HOW TO CREATE A MODERN COMPLIANCE PROGRAM

BEHAVOX

COMPLIANCE IN 2020 AND BEYOND

The importance of an effective compliance program, especially in the financial services sector, cannot be overstated. With trillions of dollars at stake, ensuring investment professionals are communicating and trading compliantly should be high on the agenda for every financial services organization.

Failure to implement a robust and sophisticated compliance program that can quickly and accurately identify regulatory risk can potentially end a company, or at the very least, prove costly.

In 2019, global financial institutions racked up more than $36 billion in fines due to non-compliance; a staggering $10 billion increase from 2018.

The repercussions of compliance breaches do not end there. In fact, financial penalties are often just the beginning, with negative press coverage, irreparable brand damage, and executive dismissals often resulting in a longer-lasting impact to business continuity than the initial fine.

GLOBAL FINANCIAL REGULATORS

U.S.
U.S. Securities and Exchange Commission (SEC)
Financial Industry Regulatory Authority (FINRA)
Consumer Financial Protection Bureau (CFPB)

U.K.
Bank of England (BoE)
Financial Conduct Authority (FCA)

JAPAN
Financial Services Agency (FSA)

GERMANY
Federal Financial Supervisory Authority (BaFin)

FRANCE
Autorité des Marchés Financiers (AMF)

SINGAPORE
Monetary Authority of Singapore (MAS)

SWITZERLAND
Swiss Financial Market Supervisory Authory (FINMA)

CHINA
China Banking Regulatory Commision (CBRC)
China Insurance Regulatory Commision (CIRC)
China Securities Regulatory Commision (CSRC)

INDIA
Reserve Bank of India (RBI)
Securities and Exchange Board of India (SEBI)
Insolvency and Bankruptcy Board of India (IBBI)

THE MAIN OBJECTIVES OF FINANCIAL REGULATIONS TYPICALLY FOCUS ON:

1. Protecting investors/consumers
2. Ensuring markets are fair, efficient, and transparent
3. Reducing systemic risk
4. Reducing financial crime
5. Maintaining consumer confidence in the financial system

Legacy compliance solutions are struggling with the challenge of aggregating and analyzing the thousands of emails, chat messages, texts, and hours of phone calls that each investment professional now makes monthly, causing a backlog of alerts, and exposing firms to unnecessary risk.

Compliance has changed. A more modern, agile approach is required.

Behavox Compliance is a key example of a solution that can transform your compliance regiment and effectively mitigate myriad risk factors that can impact organizations.

Running a compliant business poses a unique challenge in 2020 as the indefinite work-from-home conditions have forced investment professionals to work across an expanded and decentralized risk map. Feeling disconnected from colleagues, compliance teams, and regulators has resulted in investment professionals working in more casual, isolated environments, which further threatens the integrity, accuracy, and speed of regulatory compliance efforts.

HOW COVID-19 CHANGED COMPLIANCE OVERNIGHT

A compliance officer is responsible for working with management and staff to ensure compliance with both external regulations, and internal policies and procedures.

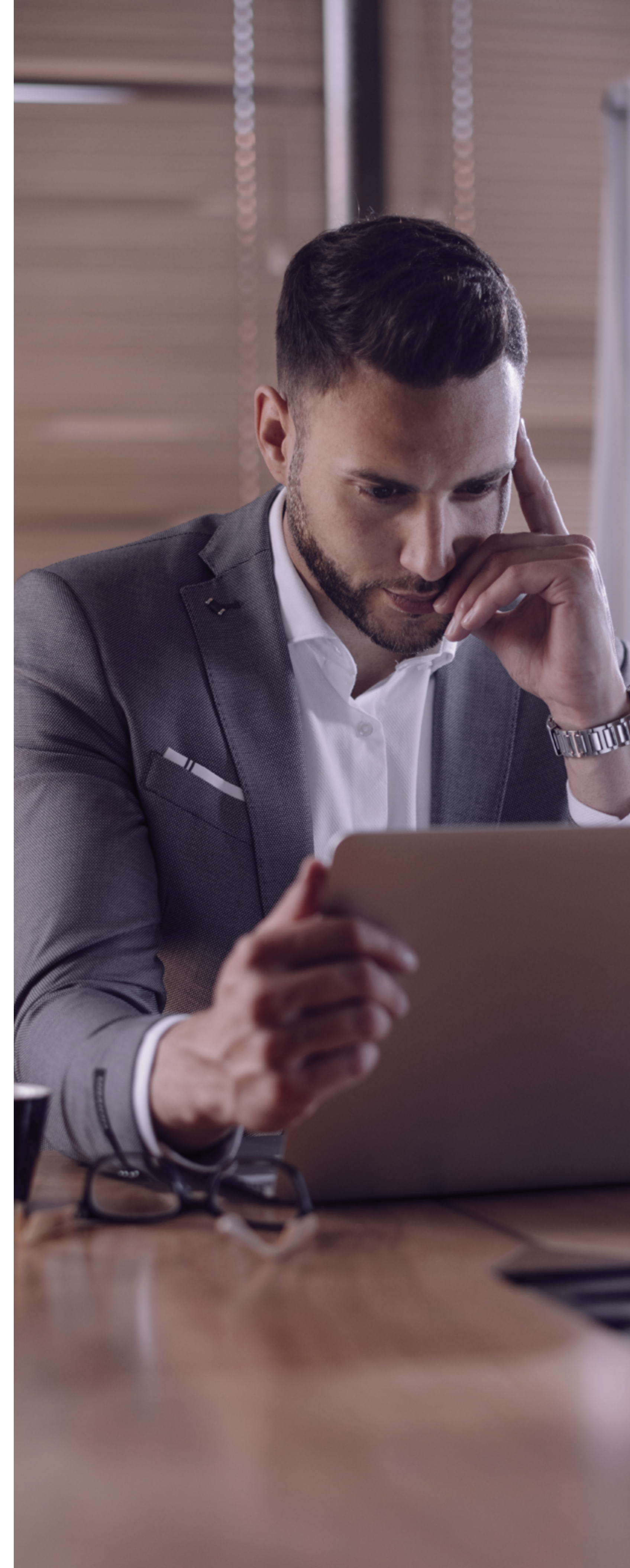
5 STEPS TO TAKE TOWARD COMPLIANCE

1. **IDENTIFY** risks
2. **PREVENT** risks by designing and implementing controls
3. **MONITOR** compliance effectiveness by analyzing risk exposure
4. **RESOLVE** compliance difficulties and breaches as they occur
5. **ADVISE** and update relevant people on rules and controls

In order to complete these steps, a compliance officer is expected to have a thorough understanding of his/her firm's particular compliance program and working environment. Ideally, he/she should also be aware of employee working habits and know them well enough to detect anomalies in behavior, which can often be an early indicator that they may engage in financial crime or act in breach of compliance laws or conduct regulations.

Traditionally, this involved pounding the trading floor to get a "reading of the room"; listening and looking out for raised voices, or hushed conspiratorial tones. Other red flags involve traders spending late nights or early mornings in the office, working and communicating when no-one else is there.

> Of course, in a COVID-19 world, where everybody is working from home and compliance teams lack in-person visibility into investment professionals' behavior, telltale signs of "bad actors" can be harder to identify.



The once unfathomable concept of traders and their compliance counterparts working in isolation has quickly become a reality.

Indeed, the pandemic has accelerated the digitization and decentralization of working conditions within the financial sector, which has made the adoption of communications and compliance monitoring solutions a necessity.

Although banks and other financial services have been utilizing technology to assist with the surveillance of suspected bad actors for more than a decade, such rudimentary solutions are often limited to certain data streams (emails) and lexicons of keywords, which are applied as a filter against the e-communications of monitored employees.

A further failing of legacy solutions is that such monitoring and analysis were usually carried out on incidents that had already occurred, meaning that by the time the compliance breach had been identified, it was often too late.

WHY THE OLD WAY ISN'T WORKING

With more Slack messages, Zoom meetings, phone calls, emails, and digital communication platforms at play, sifting through all the data to unearth a true positive can be like finding a needle in a very disordered, decentralized haystack.

A typical private equity firm generates an average of 18 million pieces of content per month, including texts, phone calls, emails, and Bloomberg chats.

That's around 90,000 per (working) day that the compliance team would need to work through if they decided to review each one.

Even more content is generated at a mid-sized hedge fund, with anywhere north of 350 million pieces per month.

That's a staggering 17.5 million messages to sift through per day.

Banks receive even more, with one Asian bank generating over one billion exchanges per month. Ensuring there are enough compliance officers to manually review such staggering numbers, is obviously out of the question.

This is why many financial firms use compliance and communication monitoring tools to help lighten the load. The problem with many legacy solutions, however, is that these tools still tend to generate millions of alerts per month, due to the "wide net" in which they cast, and the sole technique of utilizing specific lexicon to filter suspicious content.

As a result, an overwhelming number of these alerts are false positives, which wastes time for already-stretched compliance teams. Manually sifting through such huge volumes of alerts to find the genuine ones is expensive, labor-intensive, and ineffective.

A MODERN COMPLIANCE PROBLEM

Huge Quantities of Content Often Results in Compliance Teams Turning a Blind Eye

When a compliance monitoring solution sends an alert of a potential compliance breach, a compliance officer conducts a “deep dive” into the relevant employees’ communications. After that review, the compliance officer must decide whether to escalate the matter to a senior compliance officer or to their HR department, which may result in remedial action, such as training.

If, however, the breach or behavior is deemed serious, and the employee has committed a financial crime, such as money laundering or market manipulation, the compliance officer is legally required to report the suspicious trading activity to the relevant financial regulatory authority. If this does not happen, then the trader, the compliance officer, and by extension the firm in which he/she works, could be liable for a regulatory penalty.

The stakes for not addressing compliance are incredibly high. Every suspicious alert should therefore be treated seriously.

The problem is that although a typical legacy solution does manage to reduce the haystack of suspicious alerts, it still tends to generate between 2 million and 4 million alerts from 200 million pieces of content, per month.

> As such, it would take a mid-size hedge fund’s compliance team of three officers approximately 4,000 days to review just one month’s worth of alerts.

As these kinds of numbers are impossible to monitor, many firms instead decide to generate a random selection of alerts to sift through. As such, some financial firms check just 20% of suspicious alerts in order to make their workload more manageable.

Although more achievable, this is still an untenable workload, which is likely to lead to errors and missed true positives. Reliance on random patterns usually leads to inconclusive results.

Compliance teams that either purposefully, or inadvertently, turn a blind eye toward potential compliance breaches are asking for trouble. Compliance needs to be 100%. Firms that wish to operate compliantly need to check every single piece of content. A compliance program needs to be all-inclusive, or there is really no point.

A random sampling approach to compliance is a risky strategy, because even one true positive that slips by is one too many. It takes just one email, text, or phone call to cause a potentially company-ending crisis.

BEHAVOX:

A MODERN COMPLIANCE SOLUTION

Behavox is the gold standard for enterprise risk and compliance solutions. Behavox Compliance seamlessly integrates into existing systems, providing firms with actionable insights into their internal data to quickly and accurately identify hidden risks, and implement a preventative, rather than reactive, approach to compliance.

Through a combined use of big data architecture, which processes huge quantities of data, machine learning (ML), and AI technology, Behavox Compliance enables organizations to understand the content and context of words. In doing so, using Behavox Compliance leads to an average reduction of 90% in false positives compared to legacy solutions.

> For example, while legacy solutions generate approximately 2.2 million monthly alerts for a hedge fund, Behavox generates just 24,000 precision alerts from the same set of data.

Reducing the sheer volume of false positives saves a compliance officer up to five hours per day from looking through meaningless alerts, allowing him/her to instead focus on the genuinely suspicious content.

A further criteria for a successful compliance program is finding true positives and identifying genuine problems and compliance breaches. Behavox Compliance offers the best global detection rates in the market, and can identify three times more escalations than competitors.

This is why Behavox Compliance is built for, and used by, thousands of users from the world's largest multinational enterprises.

> Behavox's comprehensive regulatory expertise is a fundamental reason why customers frequently describe Behavox as a trusted partner and indispensable extension of their team.

HERE'S HOW IT WORKS:

1 AGGREGATE

Aggregate your firm's global communications across more than 150 data types pertaining to dozens of voice and text applications in 10 languages and counting, including French, Japanese, Spanish and many more.

2 ANALYZE

Quickly and accurately identify true positives involving market abuse, insider trading, conflicts of interest, and other misconduct.

3 ACT

Address true positives immediately and enjoy peace of mind knowing you are removing company-ending blind spots from your business.

1ST
THE BEST DETECTION RATE IN THE INDUSTRY

3X
INCREASE IN RELEVANT CONTENT & ESCALATIONS

80+
PROPRIETARY SCENARIOS

150
DATA TYPES

10
LANGUAGES & COUNTING

90%
CUSTOMER SATISFACTION SCORE

THE FUTURE OF COMPLIANCE: TRAINING, TECHNOLOGY, AND PEOPLE

Rather than using an incomplete or random sampling approach toward compliance, a modern compliance solution, such as Behavox Compliance, enables organizations to quickly and accurately identify areas of concern and misconduct, and then tailor training programs around specific infractions.

Firms that triangulate compliance training based on actual true positive data, often record a decline in true positives. By identifying real-world examples of compliance or conduct breaches, organizations can provide more specific training on what is and isn't acceptable in the workplace. Following such training, firms even report cases of reverse-escalations, with employees pre-emptively self-reporting their own behavior before they are caught by their compliance team. Using technology to assist with training, therefore, leads to a positive impact on company culture.

Robust AI-powered communication and compliance tools, like Behavox Compliance, helps organizations catch the bad actors of today and tomorrow — before it's too late.

TECHNOLOGY	Big Data architecture combined with machine learning and AI technology can drive substantial improvements in compliance and surveillance programs.
TRAINING	Training is an integral part of the overall compliance program. Smart firms will use their internal data for better understanding of their processes with true positives acting as guides to topics and areas that require training
CULTURE	Employees will do the right thing and bring up issues proactively. Culture change happens on the back of new technology and new training. Working in a transparent environment, workers will invariably want to do the right thing.

SUMMARY

Behavox Compliance solves one of the most significant, yet demanding problems financial services companies face today: locating bad actors within their organizations, before they cause debilitating, brand-damaging, and company-ending crises.

Contact Behavox and we'll showcase just how straightforward it is to integrate our solution into your channels; describe the specific business scenarios that can dramatically benefit you; and share real-world examples of how leading companies across the world have successfully implemented Behavox Compliance.

Contact us to learn more at: behavox.com