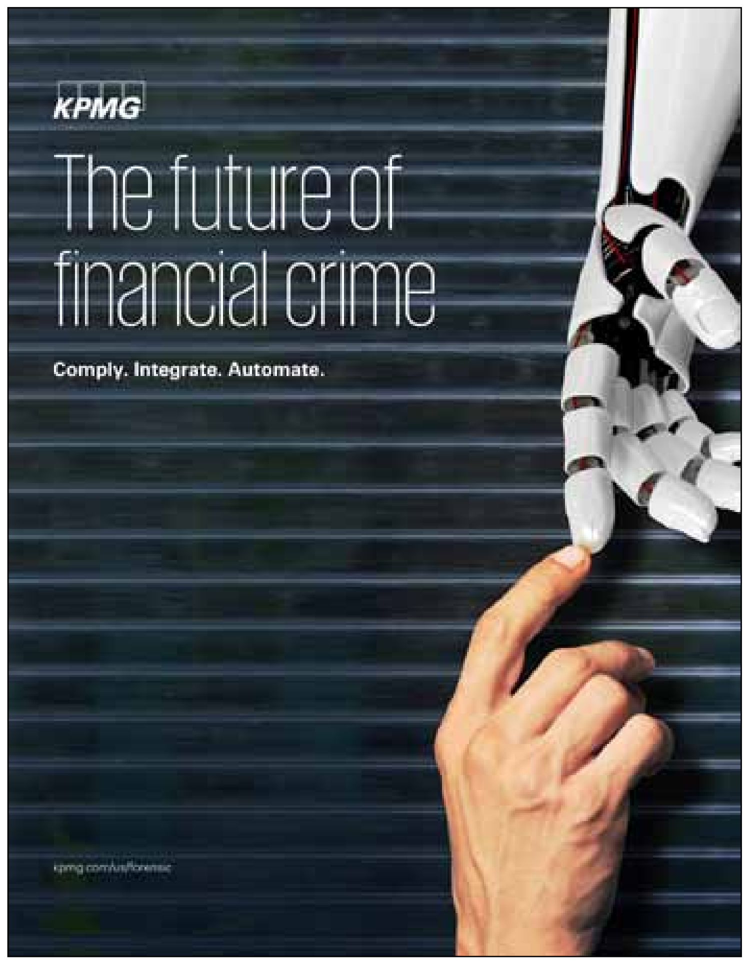
The Future of Financial Crime Is Now

KPMG Report: Successful AML programs deal with today's problems even as they anticipate tomorrow's

By David Hechler

A recent report by KPMG, "The Future of Financial Crime," features a graphic of two hands extending to touch forefingers, bringing to mind the ceiling of the Sistine Chapel. But there's a twist. While one of the hands belongs to a human, the other belongs to a robot. As the report demonstrates, it is an apt visual metaphor.



The KPMG authors begin their journey into the regulatory future with a bleak picture of the present. Regulators are requiring more "robust and integrated" anti-money laundering (AML) programs, they say, which has put significant pressure on AML officers, who face soaring costs, a rising tide of violations and a shortage of qualified employees. This has led, of necessity, to a reactive approach designed to meet current regulatory obligations and avoid steep fines.

"The unintended result," the report says, "is that compliance spending is disproportionately allocated to tactical responses and not program enhancements. Such short-term focus has left many AML officers with fewer resources for the strategic thinking, innovation, and prioritization that are needed to develop a sustainable and cost-effective framework for addressing financial crime."

The report goes on to provide a path forward – a "delicate balance" to enable companies to anticipate change even as they continue to satisfy today's expectations. Automation is a key element of that balance. To accomplish this, the report says, requires lots of collaboration between humans and machines (as well as humans and humans). The touching fingers evoke all of this.

A Competitive Advantage

If a company can come to see compliance not just as a function that *responds* to problems, but also one that *prevents* them, that can change attitudes. It can go a long way toward helping an institution "think about compliance not just as a cost of doing business, but as a competitive advantage," the report says.

Despite the importance of automation, all of this has to start with a company's culture. Regulators are always on the lookout for evidence that management and boards of directors are playing an active role in promoting a culture of compliance. What messages are they sending employees on this subject? How does the board determine root causes of misconduct? How do management and the board measure the health of the company's compliance program? And how willing are employees to report inappropriate behavior? These are the questions that KPMG says companies should be asking to assess their own cultures.

A centralized compliance program is another key to success. When compliance is handled in silos, it is apt to be inconsistent, and that increases opportunities for rogue employees and fraud. An integrated structure, on the other hand, "improves information sharing, reduces redundancy, and allows for greater collaboration and a more refined strategic vision," the report says.

The suggested integration of processes includes the company's technology. The KPMG report says that financial institutions "tend to have disjointed technology systems." But regulators increasingly expect companies to assess the integrity of their data, use predictive analytics, evaluate their technological infrastructures, and ensure that their systems can handle regulatory change.

This is particularly important, the report notes, because two new regulations will soon require additional investments in technology. One is Rule 504, which will be implemented by the New York Department of Financial Services. The other is the customer due diligence (CDD) rule from the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). Together they will require that companies do more system testing and validation, develop customer risk profiles and further update and integrate systems and data.

A New Approach to Regulation

New regulations such as these present companies with an opportunity to consider how they process regulatory changes. In the past, many have delegated the task to local business units or regional legal teams. But KPMG sees this approach as outmoded in today's world.

"As regulations continue to converge globally," the report states, "the need to manage change with consistency at the corporate level becomes essential." A centralized approach allows the company to adapt quickly and efficiently and makes for a "smooth transition."

Centralization also lays the groundwork for the incorporation of automation into the mix. Indeed, the adoption of advanced technologies, including cognitive learning, will be key for companies trying to keep up with the rising tide of regulation. KPMG provides some options for weaving digital labor and advanced technology into financial crime compliance programs.

> ***A company that doesn't just respond to fraud but prevents it will have a competitive advantage.***

At the most basic level, that means basic robotic systems with machines handling repetitive tasks such as account closings. As companies move up the automation food chain, cognitive technologies such as machine learning can be brought in to examine data and help predict problems before they arise. If companies are not already taking such steps, the report says, they soon will be as compliance officers seek help in staying abreast of global regulatory changes. New tools can provide a snapshot of the most relevant changes, which can help companies "respond with agility."

One key benefit of the adoption of "digital labor" is the mitigation of what has become a significant employee attrition problem in AML compliance departments. Salaries have risen, employees have left for new jobs, and institutional knowledge has suffered. This is an area, KPMG suggests, where automation can come to the rescue. "Automated processes and incorporation of digital labor would greatly help AML and future financial crime compliance departments with this human resources issue," the report says.

Eventually, companies will adopt more mature forms of digital labor such as cognitive automation (CA), which "mimics" human activities such as perceiving and reasoning. This becomes especially important when one realizes that some 80 percent of the world's data is unstructured. By using CA software, companies can extract meaningful information from email inboxes and the like.

In the end, as the report makes clear, much of this comes down to resources. "The question is not if digital labor and cognitive learning are the future but rather how quickly the future becomes now," the report says. "Those institutions that embark on a reasoned strategic journey in this space will undoubtedly find significant value and competitive advantages."

KPMG concludes: "A reactive response to compliance requirements is not the way of the future."