

## Time to swap out bolt-on compliance tech solutions

A number of clear-headed, no-nonsense financial institution analysts have come to realize that it is the 21st century and compliance systems that worked 15 years ago just don't cut the mustard any more.

Regulators want banks not only to have mind-blowingly complex compliance systems in place that affect every bit of a bank's operations—they want the bank to demonstrate, at the drop of a hat, that those systems actually work. It's way too much any more for the proverbial little old lady in tennis shoes to handle. What's more, it's getting to be too much for yesterday's third-party, strap-on solutions.

KPMG just issued its annual Banking Outlook survey, which comes to this exact conclusion. Among its results: 69% of respondents identified regulatory and legislative pressures as the most significant barrier to growth over the next year, and 43% said bank management will be spending most of its time and energy on initiatives related to increasing operational efficiency and reducing costs in the next two years.

Translation: When asked to identify the three areas where their bank would most increase spending over the next year, 58% said information technology was the top pick, followed distantly by new products and services (37%) and business acquisition (32%).

"Banks are interested in making investments in IT to further increase operational efficiency and regulatory reporting, better connect their various platforms and systems, and gain a more holistic view of their customers who may use several of the bank's products and services," says Judd Caplain, national account leader of KPMG's Banking and Capital Markets practice. "Projects that utilize data more effectively to inform risk management decisions, support strategic initiatives, and comply with regulations, as well as enhancing technology platforms that touch the customer, are also an area of focus."

Four points stand out in the above statement: operational efficiency, regulatory reporting, a holistic view of the customer, and the need to use data more effectively.

A very similar sentiment emerged in PricewaterhouseCooper's study of compliance officers in all industries, not just banking. It identified several challenges before compliance officers can move toward a fully integrated, proactive function. These include fragmented IT systems, tight budgets, shifting and growing regulatory requirements, and the ongoing challenge of proving that the compliance program is effective.

"Few elements of corporate compliance are as elusive as the art of confirming that your ethics and compliance program is effective. Compliance officers today know that just tracking calls to the hotline isn't enough. The question is what is enough," says Bobby Kipp, partner in PwC's Assurance practice. "Compliance officers really need overall assurance that their program is effective. Getting that assurance requires a combination of multiple metrics and insights."

The study goes on to say that compliance officers "still have much work ahead of them to harness existing IT systems and to build new ones that will provide a more holistic view of risk and compliance."

“Technology is still not enabling governance, risk, and compliance the way it could,” says Sally Bernstein, principal in PwC’s Advisory practice. “Many companies are still not leveraging for efficiencies. Even worse is that at the same time, technology—social media and the explosion of data and devices—is making compliance more complex.”

This phenomenon has not escaped the notice of that ultratech of all tech behemoth, IBM, which recently debuted a blog dedicated to the banking industry. A recent entry by Keith Saxton, director, Global Banking and Financial Markets, continues this thread, titled “Time to call the plumber—regulatory reform forcing industry transformation.”

“It is evident that banks today are being squeezed externally from many directions, underscored by ever-increasing demands of regulators,” he starts out. “Fundamental transformation of business and operating models appear inevitable at a time when complexity seems to be the biggest risk to the industry.”

He says many banks respond to new regulations by setting up individual project teams with a narrow scope focused only on compliance. “While this strategy was adequate when the rate of regulatory change was low, the sheer volume of regulations that will be enforced, together with uncertainty with respect to some of the deadlines and scope, demands a step-change in approach. Banks will need to move from expensive serial compliance with the minimum requirements to a transformation-led agenda that requires bold decisions that may radically change the nature of the bank.”

Granted, IBM is in the Big Data business and it’s in their interest for the whole financial institution industry to embrace the comprehensive use of analytics. But Saxton makes a good point: “Aging infrastructure, and in particular the legacy systems of established banks, is increasingly incompatible with new business requirements and do not provide a foundation for future growth.”

So the idea is not just getting a handle on increasingly onerous compliance requirements, as important as that is. The idea is, at the same time, to improve service to the customer and thus boost the bottom line.

Crowe Horwath, the company endorsed by ABA’s Corporation for American Banking for compliance areas, addressed this last year in a white paper titled “The Dodd-Frank Act: Can banks survive the cost and complexity of compliance?”

Its answer, of course, is yes they can. It makes the case that the industry has taken on incredibly demanding compliance requirements in the past and not only has survived, but thrived. It cites the Bank Secrecy Act, Sarbanes-Oxley, and the USA Patriot Act.

BSA, as an example, ratcheted up Know Your Customer requirements dramatically, it says. “Some banks settled for a bolt-on approach, creating checklists to gather the required information and then feeding that information into another system to create a profile. The more effective approach, however, used redesign of process and technology platforms to gather information while simultaneously enhancing the customer experience by sending a message that the bank’s inquiries are intended to understand each customer better in aligning them with a suitable bank product. The result of this approach was an improved client experience, quicker account openings, and increased cross-selling, along with a solid platform for efficiently and effectively complying with the regulatory requirements.”

KPMG calls this whole thing “platform simplification.” It’s what 58% of the banker respondents said is their most important IT-related project in the coming year. It will be interesting to see just how simple this really is.

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Sources used for this article include:

KPMG Survey: Banking Execs Focused On Increasing Operational Efficiency As Regulatory Reform Continues To Hamper Growth

“State of Compliance: 2012” Study Provides a Lens into the Changing Practice of Compliance Risk Management

Time to call the plumber—regulatory reform creates the need for updated market infrastructures to drive industry growth and renovation

The Dodd-Frank Act: Can Banks Survive the Cost and Complexity of Compliance?

#### About the Author

John Ginovsky is contributing editor of ABA Banking Journal and editor of the publication's TechTopics e-newsletter. For more than two decades he has written about the commercial banking industry. In particular, he's specialized in the technological side of banking and how it relates to the actual business of banking. He previously was senior editor for Community Banker magazine (which merged with ABA Banking Journal) and was a staff writer for ABA's Bankers News. You can email him at [jginovsky@sbpub.com](mailto:jginovsky@sbpub.com)