clausematch

COMPLIANCE 2030:

TECHNOLOGY'S PROMISE FOR BANKING'S FUTURE

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Executive Summary

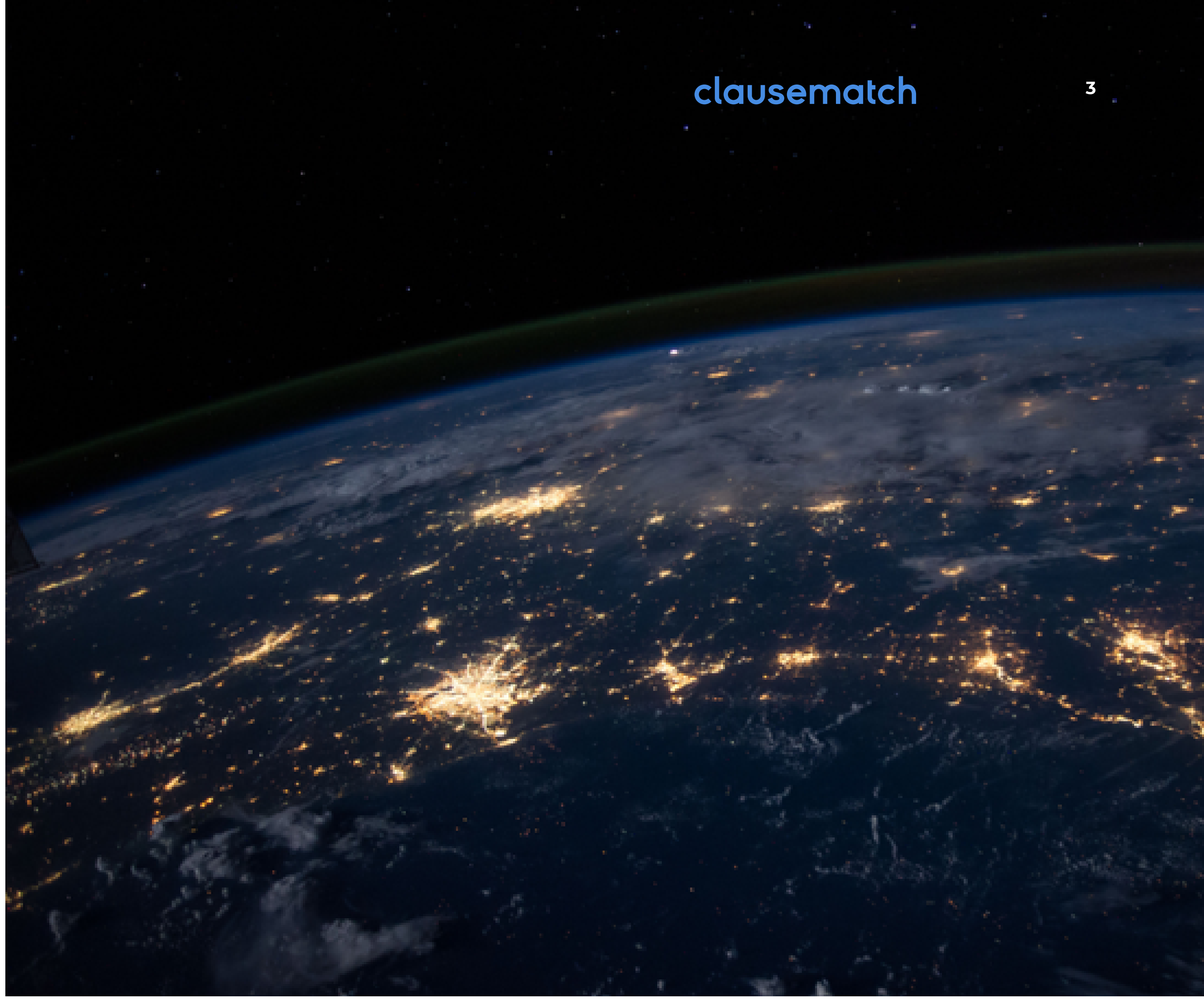
The collapse of Lehman Brothers on 15 September 2008 was a watershed moment for the financial system. With $600 billion[1] in assets, their bankruptcy filing was — and still is — the largest one in history. And it triggered a financial crisis rivalling the Great Depression.

In the aftermath, legislators and regulators rushed to put tighter controls in place to make sure such a crisis would never happen again. And they haven't stopped since. The upshot is that today's compliance function is significantly different to what it was before 2008. Not only is it firmly in the spotlight, it also faces myriad challenges:

» The continuous influx of new regulations is difficult to keep up with, complex and costly to implement.

» Chief Compliance Officers and other senior managers are personally liable for breaches, and can be fined or jailed, adding an additional layer of stress to an already high-pressure role.

» Judgement-based supervision requires banks to ask hard questions about whether behaving a certain way is right, though not necessarily against the rules. Yet, the sheer amount of work involved means compliance is often a reactive process, with banks scrambling to fix lacunas instead of thinking strategically and planning ahead.



Despite the high stakes, many banks have a compliance function that's out of date and out of its depth. And while investment in compliance technologies is increasing — the RegTech industry will be worth $12.3 billion globally by 2023[2] — the nature and makeup of banks means implementing new technology is inherently challenging:

» Embedding new technology into legacy infrastructure can test the willpower of even those who are most committed to bringing about technological change.

» For technological change to happen, you need tech-minded people. But banks' internal processes, organisational structure and decades worth of ingrained habits means tech-minded people may find themselves facing a lot more resistance than they bargained for.

» Banks tend to be siloed, and this means even relatively simple projects can get mired in red tape and internal politics.

In this paper, we'll take an in-depth look at these challenges, discuss how technology can help banks adapt and outline how banks should go about implementing compliance technology into their infrastructure. We'll also look ahead 10 years down the line, and discuss how compliance could change and what this could mean for banks, their compliance officers and their customers.

[1] https://www.reuters.com/article/us-lehman/lehman-files-for-bankruptcy-plans-to-sell-units-idUSN0927996520080915

[2] https://www.prnewswire.com/news-releases/global-12-3-billion-regtech-market-forecast-to-2023--300764335.html

The Changing Role of Banking Compliance

Over the past decade, compliance has been propelled into the spotlight. Before 2008, it was often tacked onto another department — typically legal — almost as an afterthought. But the 2008 global financial crisis brought those heady days to an abrupt end.

The fallout from the crisis has reshaped compliance, turning it into a discipline requiring a unique mindset and skill-set and making it a cornerstone of banks' operations. Compliance now has its own seat at the senior management table, a key role in banks' day-to-day business and an ever expanding scope. It's also become an extremely demanding environment.

Compliance may not help banks make more money. But it's become crucial to their bottom line. In the aftermath of the crisis, compliance failures resulted in fines and losses totalling $300 billion[3] — almost as much as crisis-induced credit losses.

More to the point, following the crisis, legislators and regulators raced to put rules in place that would make sure a similar financial meltdown would never happen again. And they haven't stopped since.

[3] https://www.mckinsey.com/business-functions/risk/our-insights/the-compliance-function-at-an-inflection-point

“Before 2008, banks often viewed compliance as a nuisance. Regulators weren't as tough, and enforcement action rarely grabbed headlines.

Following the 2008 financial crisis, the damaging effects of lack of supervision became clear. So the compliance function has become more and more important.”

Evgeny Likhoded

Founder & CEO, ClauseMatch

“Banks nowadays are constantly being picked up on everything. It's impossible to get away with making a mistake.”

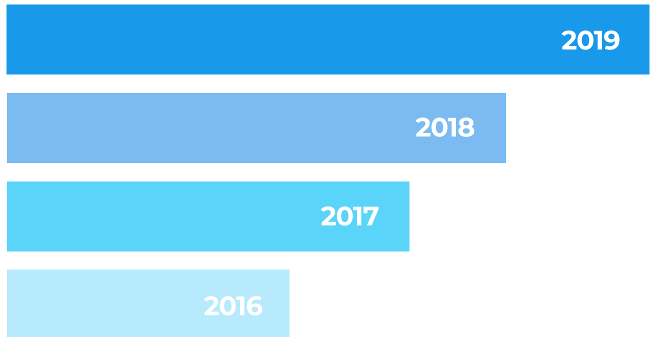
Sandra Quinn

Executive Director, The Compliance Foundation

Compliance spending is at all-time highs. But how well are banks really doing?

Governance, Risk and Compliance (GRC) spend now makes up between 15% and 20% of banks' operational costs[4] and it's increasing at a rate of 15% to 25% a year[5].

At the same time, the typical compliance department at a Tier 1 bank averaged 500 staff in 2018[6].



Yet, despite the investment and manpower, keeping up with compliance continues to be a major undertaking for the vast majority of banks.

Worryingly, many senior managers, including senior managers of systemically-important banks — believe their foundational compliance capabilities and controls aren't as mature as they'd like[7]. Meanwhile, the costs and workload are rising to unsustainable levels.

[4] https://www.forbes.com/sites/tomgroenfeldt/2018/03/22/taming-the-high-costs-of-compliance-with-tech/#646c695f5d3f

[5] https://www.thetradenews.com/banks-spent-close-to-100-billion-on-compliance-last-year/

[6] https://www.accenture.com/t00010101T000000Z__w__/gb-en/_acnmedia/PDF-74/Accenture-2018-Compliance-Risk-Study.pdf#zoom=50

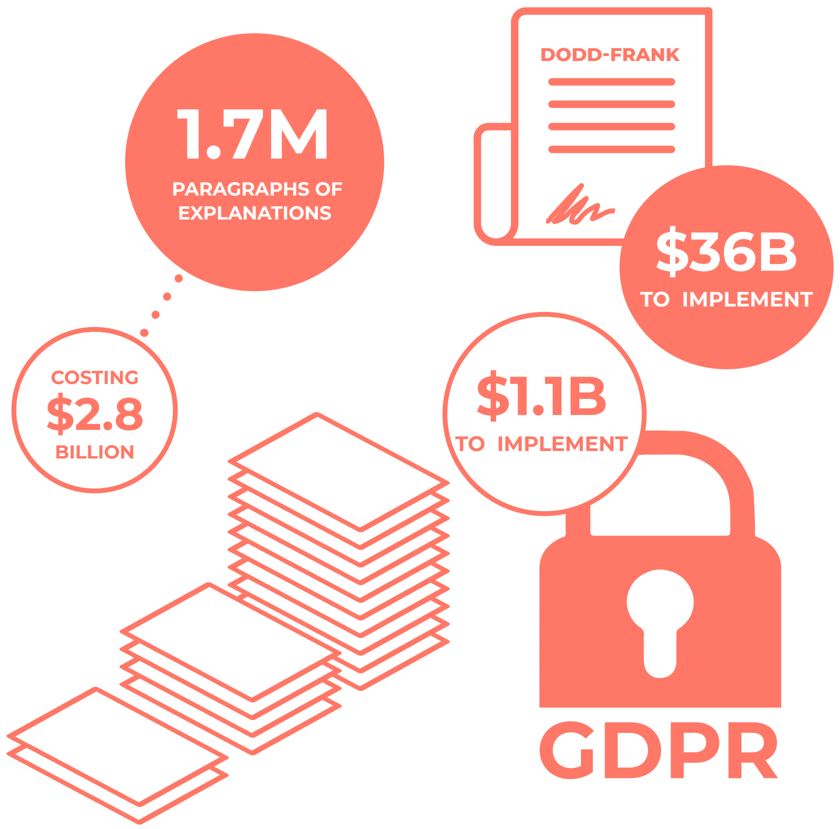
[7] https://www.mckinsey.com/business-functions/risk/our-insights/the-compliance-function-at-an-inflection-point

An Ever-Expanding, Increasingly Complex Landscape

In the immediate aftermath of the financial crisis, banks were bombarded with new laws. Between 2009 and 2012, G20 jurisdictions issued over 50,000 rules and regulations. And in 2015 alone, compliance departments had to deal with a further 50,000 new regulations and updates[8].

The body of rules banks have to contend with — many of which are complex, highly technical and may require significant changes to the way they operate — continues increasing and expanding at a rapid rate and at significant implementation cost.

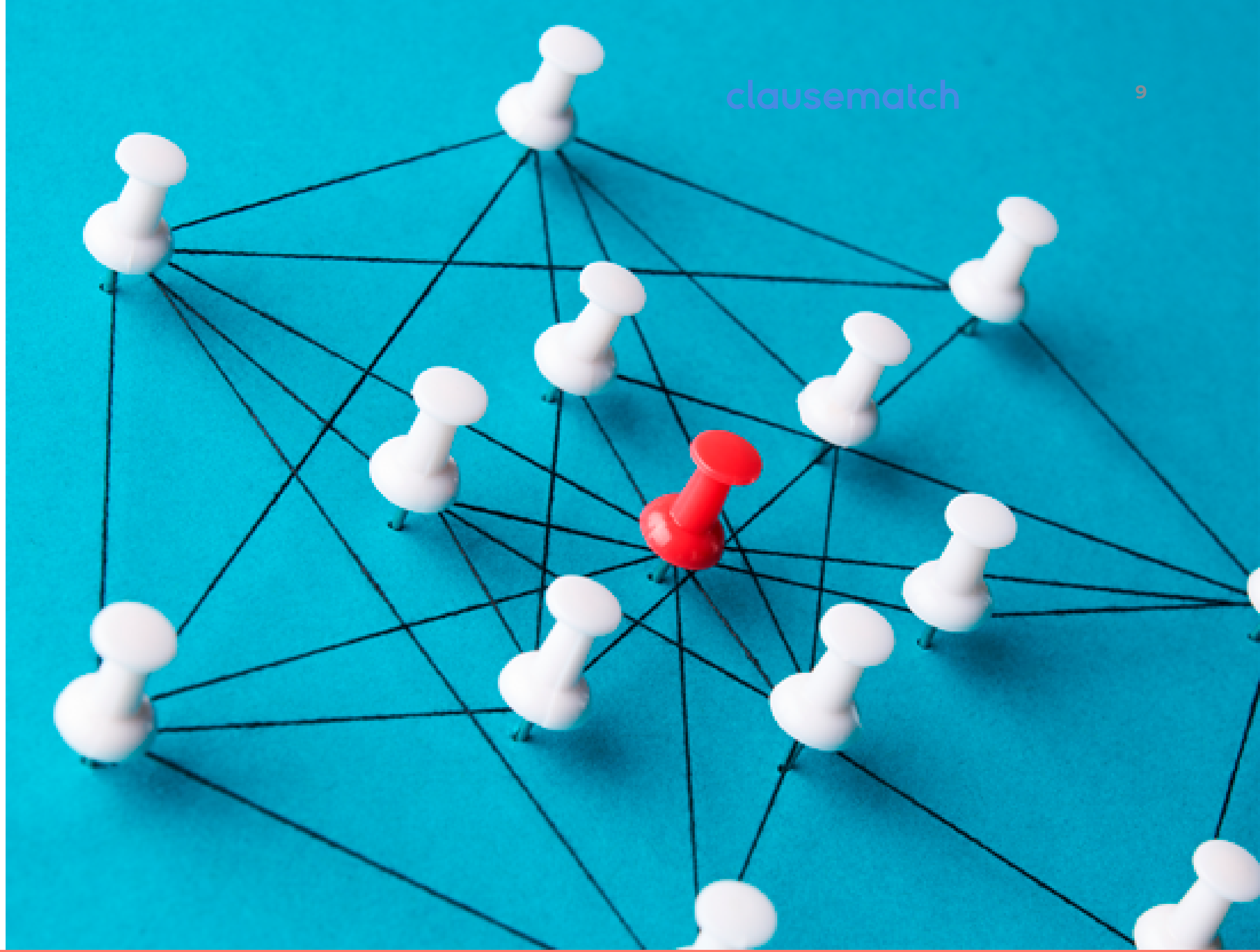
The second Markets in Financial Instruments Directive (MiFID II), which has cost over €2.5 billion (approximately $2.84 billion) to date, has required 1.7 million paragraphs' worth of explanations[9]. The equally hefty Dodd-Frank — the US's signature Wall Street reform — has cost $36 billion to implement. The General Data Protection Regulation (GDPR), which only came into force in May 2018, has already racked up $1.1 billion[10] in implementation costs.



[8] https://www.forbes.com/sites/tomgroenfeldt/2018/03/22/taming-the-high-costs-of-compliance-with-tech/#646c695f5d3f

[9] https://www.ft.com/content/b8a9a634-e116-11e7-a8a4-0a1e63a52f9c

[10] https://www.consultancy.uk/news/17226/gdpr-preparation-has-cost-ftse-350-businesses-around-11-billion



In the face of this constant and rapid sea-change, compliance departments are tasked with understanding the implications, assessing the impact and implementing new regulations in a manner that's acceptable to regulators but practical enough not to hamper banks' day-to-day operations.

> “Markets move fast so the front office has to act as quickly as possible if banks are to stay competitive. The compliance function has the unenviable task of making sure new products are compliant while also issued on time.”
>
> **Gonzalo Hurtado**
>
> **Head of Internal Control, Finance, Santander Corporate and Investment**

Of course, compliance doesn't stop at implementation. There's also ongoing monitoring, administration and risk-assessment work to be done.

> “During 2018, we had to deal with approximately 15 to 20 compliance projects, from implementation of new rules to remediation. And that's alongside the 20 to 40 complex compliance requests my team has to address every single day.”
>
> **Jacob Coy**
>
> **Head of Central Compliance, Rothschild & Co**

With so much to do in so little time, something's got to give.

Typically, the compromise is that compliance departments tend to work reactively rather than proactively. There simply aren't enough hours in the day for compliance departments to be strategic and holistic. And the end result is a fragmented approach.

"Banks often have to firefight, and this leads to siloed solutions. If there's a lot going on around AML, people will look to resolving their AML issues. But the AML solution they implement won't necessarily address other compliance issues they may have."

Evgeny Likhoded

Founder & CEO, ClauseMatch

"Compliance departments rarely have time to think of the big picture, because they're too busy working on the next 2 to 3-year project and the next one after that. They want to change. They know they need to change. But in many cases, they can't."

Andrey Dokuchaev

Founder & COO, ClauseMatch

"There's so much to do that it can be very difficult to keep up. Banks often only learn about compliance gaps when the regulator points them out. They then have to bring in consultants to patch up the problem. And the cycle continues."

Karina Vazirova

Head of Product & Implementations, ClauseMatch

Upping the ante: giving senior management skin in the game

If the workload and the pressures of balancing myriad of complex regulatory requirements with commercial realities weren't enough, compliance departments' decisions have very real consequences. And not just for banks themselves.

Banks risk fines and reputational damage should regulators find they breached the rules. But senior officers — and compliance officers in particular — are also on the hook.

In 2017, MoneyGram's Chief Compliance Officer Thomas Haider was fined $250,000 and barred from working as a compliance officer with money remittance businesses for three years for, amongst other things, "Failing to implement a policy for terminating outlets that posed a high risk of fraud..."[11]

Anti-money laundering regulations, the second Market Abuse Directive and other laws place responsibility on the compliance officer, including the risk of jail time and lifetime bans on working in the industry, even for criminal acts carried out by others within the organisation.

Understandably, the risk of a huge fine or jail time has compliance officers very concerned.

In 2015, 54% of those surveyed by the British Bankers Association and LexisNexis Risk Solutions said they'd leave the industry if the opportunity arose[12]. More immediately, the personal risk involved means compliance officers tend to be overcautious, with the result that compliance often becomes a stumbling block.

[11] https://www.complianceweek.com/former-money-gram-compliance-officer-pays-250k-for-aml-failures/9676.article

[12] https://www.telegraph.co.uk/finance/newsbysector/bank-sandfinance/11999369/Banks-crime-fighters-want-to-quit-their-jobs.html

It doesn't help that compliance staff, especially older generations, don't necessarily have a compliance background.

Especially prior to 2008, compliance departments tended to grow organically, gathering a broad church of lawyers, accountants, IT people and staff trained in other disciplines. Absent of a legal background, and given the serious responsibilities placed on them, people can be wary of taking points of view they perceive as being risky.

> "Some organisations are so large that compliance specialists aren't capable of monitoring everything. It's easier for them to just block things, instead of approving them and risking a fine or jail time."

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch

> "Oftentimes, the compliance function has been stitched together to cope with the constant onslaught of regulation. You have people from legal, people from audit or even people from IT who have been roped into the compliance department and suddenly face personal liability for their decisions. It's only natural that they'd take a cautious approach."

Andrey Dokuchaev

Founder & COO, ClauseMatch

From principles-based regulation to judgement-based regulation

One of the biggest changes brought about by the financial crisis is the increasing emphasis on what the Financial Conduct Authority and Prudential Regulatory Authority have called forward-looking, judgement-based regulation[13].

Where, prior to 2008, regulators allowed banks to self-regulate to a certain degree (as long as they adhered to the spirit of the law), judgement-based supervision requires banks to ask hard questions about whether behaving a certain way is right, though not necessarily against the rules.

Sona Ganatra, senior associate at city firm Fox Williams, explains that judgement-based supervision means regulators "take a wholesale approach when assessing firms and look at, for example, the wider implications of the firm's conduct on consumers or the potential impact that the firm could have on financial stability...[14]"

The result is that, while observing the letter of the law is still important, compliance has also become about culture. Compliance affects every aspect of a bank's business. So, everyone has to understand the rules and know what's expected of them.

The problem is that this is easier said than done.

[13] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/banking-approach-2016

[14] https://www.ftadviser.com/2013/05/08/regulation/regulators/what-the-fca-means-by-judgement-based-supervision-k22YI3wGI5abHDGyEghntJ/article.html

> There's an emphasis on transparency, but it's hard to report evidence. On paper, everything might look fine. And, because regulators may be focusing their attention elsewhere, it might be years before you find out things aren't as rosy as they seem.

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch

Culture can't be managed or mitigated through a series of measures or controls. Yet, many banks still rely on spreadsheets, word documents and other outdated tools to create an audit trail. These may have served well in the past, but the breadth and complexity of modern regulations means these methods are no longer effective, especially in a context where banks must foster a culture of compliance at all levels. If anything, manual techniques perpetuate the idea that compliance is a nuisance that puts a spanner in the works.

> Sporadic training and asking staff to "Please read and acknowledge" wordy documents isn't enough. Information gets lost or forgotten and it's impossible to address key issues in detail.

Evgeny Likhoded

Founder & CEO, ClauseMatch

> Compliance is meant to influence behaviour. But, more often than not, it doesn't. The message doesn't come across. Regulatory requirements are implemented, but the rules, policies and processes are just binders on a shelf. They don't resonate with the wider pool of staff. And what happens, in essence, is that this generates mistrust.

Andrey Dokuchaev

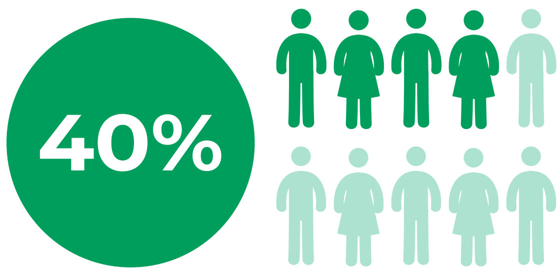
Founder & COO, ClauseMatch

When Evolution Seems Like Revolution: The Challenges of Digitalising Banking Compliance

Aside from inadequately addressing the need for a culture of compliance, manual processes are holding banks back in other significant ways.

Firstly, they slow down operations in an environment where time is of the essence. The more manual compliance processes are, the longer it takes to get the job done. Which means other equally important tasks and projects remain stuck in the to-do pile.

Worse, banks' day-to-day operations, including customer-facing functions, take more time to complete. And this is something customers have less and less tolerance for. 40% of British consumers, for instance, have abandoned an application for a financial product because it took too long. And 55% have expressed displeasure at having to mail hard copies of know-your-customer documents in the post[15].



OF BRITISH CONSUMERS ABANDONED AN APPLICATION FOR A FINANCIAL PRODUCT BECAUSE IT TOOK TOO LONG

55%

WERE DISPLEASED AT HAVING TO MAIL HARD COPIES

15 https://www.icarvision.com/en/why-is-a-process-of-financial-onboarding-abandoned

> When I joined Travelport, processes were painfully slow. It took 10 working days, for instance, to process a gift from Asia Pacific in accordance with our gifts policy. And that was if the request was straightforward and there were no complications.

Rose Chapman

Head of Compliance & Ethics, Travelport

> The way we enter into relationships with our customers is changing. In the past, we met with people face-to-face. Now, people expect to be able to do things over the internet. Clients are more demanding and competition is stiff, so attracting and retaining clients has become more complex.

Karine Demonet

Directeur Conformité et Contrôle Interne, BPI France

> The public has come to expect that things will never go wrong. If there's an outage, no matter how small, you have MPs writing to the regulator demanding immediate action.

Sandra Quinn

Executive Director, The Compliance Foundation

More importantly, manual compliance processes are one of the primary reasons for banks' skyrocketing operational costs. Case in point, outdated anti-money laundering systems are costing banks £2.7 billion (approximately $3.5 billion)[16]. This is money that could be saved by adopting AI, machine learning, big data analytics systems and other time-saving technologies.

It doesn't help that it's becoming harder to recruit and retain the right compliance professionals. 69% of organisations blame this on salary expectations being too high. But there are also other factors, including lack of the right expertise (39%), lack of interpersonal skills (20%) and budgetary constraints (17%)[17].

According to Accenture's 2018 Risk and Compliance Study, new hires have dropped 9% compared to 2017. Nonetheless, 89% of respondents plan to ramp up compliance spending over the next two years, with technology being a priority[18].

Clearly, banks are acknowledging that tech is key to bridging the growing skills gap in compliance. And, they're coming round to the idea that implementing the right technology is going to be crucial if they're to get compliance right moving forward.

[16] https://www.gtreview.com/news/global/regtech-could-save-banks-2-7bn-yearly-on-aml-compliance/

[17] https://www.barclaysimpson.com/market-report-2018

[18] https://www.accenture.com/t00010101T000000Z__w__/gb-en/_acnmedia/PDF-74/Accenture-2018-Compliance-Risk-Study.pdf#zoom=50

"The ultimate goal is to stop being reactive and start being proactive. But given the rapid pace of change in compliance, it's becoming impossible to keep track of the big picture without using technology."

Evgeny Likhoded

Founder & CEO,
ClauseMatch

"Tech is an enabler which can bring banks huge benefits. It helps monitor, understand different parts of the business and get a better view of the bigger picture."

Michael Rasmussen

GRC Expert,
GRC 20/20 Research LLC

"Tech allows you to automate repetitive processes, which saves time. It also produces better modelling and more centralised data. Having a repository of verified data that everyone can refer to increases transparency and accountability, which leads to a better compliance function."

Eric Wu

Head of Compliance & Technology,
Revolut

This awakening to technology's promise is certainly encouraging. But this is not to say implementation will be smooth sailing. While advances such as RESTful APIs have made it easier than ever to create "plug-and-play" software, banks' nature and organisational structure mean getting to grips with new technology and integrating it into their workflow comes with unique challenges.

Legacy Systems and New Technology

In 2017, 32% of banks cited legacy infrastructure as the single biggest obstacle to adopting new technology, far ahead of a lack of strategic focus — this came in second at 14% — and difficulties finding the right skills (12%)[19].

It's not hard to understand why. Any piece of software that's more than two years old will have legacy. In the case of many banks, there are decades-old systems in place and centuries of culture to contend with. Unsurprisingly, implementing new systems throws up all sorts of issues.

> “Many banks have been doing things the same way for centuries. When you've been around that long, change can be unexpectedly difficult.”

Karina Vazirova

Head of Product & Implementations, ClauseMatch

But it's not just banks' longevity and their ingrained habits that make legacy such a seemingly insurmountable problem. The very nature of banks' business also comes into play.

> “Many products banks sell last a lifetime. There are mortgages and land leases active today that pre-date computers. Contracts signed in the 1960s and 50s.
>
> How are you going to bring those documents online when even locating the original paperwork may be a challenge?”

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

Clearly, it takes willpower and commitment to overcome legacy. For this reason, it's important to involve and engage those people who have skin in the game and who, ultimately, will benefit from change as early in the process as possible.

> “There's often a mismatch in change management. Those who have the voice and the power to change things may not see the need for change. And those who use legacy systems daily don't usually have a voice and the power to bring change about.
>
> Those who use legacy daily will probably have a good understanding of the problems and what needs to change. By bringing them on board in the initial stages, you can get invaluable input and build a stronger business case.”

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch

The Need for a Tech-Positive Culture

In the aftermath of the 2008 financial crisis, financial commentators such as economist Paul Krugman[20] and, more recently, 2016 US presidential hopeful Bernie Sanders[21] have spoken out about the need to "make banking boring again."

What they meant, of course, is that there should be tighter controls and an end to the rampant speculation that led to the 2008 crisis. But the comment also underlines the fact that banks are often perceived as — and, indeed, expected to be — cautious and conservative.

When it comes to implementing new technology, this assessment isn't far off the mark. Senior management may be wary about ditching tried and tested systems in favour of unfamiliar technologies. They may worry about things going wrong or about regulators' reaction. In some cases, they may even worry about whether their stakeholders, including investors and customers, will embrace or reject change.

"You need to be brave to implement technology, because it's inherently risky. What if it goes wrong? What will the regulator think? How will our customers react?

There's a lot to consider. And given what's at stake, we're not as flexible as we'd like to be."

Karine Demonet

Directeur Conformité et Contrôle Interne, BPI France

"People who invest in banks often do so because they like them for who they are. This can discourage people from embracing change, even if it's clearly for the better."

Jacob Coy

Head of Central Compliance, Rothschild & Co

"Having tech is all well and good. But ultimately it's the customer who decides whether a project is successful. Will they embrace tech? Or will too much of it drive them away?"

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

[20] https://www.nytimes.com/2009/04/10/opinion/10krugman.html

[21] https://www.cbsnews.com/news/bernie-sanders-hillary-clinton-wall-street-banking/

As justified as they may be, these fears lead to resistance. And resistance can mean the death-knell for any technological transformation project. For this reason, having the right people on board — people who are technologically-minded and ready to work towards change — is crucial to getting a project off the ground.

“Not everyone is tech-minded. Some compliance staff may argue that it isn't their job to bring about technological change. You need someone who believes in tech and can take ownership of the project.”

Andrey Dokuchaev

Founder & COO, ClauseMatch

“If someone doesn't have the time to think about tech, digital transformation won't happen. To make tech a priority, you need tech-minded people.”

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

The good news is that resistance can be overcome and people can be persuaded. As long as you understand what's driving that resistance in the first place.

“Some people are unwilling to change or have an organisational culture that isn't as open to change. To sell technology to these people, you have to build a good business case.”

Michael Rasmussen

GRC Expert, GRC 20/20 Research LLC

“Problems implementing tech are often people issues. People who have been doing things the same way for a long time can feel undermined or fear they may become redundant. Tech frees up resources, and this can make people panic. They need to be reassured and the benefits of the tech explained.”

Rose Chapman

Head of Compliance & Ethics, Travelport

Overcoming bureaucracy

Of course, overcoming objections is only one piece of the puzzle. Before that stage is even reached, the right stakeholders must be identified and brought together and internal procurement processes have to be followed.

> Sometimes, it's not so much the fear of change that holds banks back, but more the knowledge that they're going to have to jump through endless hoops before the project can get off the ground.
>
> **Sandra Quinn**
>
> **Executive Director,**
> **The Compliance Foundation**

Despite having well-defined organograms, larger banks in particular can be fragmented. So, identifying the right people to involve and, more importantly, getting someone to take ownership of a project — any project — can get tricky.

> Org charts are all well and good. But large banks are often divided up in 'tribes' and it's not always clear who is responsible for what.
>
> **Andrey Dokuchaev**
>
> **Founder & COO,**
> **ClauseMatch**

It doesn't help that the culture of many tech companies is worlds apart from that of banks, which can make a project harder to sell.

> Many tech companies have a culture of working on an agile basis and don't build in from the outset the ability to verify that the product works. Given the regulator's and the public's expectations, banks can't afford to have tech in place that could fail, even if the chances are only 1%. So this can become a deal-breaker.
>
> **Sandra Quinn**
>
> **Executive Director,**
> **The Compliance Foundation**

Even when the tech passes muster, a lot of time and effort has to be expended on selling the project to all the right people. And this can be to the detriment of the project itself.

“Initiating, conducting and completing a project is a long and winding road. You have to identify who has to be involved, set up a committee, appoint members, set timelines, find a project manager, consult with IT, internal control, risk and human resources... the list goes on. And you have to keep updating the committee and dealing with other red tape throughout the project's lifespan.

Even small projects tend to become huge undertakings. It's difficult to be flexible.”

Karine Demonet

Director of Compliance and Internal Control, BPI France

“As a rule, when you work at a bank, you need to plan a year in advance. That's how long it takes, realistically, to get a project off the ground.”

Julien Belhassen

Digital Compliance Officer, BPI France

Of course, by the time everyone's on board, the technology may well have been superseded by something faster, cheaper and better. But by then, too much time, money and energy will have been expended to justify pulling the plug.

“It can take a long time to get the necessary approvals for new tech, because too many people need to sign off. By the time you get the go-ahead, the tech may have even become obsolete.”

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch

More to the point, implementing technology is inherently disruptive. And in a fragmented environment, the result is that projects can become political. Should this happen, getting the ball rolling can become even harder.

“It's difficult for banks to implement tech and continue with their business as usual. Getting a project off the ground takes time, dedication, and buy-in from as many stakeholders as possible.”

Karine Demonet

Director of Compliance and Internal Control, BPI France

“Silos can make change a hard sell. Inevitably, there will be detractors who'll be waiting for the project to fail so they can be proven right.”

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

Though it might sound counter-intuitive, it's often a good idea to slow things down and work on getting as many people as possible invested over time, instead of pushing for too much too soon.

“Bring an idea and convert people instead of trying to do too much at once. Revolution scares people. But if you focus on building momentum, you'll eventually win them over.”

Rose Chapman

Head of Compliance & Ethics, Travelport

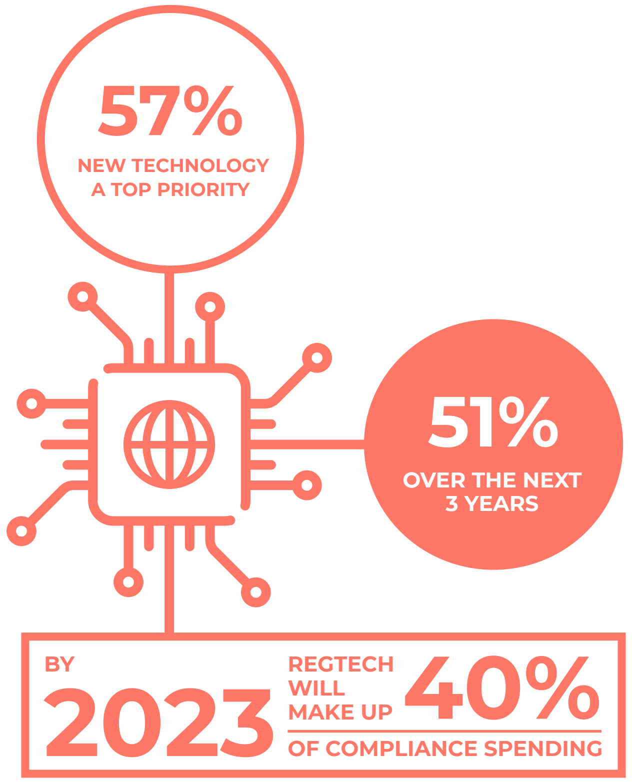
Implementing RegTech Successfully: A Roadmap

Despite the unique challenges banks face when implementing new technologies, investment in RegTech is set to reach all-time highs in the next few years.

When Accenture surveyed 150 compliance officers at leading banking, capital markets and insurance firms for its 2018 Risk and Compliance Study, 57% said implementing new technology would be their top priority over the next 12 months. And 51% said they'd be prioritising new technology over the next three years.[22] By 2023, it's thought that RegTech will make up 40% of compliance spending globally[23].

Early adopters of new technologies are already reaping the benefits. When German banking giant Hypovereinsbank started using technology to monitor and evaluate their GRC framework, they cut staff needs by 33%[24]. Similarly, implementing ClauseMatch's document collaboration software has saved Barclays significant amounts of time by allowing them to access and manage all their global policies and standards from one central location[25].

That said, technology isn't a silver bullet. To get the most out of it, banks have to lay the groundwork.



[22] https://www.accenture.com/t00010101T000000Z__w__/gb-en/_acnmedia/PDF-74/Accenture-2018-Compliance-Risk-Study.pdf#zoom=50

[23] https://thefintechtimes.com/regtech-spending-increasing/

[24] https://gomedici.com/how-european-banks-are-using-regtech-solutions/

[25] https://www.bankingtech.com/2017/03/clausematch-right-match-for-barclays-compliance/

"Technology can be a game-changer, but it can also be a deal-breaker. Things can go south quickly, so you need to think carefully and plan ahead."

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

"To compete in the digital age, banks have to be willing to leave their comfort zone and get on board with new technology. At the same time, they must be mindful of the consequences should things go wrong and take steps to minimise the chances of this happening."

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch

Banks need to approach technological change strategically, plan carefully and test rigorously on a small scale before deploying to the wider organisation. Only then will they be able to fully unlock the cost savings, time savings and other benefits technology brings to the table.

Getting Stakeholders On Board

When Rose Chapman decided it was time to bring Travelport's gifts policy into the 21st century by creating a simple, semi-automated process on a SharePoint site, she was amazed at the amount of resistance she encountered.

Her aim was to make the process simpler, clearer and easier for everyone and to have a centralised record that could be accessed quickly in case of a breach. But many stakeholders seemed reluctant to entertain, let alone embrace the change.

As bureaucratic, fragmented organisations, banks will be all too familiar with this scenario. Not only is there a long-standing culture of doing things a certain way. But people may also feel threatened by what change will mean for their workload or even for their place within the organisation.

> “Some people are emotionally attached to old systems, which makes them resistant to change.”
>
> **Jacob Coy**
> **Head of Central Compliance, Rothschild & Co**

> “Change can mean a lot of extra work, and sometimes people just don't want that. From their point of view, why should they put in 12-hour days to work on replacing something which they think already works?”
>
> **Gonzalo Hurtado**
> **Head of Internal Control, Finance, Santander Corporate and Investment**

> “If people are afraid of change or feel threatened, they'll try to slow you down. You need to generate goodwill.”
>
> **Rose Chapman**
> **Head of Compliance & Ethics, Travelport**

For this reason, the most important step in any technology implementation project is to bring as many people as possible on board, as early on in the project as possible. Different departments across the organisation are going to have to put in a lot of time and effort, so they need to be convinced that the change will bring about significant long-term improvements — whether that's a more manageable workload, cost savings or something else.

“Start by highlighting the possibilities. Reach out to those who have skin in the game, and underline how the change will make their life easier. That's how you get people to care about change.”

Evgeny Likhoded

Founder & CEO,
ClauseMatch

“You need to demonstrate you'll be able to meet regulatory requirements. But, more importantly, you also have to show that the change will bring added value to the organisation.”

Karine Demonet

Director of Compliance and Internal Control,
BPI France

Of course, having people who are already sold on the need for change can help move the project along.

“In many cases, there was another department who were also fed up with the old process. They agreed that things needed to change, and this helped immensely.

It's worth putting in the time to create a demo and proof of concept. Compliance is usually thought of as something that slows things down. So if you can show people — actually demonstrate in real time — that technology can speed things up and make things simpler, you're much more likely to win them over.”

Rose Chapman

Head of Compliance & Ethics,
Travelport

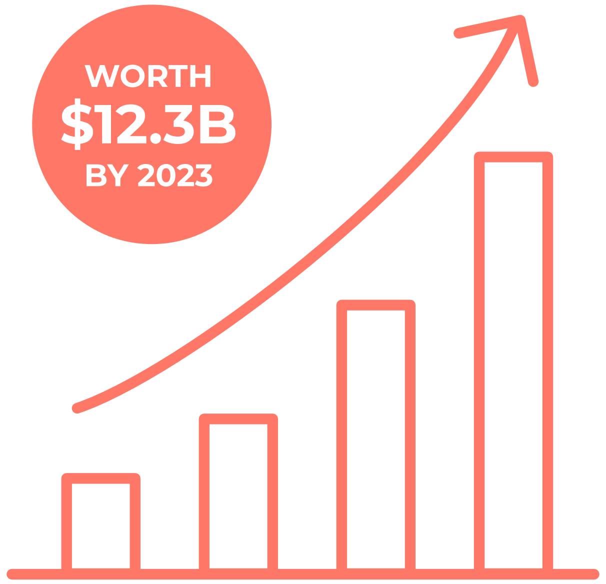
Not everyone may have the luxury of another department backing them up. But, either way, demonstrating how the new technology works and the ways it'll change things for the better can be a uniquely powerful tool.

Conducting a System Audit

As important as it is to get stakeholders on board, any technological implementation project also needs to have clear goals.

Over the past five years, the RegTech industry has exploded. It's expected to be worth $12.3 billion globally by 2023[26]. And, more to the point, there are now hundreds of products on the market. This bevy of choices can make picking the right technology a lot harder than it has to be.

[26] https://www.prnewswire.com/news-releases/global-12-3-billion-regtech-market-forecast-to-2023--300764335.html



> There's lots of tech around. But I'm not sure many of these products are addressing banks' real needs.

Julien Belhassen
Digital Compliance Officer, BPI France

> The truth is that the tech to address compliance holistically only appeared recently. You need to pick carefully, because while a certain software may solve a particular problem, you may be paying a premium for features you don't actually need and that, in some cases, may even create new issues.

Evgeny Likhoded
Founder & CEO, ClauseMatch

With this in mind, the importance of a system audit can't be understated. Before getting stuck in on an expensive and time-consuming implementation project, banks need to analyse their situation, understand their needs and figure out what they want to improve upon. This is how they'll maximise their chances of success, that is long-term adoption across the organisation.

> There's no point in upgrading a process just for the sake of it. To implement technology successfully, you need to understand what it does and, more importantly, how this will add value to your business or increase efficiency.

Eric Wu
Head of Compliance & Technology, Revolut

> You need to start with clearly articulated outcomes and work backwards. What is it that you want to achieve? Starting with that goal in mind will help inform your choice of technology and the implementation roadmap.

Jacob Coy
Head of Central Compliance, Rothschild & Co

The Role of Testing

Alongside solutions to address a growing number of compliance challenges, banks are also increasingly looking to technology to stay competitive against challengers such as Revolut, TransferWise, Monzo and others.

Having disrupted the industry, these companies are quickly becoming a force to be reckoned with. In the UK, for instance, challenger banks are now responsible for generating 14% of the country’s banking revenue[27].

> “All banks are afraid new challengers will take the opportunity to address new needs.”
>
> **Karine Demonet**
>
> **Director of Compliance and Internal Control, BPI France**

The danger of course, is that banks risk rushing into huge technological changes unprepared. And, as TSB’s 2018 IT meltdown shows — to date, it has cost the bank £330 million and 80,000 customers[28] — this can have disastrous consequences.

> “Legacy banks aren’t tech companies, and they can’t become tech companies. Growth, inevitably, causes vulnerabilities. Fintechs can start from scratch and exploit those vulnerabilities. But legacy banks can’t start from scratch.”
>
> **Gonzalo Hurtado**
>
> **Head of Internal Control, Finance, Santander Corporate and Investment**

With this in mind, a rigorous testing phase should be an essential part of any technology project.

Testing is especially important in fragmented organisations. But even in more homogeneous ones, deploying new technology only to a small subset of users makes the change smoother and could serve to strengthen the business case across the organisation.

[27] https://www.bankingtech.com/2018/11/sizing-up-the-real-threat-of-challenger-banks/

[28] https://www.proactiveinvestors.co.uk/companies/news/213795/tsb-slumps-to-annual-loss-after-spending-330mln-on-it-meltdown-213795.html

“If infrastructure is decentralised and not homogenous — for instance because there were several acquisitions in a short span of time — implementing tech across the organisation is going to be more problematic. The best implementation starts with a pilot project running in parallel with current systems until it works.”

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

“Implementing tech is much easier if you start small and build up from there. You need to prove something can work before deploying it on a large scale.”

Karine Demonet

Director of Compliance and Internal Control, BPI France

“Workshopping new technology on a small subset of users can serve as a proof of concept. If successful, those users will become champions who'll help strengthen the use case and encourage more people across the organisation to buy in.”

Evgeny Likhoded

Founder & CEO, ClauseMatch

“Once my project was shown to be successful and the benefits were clear, all the other departments wanted in.”

Rose Chapman

Head of Compliance & Ethics, Travelport

From Decentralisation to Centralisation: Reaping the Benefits

Once new technology has proven itself in a controlled environment, it can be more safely deployed on a larger scale. And this is where the effort will start paying off.

Banks have a tendency to approach technology reactively, implementing solutions that solve one issue but which may not play nice with the technology needed in other areas. This can create more problems than it solves, including duplicate processes.

Deploying the same technology across the organisation helps break down silos and increases transparency by creating a centralised repository of verified data that everyone can refer to whenever the need arises. The result is a simpler workflow, less duplication and lower operational costs.

“Centralising documentation and how it's updated and published creates a skeleton of the organisation. When regulation changes, it'll be much easier and faster to see which processes need to be addressed.”

Karina Vazirova

Head of Product & Implementations, ClauseMatch

More to the point, a centralised repository of data will also unlock new possibilities and insights banks didn't have access to before.

“When you have access to a repository of structured data, you can get as granular as you'd like. You can even find out the exact amount it costs to onboard a customer and find ways to make that process more cost-effective.”

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch

“Once you have a centralised system in place, there's a lot more you can achieve. In the medical industry, for instance, there's access to lots of extremely structured data. This helped with many medical advancements that weren't possible before because AI can be deployed to solve puzzles and predict diseases by crunching massive pools of data.

Similarly, in compliance, having a central repository of data brings all sorts of benefits. AI can look at the data and find patterns that a person cannot see, so it's more effective at fighting fraud, for example. And you can greatly augment human capabilities.”

Evgeny Likhoded

Founder & CEO, ClauseMatch

Looking ahead: What Will Compliance Look Like in 2030?

If the 2008 financial crisis revolutionised the way banks have to think about compliance, technology is reshaping the way they tackle it.

In a complex, constantly shifting regulatory landscape, technology increasingly holds the key to significant cost-savings, all while easing a growing workload and helping banks gain a competitive advantage through insights they otherwise wouldn't have had access to. As a result, proactive banks are even ramping up their spending on compliance technology. And Tier 1 banks are even adopting maturity models to measure, develop and refine their technology development process[29].

With banks set to invest $76.3 billion on RegTech by 2022[30], there's no doubt that compliance is about to ride a wave of significant change. But what will these changes mean for banks, their compliance departments and their customers? What will compliance look like five or even 10 years down the line? And how will it make banking better?

[29] https://searchsoftwarequality.techtarget.com/definition/Capability-Maturity-Model

[30] https://ctmfile.com/story/7-fold-increase-in-regtech-spending-over-next-5-years

"I think banks will be clear that they need to have the best in breed technology to get compliance right. Their business and reputation depend on it.

Technology will be deeply ingrained into everything people do. It'll be very dynamic and interconnected. It'll be easier to predict whether a course of action is compliant or not and to make informed choices."

Andrey Dokuchaev

Founder & COO, ClauseMatch

From a regulatory standpoint, technology promises to cut compliance departments' workload considerably. Banks may no longer need to run implementation programs. And monitoring, enforcement and remediation could even become automatic, saving time and simplifying things for banks and regulators alike.

"By 2030, I think regulators will be connected directly to banks' compliance systems and write rules in code. There'll be no delays in assessing the impact and implementation and no delays in enforcement and remediation. Any proposed regulatory change will automatically identify which processes, systems and products are affected by that change. We tend to underestimate the pace at which technology and AI advancements move because we are not able to think in exponential terms. In 10 years we will live in a very different world and compliance is no exception."

Evgeny Likhoded

Founder & CEO, ClauseMatch

"In a way, we'll all become data analysts, because we'll have a lot of accurate data at our fingertips. It'll be easier to comply and improve accountability. Regulators will also be able to do more off-site monitoring. They'll be able to see the data in real time, which means they won't need to carry out disruptive on-site monitoring so much."

Rose Chapman

Head of Compliance & Ethics, Travelport

But technology will also improve the user experience. And, seeing as the quality of a bank's digital offering is now one of the main reasons consumers switch banks[31], this will be a win-win for banks and their customers alike.

"There'll be a lot less button-clicking for everyone."

Eric Wu

Head of Compliance & Technology, Revolut

"More automation and integration will speed up the compliance process. Consumers will be able to go through KYC, AML and other critical compliance policies and processes much more quickly."

Michael Rasmussen

GRC Expert, GRC 20/20 Research LLC

Not everyone expects technology to result in a massive shift. At least not within the next decade.

"By 2030, compliance officers will be able to see more at a glance instead of being at the mercy of one compliance programme. But the nature, makeup and business of banks means change will have to happen slowly.

I think the real revolution will happen in 20 to 30 years' time, not in 10 years' time."

Gonzalo Hurtado

Head of Internal Control, Finance, Santander Corporate and Investment

[31] https://thefinancialbrand.com/75650/switching-banks-digital-innovation-trends/

But while the extent of digitalisation in 10 years' time may be up for discussion, there's no doubt that technology will be increasingly embedded into compliance departments' day-to-day processes.

It's clear that the compliance officer's role will have to change in the face of this shift. That said, technology won't spell the end for human compliance staff. If anything, time freed up through use of technology is an opportunity for compliance officers to shift their thinking and focus on tasks they've never had the time for before. Which means they'll add more value.

“ Humans will still have to connect the dots. ”

Jacob Coy

Head of Central Compliance, Rothschild & Co

“ In 2030, I think we will have more efficient and effective automation. But the judgement calls people will have to make will be more sophisticated than ever. And they're already hard now.

People assume automation will reduce the amount of judgement calls we'll need to make. And in terms of volume, they're right. But I'd argue that in terms of weight — the magnitude of the judgement calls that are left — these will be far more complex. We're going to move from quantity to quality. ”

Sandra Quinn

Executive Director, The Compliance Foundation

“ Inevitably, some humans do bad things. So there'll always be the need for a figurehead that represents integrity and oversees compliance processes across organisations. ”

Michael Rasmussen

GRC Expert, GRC 20/20 Research LLC

“ My team used to spend the vast majority of their time handling admin and processing requests.

Now that we've automated many of our processes, we can do more because we have more time. We're writing our own training manuals, which has saved the company thousands. And we're continually looking to improve things we never had time to address before. I'd say we're adding much more value and getting more satisfaction out of our jobs. ”

Rose Chapman

Head of Compliance & Ethics, Travelport

That the compliance officer's role will change from the admin-heavy one it is today to a more strategic, more creative one is a good thing. They'll have easier, more satisfying jobs. Banks will benefit by being able to tackle compliance more proactively. And, ultimately, this will make for a better, safer financial system for all.

“ Compliance will be strategic rather than reactive. It'll be centralised. And it'll be invisible. This will allow the compliance officer to be an advisor, rather than an administrator. ”

Karina Vazirova

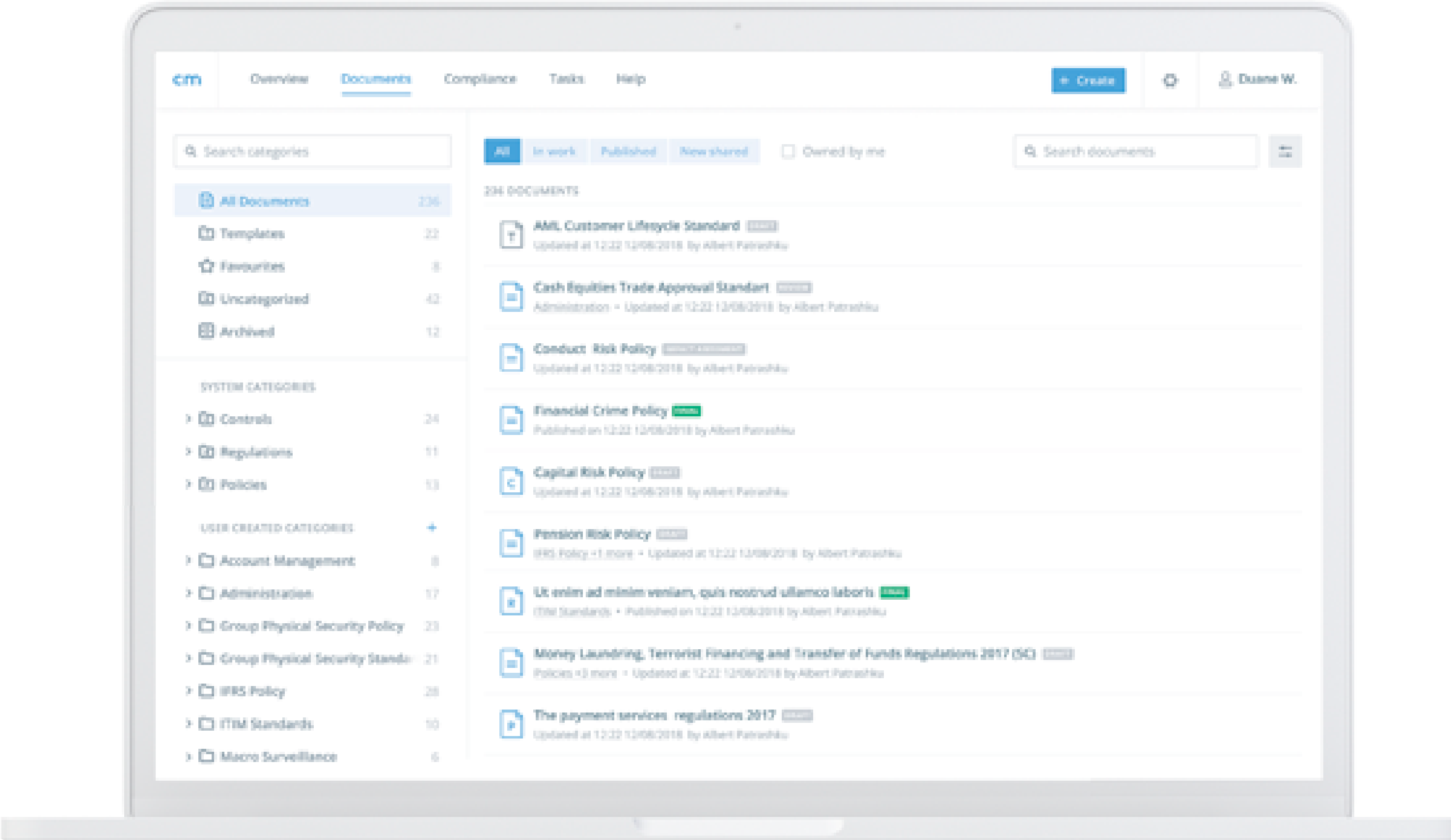
Head of Product & Implementations, ClauseMatch

“ We shouldn't be paying highly-educated individuals to shuffle paper around.

Better technology means humans can focus on difficult decisions and the juicy pieces of the job. This will lead to greater job satisfaction and enjoyment. Which is the reason people went to school in the first place. ”

Anastasia Dokuchaeva

Head of Partnerships, ClauseMatch



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