Keeping pace with regulatory change

Choosing the right technology

A PEGA WHITEPAPER

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Introduction

Financial institutions, in particular global ones, have to comply with an enormous number of complex regulations. To make matters worse, there is a constant stream of updated guidance, FAQs, and regulatory changes that accompany these regulations. For example, the Fourth EU MLD has still not been nationalized in all EU member states, at the same time that they now must begin nationalizing the Fifth EU MLD. The U.S. FinCEN CDD rule was finalized in 2016, but was then accompanied by updated FAQs and examination guidelines just prior to the May 2018 compliance deadline. Add to this the fact that blockchain, cryptocurrency, robotic process automation, and artificial intelligence (AI) are leading to the reexamination of existing regulations and the development of new ones. It seems that the only constant is change.

Change – what's the big deal?

Change is not an easy thing for financial institutions, especially when it comes to regulations. The number of stakeholders affected by new or changed regulations is large and covers the front to back office teams of the business, compliance, legal, IT, operations, and so on. Each of these teams must understand how and to what extent the regulatory changes affect them. From process, to procedure, to personnel, to technology – the effects can be widespread and reaching a consensus can be difficult. Oftentimes, outside counsel, consulting firms, or both must be brought in as objective third parties to understand regulatory impacts on a financial institution.

In addition to the number of interested parties, regulatory uncertainty adds another depth of complexity to financial institutions responding to regulatory change. Many regulations are not prescriptive, requiring financial institutions to develop specific interpretations and risk-based approaches to meeting the mandates. A prime example of this are Anti-Money Laundering (AML) regulations.

Regulatory uncertainty adds another depth of complexity to financial institutions

FinTech and RegTech are the key

Once a bank has identified the process, procedure, and personnel changes that must be made, technology is often used to make or support those changes. This is one of the areas in which technology can be a gift or a curse. Why? Certain historical practices can lead to technology being a hindrance instead of an accelerator. For example:

1. IT working separately from other stakeholders (business, compliance, legal, operations).
2. The use of non-flexible, black box technology.
3. Reliance on siloed, point solutions.

What can these practices do to negatively impact meeting regulatory change? Here are some examples:

- Unnecessary delays caused by:
    - The business "throwing requirements over the fence" to IT and IT trying to interpret and implement them, creating a lengthy back and forth.
    - Using outside vendor resources to update black box technology. These resources may not always be available when needed.
    - The number of systems and applications that need to be updated. With siloed systems, there are multiple systems doing the same things across jurisdictions or lines of business. Each needs to be updated, including dependencies, which creates an exponentially longer time to completion.
- High costs caused by:
    a. Outside vendor resources that can be expensive because of their limited availability and expertise.
    b. Lengthy implementation times
    c. The use of siloed solutions that create the need to maintain multiple, dependent systems.

As a result, financial institutions need to be careful in selecting the technology that they will use to support their compliance programs. Financial institutions should consider not just capabilities of technology, but how those technologies will separate or bring together IT and other stakeholders. Technologies that are more business friendly will engender a culture of collaboration with IT, while black box, hard-coded technologies will continue to create a gap between IT and the rest of the company.

At the same time, financial institutions need to be forward-looking and ensure that their technology makes them future-proof. Any solutions selected should be able to grow with an institution, meeting the challenges that expanded business and increased regulatory demands will bring. By ignoring the big picture or future regulatory demands, financial institutions risk taking one step forward and two steps back. For compliance officers, this means taking a step out of their comfort zone to better understand and embrace technology.

Compliance must understand and embrace FinTech/RegTech benefits

As masters of their domain, compliance officers' responsibilities have generally focused on ensuring that their policies and programs are compliant with regulations. With regulatory requirements growing and impacting business through, for example, increased onboarding times and the resulting customer dissatisfaction, the expectations for those compliance officers have evolved. Compliance costs are so high that compliance departments can no longer request more headcount to deal with the growing demands placed on their teams. Instead, officers need to consider robotics, machine learning, data analytics, AI, and even business process management solutions as a way to enhance the speed and quality of the work produced by their teams. FinTech and RegTech are now central parts of compliance programs, ones that compliance officers are expected to be knowledgeable in.

Understanding what each of these solutions can and, more importantly, can't do, is extremely important to selecting one that can create long-term value for a compliance program. While compliance officers won't turn into technologists overnight, they need to understand the real capabilities of potential solutions and what their weaknesses are. In the hunt to find solutions that can allow for more efficient work management, consistent execution, and better use of compliance analysts, compliance officers need to step outside of their comfort zone. By doing so, they can ensure that the technology their teams use can truly solve current problems, while also setting them up for challenges that they will face from the growth of their institutions and the ever-evolving regulatory landscape.

Compliance officers need to step outside of their comfort zone.

Choosing the right technology

With the large variety of technologies and solutions, understanding and identifying the right one is no easy task. The temptation is to only worry about current problems, ignoring the big picture and the future. Given that the state of financial compliance is in constant flux, this is a big risk. By using solutions that are not easily adaptable to future changes and challenges, compliance officers will have to keep looking for new solutions and spend more money.

Instead, compliance officers should look for technologies that solve their immediate issues, while also having the scalability, reliability, and configurability to grow and change with their compliance program. Here are some key things that compliance officers should remember as they evolve into technology experts:

1. Step back from your current problem and take a big picture view of how your current technology choice could affect you in the future.
2. Don't be blinded by the shiny objects! There are a lot of new and exciting technologies, but using technology to get the basics right can reap huge rewards.
3. Take the time to speak to multiple vendors (including Pega!) to gain a broad perspective on the different approaches to solving compliance problems.
4. Speak to peers to understand their experiences with certain technologies.

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