



Compliance Program Management

A Radically New Approach to Simplifying Regulatory Compliance

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The Use of Regtech Technology is Helping Banks Manage Federal, State Regulatory Demands

Financial institutions in the US are grappling with an overwhelming number of regulations at the state and federal level that are constantly changing—including regulations that sound very similar in nature, but can differ substantively in their technical ramifications. For an organization operating across multi-state jurisdictions, the number of regulatory compliance requirements and obligations that need to be managed can ratchet up quickly in today's environment, into the hundreds of thousands.

In this environment, it can be an uphill battle to serve the bank's customers efficiently while transforming their own business models. This comes as a result of the push for electronic banking, in addition to focusing on increasing the bank's shareholder value. Understanding the potential impact of relevant state-level and federal laws, in relation to business strategies, operating models and compliance processes, requires significant capacity and legal expertise. The regulatory burden and expense associated with it can be a significant.

Of course, this is not a new challenge. Banks have had to manage the complexities of and interplay between state and federal law for many years. In recent years, however, the banking industry has faced increased regulatory scrutiny. A number of states have stepped up certain regulatory activities in response to the federal government taking a step back in some areas. This development has put much more emphasis on state law compliance.

Today, banks need to be able to demonstrate that they know which laws affect their business, and that they have taken appropriate steps to identify and mitigate these risks. They also need to prove—to auditors and regulatory authorities—that they are in compliance with all applicable rules and regulations.

Finally, financial institutions are continuing to drive efficiencies and economies. Thus, many modern financial organizations are looking at how they can manage state and federal law compliance much more efficiently than they have in the past.

The Rising Role of Regtech

Technology has long played a role in regulatory compliance, providing financial institutions with the tools to navigate regulatory information and manage regulatory risk and compliance.

In response to increasing compliance burdens, and advances in machine learning and other fields of Artificial Intelligence (AI), purpose-built regulatory technology (regtech) solutions have emerged. These platforms are geared towards solving sector-specific challenges such as identifying regulatory requirements across different states and managing the pace of regulatory change efficiently.

Interest in regtech is growing across the banking industry, as more organizations are asking whether regtech can:

- Help in analyzing how regulations compare with each other and identify on which points they are consistent;
- Enable compliance teams to apply those obligations in a coherent way within the institution;
- Decrease burden on the compliance department to have all the systems, processes and controls in place in support of regulatory requirements; and
- Ensure increased control for managing regulatory risk.

To find valuable answers to these questions, it's important to view regtech in the right context:

Regtech is an Enabler, Not a Strategy.

Firstly, it's important to understand that regtech does not alter the guiding principles of a compliance organization. Core strategies for managing regulatory exposure and pressures do not need to change. No matter the degree to which regtech tools are incorporated into an institution's processes, banks can and must continue to focus on their customers and align their regulatory compliance strategies with their key business goals.

Ultimately, the purpose of regtech solutions is to support the overall strategy rather than re-direct it, by enabling financial institutions to manage their regulatory compliance obligations in the most efficient and practical way.

Regtech is a Gateway to Modernize Regulatory Compliance Programs.

Compliance departments in banks have historically operated under budget, and resource constraints are viewed as a cost function within a bank. Some business leaders erroneously believe that compliance departments are operating in a deregulated environment and therefore they should be able to cut back on compliance departments. In reality compliance departments are dealing with increased requirements from state regulatory bodies, and newer topics such as consumer privacy and cyber security are demanding their attention.

Compliance professionals should embrace new technologies in order to move beyond antiquated approaches that can put banks at risk. Cutting-edge technologies such as robotic process automation, AI and machine learning can help modernize and improve virtually any regulatory compliance program. This not only drives better insights and business outcomes but can also create foster a sustainable and accountable compliance program.

Human Expertise is Indispensable.

Advanced technologies need not and will not eclipse the role or function of a legal expert, compliance officer or other human financial services professional. In fact, human experts can and will continue to be an integral part of an institution's compliance program to provide the needed adjudication and validation of technology-aided regulatory compliance content.

Banks are understandably reluctant to move beyond traditional methods of legal research and compliance program management. However, writing regulatory obligations manually can be resource intensive, prohibitively expensive and not sustainable.

With a regtech solution in place, banks can still use their own expertise to guide clients to understand their legal requirements—with smart technology providing additional support.

The Power of Regtech

Regtech platforms augmented with expert-trained AI models can offer a host of advantages for banks and their customers. Some key benefits are outlined below.

Analyzing Unstructured Data Can Be Insightful.

It's not that we haven't had technology solutions available in the past, such as enterprise software and regulatory content feeds, to support regulatory compliance management. However, these traditional systems left one critical gap that regtech solutions have emerged to address—getting critical insights from the vast lake of unstructured regulatory and institutional data that financial institutions deal with today.

It's incredibly challenging to keep track of the different regulations issued by different state and federal regulators, especially when each regulator publishes information in different formats. This is an area where regtech solutions can add unique value, because they are able to analyze these unstructured data sets and extract the critical legal requirements that apply to the organization.

Understanding regulatory requirements and applying these to business and risk management decision-making requires a substantial amount of resources, including the expertise of lawyers and compliance officers. This can be a time-consuming and expensive affair for many financial institutions. regtech can help banks to drive efficiencies and control costs in this area.

The Power of Machine-readable Regulations and Obligations

A regtech solution can:

- Take a vast amount of state law across multiple jurisdictions and organize it in a way that it is relevant to the bank;
- Structure regulatory content into machine-friendly formats within a workflow system;

- Help develop and standardize regulatory obligations in one place and make them bank specific; and
- Easily embed regulatory obligations with in a bank's first line of defense.

Regtech can help aggregate similar-sounding regulatory requirements into one bank specific regulatory obligation. For example, an auto lending institution doing business in all 50 jurisdictions needs to provide clear and concise guidance to its call center agents. This guidance is critical for agents to make informed and compliant decisions around details, such as whether late fees are applicable in a specific market.

Using machine learning and other AI capabilities, regtech solutions can also identify patterns across state law and identify ways in which an institution can write a single obligation that meets multiple jurisdictions' requirements. This way, a bank can shrink hundreds of compliance requirements down to a more manageable number of regulatory obligations.

Augmented Intelligence

As a concept, AI has been met with some fear and trepidation in the market—leaving compliance officers and other experts wondering whether their jobs will soon be lost to intelligent technology. And on the other side of the spectrum, there are those who believe that AI-enabled technologies are a panacea for all compliance pain points.

All parties need to understand that regulatory compliance problems are not entirely technical problems; and no matter how sophisticated the AI capabilities of a regtech platform are, human expertise remains indispensable.

Financial institutions should, therefore, view machine learning and other types of AI in the context of augmented intelligence—where advanced technology solutions are combined with human knowledge and professional judgement to provide smart regulatory insights that are validated by experts.

Rather than replacing human expertise, trailblazing technologies such as AI and robotic process automation allow human

experts to focus on the more interesting and complex aspects of their roles, rather than the labor-intensive data management tasks that were not particularly satisfying in the first place. For instance, a bank's lawyers are still required to conduct legal research, yet they can now organize content through AI-based tagging and apply a taxonomy (relating to a topic, product or jurisdiction, for example) that swiftly makes this data more accessible and relevant to customers and other stakeholders. Additionally, machine learning and machine-aided compliance tools can go into that structured content and organize it further in logical groupings where there are commonalities. This further categorization/refinement of complex regulations can help a bank by searching and report on topic, product or jurisdiction.

Bringing humans into the loop in a strategic and intelligent way is the future of automation and AI; and market-leading regtech platforms are making this possible, now.

Choosing the Right Regtech Solution

Here are some key elements to consider before planning, choosing and implementing a regulatory technology solution:

1. Does your bank have a big data problem?

AI-enabled regtech solutions are most suited to organizations that must make sense of large volumes of unstructured regulatory and/or business content. Because machine learning, natural language processing and other AI technologies rely on a steady stream of data to be most effective, these technologies may not add as much value in banks that do not deal with vast amounts of data.

2. Are you familiar with new technologies with in regtech?

To determine if a particular regtech solution can solve your bank's regulatory compliance need, it is important to understand the differences between machine learning, natural language processing, robotic process automation and related technology capabilities. This will enable compliance officers to ask strategic questions during vendor the due diligence process to help choose the right regtech solution.

At the same time, ensure that your vendor knows enough about your business needs and level of in-house expertise, to develop a fit-for-purpose solution.

3. Does the solution complement human expert and machine learning abilities?

Technologies like AI and software robotics should be introduced in a supporting role, to digest and analyze data intelligently, deliver information faster and identify regulatory impacts more proactively. Ideally, you want a vendor that can effectively combine AI, automation and expert capabilities that plays to each resource's strength and also integrates seamlessly with mission-critical enterprise software. Some regtech solutions rely on its customer to be the human expert in the machine aided process. Working with vendors that have both the technology and the experts to deliver a value-added service with our solutions that streamlines the customers process of having the requirements already extracted and proposed groupings.

4. Does the software have workflow capabilities

Rather than trying to stay on top of disparate data feeds and point solutions, you could opt for a technology platform that enables you to manage all data and regulatory compliance processes from a central location. This way, you can capture the flow of new regulations in a single data base with all obligations, then assign tasks and feed relevant data into processes across your institution.

A regtech capability that provides both content and workflow management capabilities can dramatically increase transparency and control.

5. Is your solution supporting a repeatable and sustainable process?

To future-proof your compliance management program, you need the tools to actively monitor state and federal regulations and factor in how emerging regulations could impact current approaches.

It's also ideal to choose a platform that offers some form of extensibility, which allows you to move information out from your systems to whatever workflow systems you will be using. To achieve this, you could choose a smart content feed that is platform-agnostic and can be consumed in any technology through an export and import process.

Closing Thoughts

When it is planned and implemented effectively as part of a broader compliance program management toolkit, the regtech approach can serve as a key resource for a bank's compliance team, while enabling the institution to reduce operational costs and enhance its overall risk management capabilities.

Regtech that combines the strengths of human expertise, AI and robotics can play a valuable role in the future of financial services regulation.

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