Appian

Emerging Risks and Evolving Responses in Financial Markets

IMPROVE COMPLIANCE CAPABILITIES WHILE CREATING BUSINESS OPPORTUNITIES IN FINANCIAL SERVICES

By Michael Heffner

Financial institutions that serve customers worldwide are challenged to deliver personal, localized, digital experiences in a secure, trusted environment. Improvements that may impact the entire organization require greater transparency, execution control, and accountability.

Therefore, there is more focus on technologies that can efficiently improve compliance capabilities while creating business opportunities.

We need new solutions to restore trust. These require investing in innovative solutions that empower financial institutions to stay ahead of emerging threats, can be implemented fast, and leverage historical data while strengthening security and compliance.

With customer servicing as their top priority, financial services institutions are changing processes to improve compliance cost-efficiency and strengthen customer relationships, allowing data integration to drive and unlock product-driven silos.

This perspective offers guidelines to build greater awareness, knowledge, and insight into different action paths that integrate compliance and advance digital opportunities.

THE DYNAMIC REGULATORY LANDSCAPE

With evolving regulator scrutiny, less time for financial institutions to react, and stricter enforcement for violations, compliance is more challenging than ever. Unless financial institutions invest in flexible technology that easily adapts to new regulatory issues, this creates significant challenges for financial institutions.

After the 2007- 2008 global financial crisis, reforms were implemented to strengthen bank capital and increase market transparency, efficiency, and fairness. These regulations focused around the expectation that financial institutions will have an integrated data environment that supports external and management reporting across the entire organization. Maintaining regulatory compliance without sacrificing customer experience will depend on how effectively institutions reconcile interactions across complex structures, with the goal of a 360 degree internal view that meets the array of applicable regulations.

Further complicating the landscape, in recent years, new fintechs called "regtechs" have emerged, focused on the regulatory space. Regtech is the application of new technology to regulation-related activities with the goal of increasing effectiveness, efficiency, and scalability. These new regtechs are agile, flexible, and usually unburdened by legacy technologies — allowing them to focus on multiple existing pain points, including modernizing regulatory rules, managing KYC (Know Your Customer) due diligence processes, regulatory reporting automation, and reacting to or interpreting regulatory requirements and obligations.

COMPLIANCE CHALLENGES

Geopolitical uncertainty, global health crises, and political upheaval directly impact banking industry regulation. Because the regulatory authorities often have different jurisdictional responsibilities and administrative focus, they sometimes create conflicting mandates, resulting in inconsistent and sometimes overlapping rules. This causes confusion around enforcement and limits information exchange opportunities and operating synergies. Without these synergies, silos can emerge in which multiple lines of business open and maintain accounts with redundant, inconsistent individual customer-level data, requiring reconciliation at the enterprise level.

A patchwork of older legacy systems with business rules hard-coded into application logic can exacerbate this, further complicating automating compliance processes. The scattered, organizational structures, as well as data formats and legacy system processes complicate compliance tasks and increase costs.

THE THREE LINES OF DEFENSE

1. Front Line / Operations – The First Line of Defense

Fraud Investigations

With the rapid growth of fintechs and the proliferation of new transaction networks, opportunities for fraud have increased — including fraud against the bank or its customers. Financial institutions must protect both their assets and their reputations. Appian helps:

- Manage fraud investigations faster and more completely from capture and case generation through to resolution and escalation

- Increase visibility across lines-of-business and geographies, enabling cross-communication and multi-channeling

- Future-proof the investment by easily integrating emerging financial crime specialty tools and technologies e.g., AI (Artificial Intelligence) / ML (Machine Learning)

LIBOR Transition

LIBOR retirement at the end of 2021 is forcing companies to repaper and renegotiate existing client and trade contracts. Scrutinizing these contracts is time consuming, highly manual, and difficult to manage globally. Transitioning away from the LIBOR benchmark entails reviewing all existing credit agreements and contracts to determine the right transition path. Done manually, this heavily burdens finance, legal, and operations teams that must find, assess, and remediate all LIBOR instances. Appian can help by:

- Automatically classifying, categorizing, and providing a consolidated view of contractual terms and document lineage

- Linking contracts with amendments and distinguishing different versions of the same document

- Applying data quality business rules to identifying missing pages, handwritten passages and cross-referenced agreements

Data Privacy

Focus on data privacy has grown, with numerous enacted and pending regulatory and legislative requirements worldwide.

Successful financial institutions are approaching Data Privacy (e.g., GDPR or CCPA) holistically, and need a flexible future-proof IT platform that can deliver with any new regulatory data requirement—ad-hoc or scheduled. Appian helps:

- Safeguard customer data with profile-level access control

- Accelerate resolution of data breach by enabling change management by the business investigations and "right to erasure" requests

- Easily adapt to regulatory changes
- Gain visibility and auditability of processes, evidence, decisions, and outcomes

FATCA (Foreign Account Tax Compliance Act)

Resulting from the strain on government finances due to the economic downturn and designed to identify US tax evaders, FATCA is not risk-based. Beyond a minimum size all accounts must have all information collected when opened and KYC processes must be reviewed for indicators of US ownership. While due diligence indicators and methods differ under FATCA and KYC, the information collected overlaps. Appian supports FATCA compliance with:

- A robust and flexible system that is capable of responding respond to future reporting requirements
- Capabilities that extend to managing attributes associated to foreign nationals' accounts, including false positives and fuzzy algorithm matching through third party integrations
- The ability to quickly comply without substantially re-writing core systems

MiFIDII (The Market in Financial Instruments Directive II)

MiFIDII has fundamentally changed how asset managers, wealth managers and brokers conduct business and provide investment advice to clients. It encourages greater competition and provides stronger investor protection. With Appian advisors can:

- Increase visibility and transparency around required MiFIDII compliance and transaction reporting
- Capture staff decisions and their outcomes as the review and order processing is completed
- Provides a global view of client entities and underlying parties, including ultimate beneficial owners (UBO)

2. Compliance / Risk – The Second Line of Defense

KYC (Know Your Customer)

KYC is required as part of any onboarding procedure and deploys subsequent processes such as AML (Anti-Money Laundering), Sanctions and PEP (Politically Exposed Persons) Screening, Adverse Media Screening, etc., that enable a thorough understanding of a customer's risk profile to prior to entering into a business relationship. Customer due diligence under KYC is largely risk based—more scrutiny is applied to accounts with higher risk patterns. Across procedures, financial institutions must demonstrate customer's identity verification and acquire information through "reasonable, practical" risk-based procedures. With Appian, financial institutions can:

- Ensure rapid application delivery to support data review and KYC required procedures
- Achieve faster time-to-decision with automation, critical path management and KPIs (Key Performance Indicators)
- Create enhanced visibility across procedures, allowing correct governance and auditability of outcomes

AML (Anti-Money Laundering)

According to Thomson Reuters, $800 billion to $2 trillion is laundered yearly. Regulators, ratings firms, and law enforcement pressure financial firms to improve their anti-money laundering efforts. This has resulted in significant investment in software technologies, compounding the issue with fragmented processes, siloed data, and high false positive alert rates. Appian helps financial institutions to:

- Manage AML investigations and triage processes faster and more completely
- Deliver consistent AML case management, regardless of trigger events (system or human)
- Integrate across multiple commercial off-the-shelf (COTS) systems

3. Internal / External Audit – The Third Line of Defense

Internal Audit

Financial services is experiencing disruption from many forces–changing regulations, new technologies, the threat of new nimble fintechs–and the effects are trickling down to a changing role for internal audit functions. Internal audit is profoundly important to the survival and prosperity of any financial institution; however it is a people-, process-, and data-heavy undertaking.

With Appian, financial institutions gain the visibility necessary to scope an audit project, assign and manage auditors based on skill set and availability, monitor the audit status, quickly remediate control gaps, and future-proof their internal audit functions.

- Integrate disjointed manual processes for increased accuracy of audit processes
- Gain a full audit history across multiple businesses and regions
- Improve productivity and efficiency with clear visibility to escalations and accountability for follow-up actions
- Achieve better insights with the speed and accuracy of intelligent automation

Horizon Scanning

Financial institutions are constantly striving to manage, control and ultimately mitigate risk. Horizon Scanning is an important component for automating the early detection of upcoming laws and regulations that may impact your financial institution.

With Appian's low-code automation platform, financial institutions gain the visibility necessary to prepare for future regulation and future-proof their associated risk management procedures.

Improve productivity and efficiency with clear visibility to escalations and accountability for follow-up actions:

- Bring data together seamlessly from any source
- Integrate disjointed manual processes for increased accuracy of audit processes
- Achieve full visibility through a customizable and actionable interface
- Integrate with external regulatory information sources to pre-validate applicable regulations for further centralized case management

Stress Test Management
Global Systemically Important Financial Institutions (G-SIFI) need to meet higher capital requirements, while managing complex stress test procedures and data gathering—all under strict time constraints and subject to change at short notice.

With Appian, they can:

- Increase speed to compliance
- Improve oversight, decision-making accountability, and staff effectiveness
- Achieve a comprehensive view into relevant IT-processes identifying bottleneck situations that impact tight system and process completion deadlines
- Gain a full audit history of risk processes across multiple businesses and regions

Service Provider Oversight and Control
Capital Market firms engage use many services providers including sub-advisory portfolios, data providers, consulting services providers, etc. They are responsible for the initial screening of potential service providers as well as their continuous ongoing review along many dimensions including risks around reputation, operations, performances, etc. These processes are often managed via emails and spreadsheets passed between different internal groups, and externally to service providers.

Appian can help by:

- Facilitating workflow between the various groups, improving understanding of overall service provider status

- Horizontally integrating reviews, screening, assessment, and escalations directly with service providers

- Easing oversight process by allowing users to initiate, complete, and review certifications and scorecards

- Enable direct communication flows to providers for SLA monitoring, escalation, impact analysis and remediation

HOW APPIAN CAN HELP

With a low-code automation platform, financial institutions can simplify resolving these complex business problems. Low-code provides the necessary speed to deliver new functions and capabilities as new regulations emerge or existing regulations evolve. Appian's agile platform, available on-premises, in the cloud, or as a hybrid model, enables developing a process once and then reusing it on any type of data within the customer relationship record — account level, jurisdictional, regulatory, legal entity, etc. As customer regulations change and evolve, it's simpler to deploy and ensure consistency and control.

SUMMARY

Financial institutions can effectively handle major compliance challenges, including regulatory ambiguity and uncertainty through continued adoption of automation and innovative technology. These become part of their regulatory toolkit and drive sustainable, effective change, and — most importantly—customer trust in the financial market and their organization.

Look for these characteristics in your technology partner:

- Offers a low-code application development approach for speed and agility

- Permits data integration across existing systems

- Enables the creation of beautiful UIs, that can they built in flexible, modern user interfaces, without HTML, CSS, Java

- Includes dynamic case management to handle complex interactions

- Allows business process, workflow, and collaboration management

- Offers the ability to embed AI, RPA, and future advanced technologies

- Provides trusted security, reliability, and governance with cloud-enablement

ABOUT THE AUTHOR

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Reporting directly to Appian CRO Eric Cross, Mike oversees global go-to-market for Appian's new solutions. This includes sales enablement, partner strategy, business development, sales processes and operations and sales engineering. AsAppian's Industry team lead, he directs industry strategy, thought leadership, and channel enablement for Financial Services, Public Sector, Life Sciences, Insurance, Healthcare, Energy, and Communities of Interest.

Mike brings innovative problem-solving and extensive leadership experience in operational efficiency and business transformation to these roles. He is a speaker, author, and thought leader on digital trends and digital responses. Before joining Appian, he was Managing Director, Business Transformation at State Street Corporation and held management roles at Charles Schwab & Co, and Accenture's Creating Financial Markets Advantage executive group. Mike holds a BSBA in Economics from the University of South Carolina and an MBA from Babson College.

Realize the power of Appian for all your Governance, Risk and Compliance needs. Learn more at: appian.com/finserv

Appian

Appian provides a low-code automation platform that accelerates the creation of high-impact business applications. Many of the world's largest financial institutions use Appian applications to improve customer experience, achieve operational excellence, and simplify global risk management and compliance.

For more information, visit www.appian.com/finserv