

# Turning Risk into Results

IMPROVING COMPLIANCE CAPABILITIES WHILE CREATING BUSINESS OPPORTUNITIES IN FINANCIAL SERVICES

By Michael Heffner

As financial services industry executives contemplate the areas they expect to have the most impact on business in the next five years, the changing regulatory environment certainly tops the list. Leaders are seeking greater transparency, execution control, and accountability through improvements that have the potential to impact the entire organization.

As a result, there is an increasing focus on technologies that can simultaneously improve compliance capabilities and create business opportunity, efficiently.

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Recognizing the value of a customer-centric organization, financial services institutions are repositioning processes to improve compliance cost-efficiency and further customer relationships, allowing data integration to drive and unlock product-driven silos.

This perspective offers guidelines to build greater awareness, knowledge, and insight into different action paths that integrate compliance and advance digital opportunities.

## THE DYNAMIC REGULATORY LANDSCAPE

Compliance is an ever-moving target that is more challenging than ever, with evolving scrutiny by regulators, less time for financial institutions to react and stricter enforcement actions for violations. This creates significant challenges for financial institutions unless they have technology in place that is flexible and allows them to pivot as new regulatory challenges are introduced.

In response to the global financial crisis of 2008, reforms were put in place to strengthen bank capital and make the market more transparent, efficient and fair. At the core of many of these regulations is an expectation that financial institutions will have a data environment that's integrated and supports external and management reporting across all areas of the organization. Maintaining regulatory compliance without sacrificing customer experience will depend on how effectively institutions can reconcile interactions across their own complex structures, with the goal of an internal view that meets the array of applicable regulations.

To further complicate the landscape, in recent years, there has been a strong emergence of a new breed of fintechs, focused on the regulatory space, called regtechs. Regtech is the application of new technology to regulation-related activities aimed toward increasing effectiveness, efficiency, and scalability. These nimble new regtechs are agile, flexible, and often unburdened by legacy technologies – giving them the ability to focus on any number of existing pain points, such as modernizing regulatory rules, managing KYC (Know Your Customer) due diligence processes, automating aspects of regulatory reporting, interpreting obligations, and reacting to or interpreting regulatory requirements.

## COMPLIANCE CHALLENGES

Geopolitical uncertainty and political upheaval directly impact banking industry regulation. Because the regulatory authorities who are trying to navigate these uncertain times often have differing jurisdictional responsibilities and administrative focus areas, they sometimes create mandates that conflict, resulting in inconsistent and sometimes overlapping rules. This causes obvious confusion around enforcement and limits the opportunities for information exchange and operating synergies. Without these synergies, silos can emerge in which multiple lines of business open and maintain accounts that create redundant, inconsistent individual customer-level data that requires reconciliation at the enterprise level.

This confusion is often exacerbated by a patchwork of older legacy systems that may have business rules hard-coded into application logic, further complicating efforts to automate compliance processes. The scattered, organizational structures, as well as data formats and legacy system processes considerably complicate compliance tasks and significantly increase costs.

## HOW APPIAN CAN HELP

Appian is a platform for building enterprise software applications. Our low-code application development platform provides the speed necessary to deliver new functions and capabilities as new regulations are introduced or existing regulations evolve. Appian's agile platform, available on-premises or in the cloud, makes it possible to develop a process once and then reuse it on any type of data within the customer relationship record — account level, jurisdictional, regulatory, legal entity, etc. The evolving changes in your customer, as well as regulations, become simpler to deploy and ensure consistency and control.

Here are some of the specific applications we've helped our financial services customers with:

### **CIP (Customer Identification Program) / KYC (Know Your Customer) / Enhanced Due Diligence**

KYC is typically required as part of an on-boarding procedure. Customer due diligence under KYC is largely risk based, meaning more scrutiny must be applied to accounts that fit higher risk patterns. Common across the procedures, financial institutions must demonstrate they've verified a customer's identity and use "reasonable, practical" risk-based procedures to acquire information.

With Appian, financial institutions can:

- Ensure rapid delivery of applications to support the review of data and procedures required for KYC / CIP / EDD.
- Achieve faster time-to-decision based upon automation and management of critical paths and KPIs (Key Performance Indicators).
- Create enhanced visibility across these procedures, allowing correct governance and auditability of outcomes.

### **Stress Test Management**

Global Systemically Important Financial Institutions (G-SIFI) are challenged to meet higher capital requirements, while managing complex stress test procedures and data gathering, all under strict time constraints and all subject to change at relatively short notice.

With Appian, they can:

- Increase speed to compliance
- Improve oversight, accountability for decision making, and staff effectiveness
- Achieve a comprehensive view
- Gain a full audit history of risk processes across multiple businesses and regions.

## **GDPR (General Data Protection Regulation)**

Successful financial institutions are approaching GDPR holistically, and a future-proof IT platform that is flexible enough to deliver on any new regulatory data requirement (whether ad-hoc or scheduled) is essential. Appian helps financial institutions to:

- Safeguard customer data with profile-level access control
- Accelerate resolution of data breach investigations and “right to erasure” requests
- Easily adapt to possible evolutions in the regulation
- Gain visibility and auditability of processes, evidence, decisions, and outcomes

## **AML (Anti-money Laundering)**

According to Thomson Reuters, \$800 billion to \$2 trillion is laundered every year. Financial services firms face tremendous pressure from regulators, ratings firms, and law enforcement to improve their efforts around Anti-money Laundering. Appian helps financial institutions to:

- Manage AML investigations faster and more completely
- Deliver consistent case management of AML regardless of trigger (system or human)
- Integrate across multiple commercial off-the-shelf (COTS) systems

## **FATCA (Foreign Account Tax Compliance Act)**

Born from the strain on government finances caused by the economic downturn and designed to identify US tax evaders, FATCA is not risk-based. All accounts beyond a minimum size must have all information collected during account opening and KYC processes reviewed for indicators of US ownership. While the indicators and methods for due diligence under FATCA and KYC are different, there is clearly overlap in the information collected. Appian helps with FATCA compliance with:

- A robust and flexible system that can be enhanced to respond to future reporting requirements.
- Capabilities that extend to managing attributes associated to accounts held by foreign nationals.
- The ability to quickly get into compliance without having to substantially re-write core systems.

## **MiFIDII (The Market in Financial Instruments Directive II)**

MiFIDII has brought about fundamental change to the way Asset Managers, Wealth Managers and Brokers conduct their business and provide investment advice to their clients. It is designed to encourage greater competition and provide stronger protection for investors. With Appian advisors can:

- Have visibility and transparency around procedures required to comply with MiFIDII.
- Capture all the decisions made by staff and their outcomes as they complete their review and process the order.
- Have a global view of client entities and underlying parties, including ultimate beneficial owners (UBO)

## **Fraud Investigations**

The rapid growth of fintechs, the proliferation of new transaction networks has brought with it greater opportunities for fraud – whether it be fraud against the bank or against the customers of the bank. Financial institutions need to protect their assets, as well the reputational damage associated with fraud. Appian helps:

- Manage fraud investigations faster and more completely through to resolution and escalation
- Increase the level of visibility across lines-of-business and geographies
- Future-proof the investment by easily integrating new future fraud specialty tools and technologies AI (artificial intelligence) / ML (machine learning)

## **Service Provider Oversight and Control**

Capital Market firms engage with many services providers including sub-advisory of portfolios, data providers, consulting services providers, etc. They are responsible for the initial screening of potential service providers as well as the continuous ongoing review of service providers along many dimensions including risks around service provider reputation, operational risks, performance risks, etc. These processes are often managed via emails and spreadsheets that are passed back and forth via different internal groups, and externally to service providers. Appian can help by:

- Facilitating workflow between the various groups, making it easier to understand overall service provider status.
- Horizontally integrating reviews, screening, assessment, and escalations directly with service providers.
- Facilitating oversight process by allowing users to initiate, complete, and review certifications and scorecards.

## SUMMARY

Financial institutions can effectively handle these major compliance challenges, including regulatory ambiguity and uncertainty through continued adoption of automation and innovative technology that can become a part of their regulatory toolkit and drive sustainable, effective change, and most importantly, customer trust in the financial market and their organization.

Here's what to look for in your technology partner:

- Offers a low-code application development approach for speed and agility
- Provides the ability to integrate data across existing systems
- Includes dynamic case management to handle complex interactions
- Allows for business process, workflow, and collaboration management
- Offers the ability to embed AI, RPA (robotic process automation), and future advanced technologies
- Provides trusted security, reliability, and governance with cloud-enablement

Appian provides a leading low-code software development platform that enables Financial Services Institutions to rapidly develop powerful and unique applications. The applications created on Appian's platform help organizations drive digital transformation and enable competitive differentiation.



Realise the benefits of Appian for all your Governance, Risk and Compliance needs. Learn more at: [appian.com/finserv](https://appian.com/finserv)

## ABOUT THE AUTHOR



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Mike Heffner leads the global Financial Services Banking, Capital Markets, and Insurance industry team at Appian. The team is responsible for engaging with customers, partners, and analysts to solve digital transformation challenges. Mike is a frequent speaker at industry events, and a contributor on thought leadership trends and responses in the financial services sector. Mike brings innovative approaches to problem solving to his role, including extensive leadership experience in operational efficiency, transformation, and re-engineering. Prior to Appian, he was Managing Director, Business Transformation at State Street Corporation, held management roles at Charles Schwab & Co., and Accenture’s Creating-Financial-Markets-Advantage executive group. Mike holds a BSBA in Economics from University of South Carolina, and an MBA from Babson College.

