ensure accurate data used in the various monitoring and detection engines. Resulting alerts and investigation decisions are fed to and from this single data model to continue the reliance on accurate data. In effect, the financial institution is creating and utilizing a single source of truth from a data warehouse, to monitoring and detection engines, to investigations and regulatory reporting, through analytical reporting.

Compliance Onboarding

Onboarding new and changing financial crime and compliance management regulations allows financial institutions to capture all regulations and build a compliance library. Once this library is established, the organization can then identify controls and risks and effectively manage and control the progress of complying with any new or changed regulations and established internal policies.

This process also includes a self-assessment where the financial institution will evaluate the current environment they leverage to combat financial crime and establish a plan to achieve and maintain compliance. During the ongoing process, the platform ties together the output of the monitoring and detection engines, results of investigations raised as a result of those alerts, and report on these statistics to all levels of the FI from the investigator through the CRO, CCO, and CFO to ensure that all levels of the financial institution are working from the same data across the enterprise.

Monitoring and Detection

Once the controls (required systems) have been identified, it is up to the CCO and related teams to implement them. This is accomplished through either a gap analysis of existing systems, implementing
a third party system, or building an in-house engine. Once again, the flexibility of an enterprise platform must be taken into account to ensure complete accuracy of the controls as well as compliance with the identified obligations during the regulatory onboarding process.

Tuning of these controls over time has always created another level of challenges for the business users and the IT teams supporting these systems. Managing multiple financial crime and compliance management platforms often results in labor intensive tuning processes as metrics are produced at the engine level rather than a holistic view. Finding the level of tuning is a challenge for all financial institutions; conducting this process too frequently or not often enough can create challenges and result in too many false positive alerts. Once the right amount of tuning is determined banks must document how and why the scenarios and thresholds were implemented.

Another key benefit of the regulatory onboarding process is the tracking and reporting which will automatically report to the respective risk and compliance areas the effectiveness of controls, identify trends to be addressed, and report on the status of the overall compliance activity compared to the plan according to the self-assessment process.

Investigation and Response

The main purpose of financial crime systems is not only to create alerts on suspicious activity or potential fraud events, but to also leverage an intelligent case management system to ensure proper investigative techniques and workflows are followed. This ensures proper regulations and internal policies are followed and help gain clarity and auditability around the documentation of decisions made during the investigation.

In addition, all financial institutions must comply with regulatory reporting as part of the overall program. Once again, there is a large overhead to the enterprise when multiple financial crime platforms and different reporting capabilities are in place. A centralized platform for regulatory reporting significantly reduces this overhead, especially when combined with an enterprise case management system. In addition, there is a natural integration for analytics and reporting since this is another component of the enterprise platform.

Financials and Capital Allocation

Most financial institutions today have difficulty in tying back the results of the various financial crime systems into the finance area, especially as it relates to the general ledger (G/L) (i.e. fraud loss and recovery). Through the consolidated platform, there is a natural extension from the consolidated data collected and correlated from the various monitoring and detection systems as well as enterprise case management into existing finance systems. In addition to more accurate data and efficiency in delivery, the CFO can manage a more ‘real time’ view of the risk and compliance activities that can affect the bottom line.
Analytics and Reporting

Key benefits of maintaining the financial crime and compliance management program through an enterprise platform are found in the analytics and reporting. Most financial institutions have a variety of business intelligence solutions in place, combine that with the reporting capabilities of the financial crime platform and you result in having more overhead in consolidating the resulting reports into something useful for the enterprise. All this while trying to ensure accurate reporting based on data sourced multiple times, in multiple formats, into multiple systems.

The enterprise platform approach includes an industry leading business intelligence capability with built-in analytics and powerful ad-hoc reporting abilities. This also contains powerful dashboards for all levels of the enterprise from the risk analyst, investigators, and management through the CRO, CCO, and CFO.

Conclusion

Financial institutions will continue to face increasing regulatory pressure while required to do more with less. In order to maintain compliance and leverage a proactive approach, the financial institution must consider the benefits of an enterprise financial crime and compliance management platform to ensure ongoing success with regulators, mitigation of risk, and ultimately combat financial crime.

The integrated platform approach provides the broadest possible view into all aspects of a successful financial crime and compliance management program from onboarding and managing compliance risk, a single source of data for monitoring and detection, investigation through case management, regulatory reporting, and analytics and reporting available to all levels of the financial institution. This approach will lower total cost of ownership, gain operational efficiencies, and ultimately protect the reputation of the financial institution.