



A New Dawn for Compliance

**Comply
Advantage**

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Introduction

A seismic shift is underway in compliance, driven by changing business models, evolving regulatory demands and new threats. As a result, growth predictions for the RegTech sector have skyrocketed from \$4.3 billion today to \$12.3 billion by 2023¹.

The gap between what financial criminals are capable of, and what compliance tools can do to stop them is widening – an estimated \$2 trillion is laundered globally every year and only 1–3% of these funds are identified and possibly stopped.

There is a disconnect between simply meeting regulatory obligations and preventing financial crime.

Regulators' attitudes have shifted towards outputs. It is no longer enough simply to have a compliance system in place. Firms must demonstrate results.

The DNA of the compliance function is changing, as the consolidation of these changes translates into a new era for the industry.

Speed and efficiency in compliance can make or break a business.

2018 marked a tipping point. A growing number of firms realised the urgent need to treat compliance as a business enabler instead of a barrier.

Compliance is coming of age as new technology transforms its functionality to a strategically important core capability

About ComplyAdvantage

At ComplyAdvantage, we believe that compliance doesn't have to be painful. Businesses need real-time financial crime insight to put them in control.

We enable you to understand the real risk of who you're doing business with, through the world's only global, real-time risk database of people and companies. We actively identify tens of thousands of risk events from millions of structured and unstructured data points – every single day.

Our suite of configurable cloud services integrates seamlessly to help automate and reduce the frustration of complying with Sanctions, AML and CTF regulations.

To learn more visit complyadvantage.com

With thanks to our contributors, Azimo, Cross River Bank, Earthport, FSCOM, Holvi, Pockit, Railsbank and Santander.

¹ResearchAndMarkets.com, RegTech Market by Application (Compliance & Risk Management, Identity Management, Regulatory Reporting, Fraud Management, Regulatory Intelligence), Organization Size (SMEs, Large Enterprises), and Region – Global Forecast to 2023

A New Dawn for Compliance

As trends in financial crime change the business landscape, banks and financial services firms need real-time financial crime insight to put them in control. Beyond simply meeting regulatory requirements, compliance is crucial to the customer experience, but in an era of rapidly evolving threats and unprecedented regulatory and technological change, many companies are falling behind.

The growing importance of compliance has led the financial services industry to a tipping point, where the function is no longer seen as a perfunctory business process, but as a potential business-winner. The best performing firms focus their compliance strategy on putting the right tools and information in the hands of the right people, allowing them to stay on the front foot and innovate against risk, rather than simply dealing with threats as they emerge.



The old way of managing compliance: legacy tools, batch or manual review, periodic data updates, static rules, ticking boxes and complying to the letter but not the spirit of regulation is no longer good enough. And the catastrophic price of getting it wrong has never been higher.



Michael Kent
CEO, Azimo

Time For Compliance to Catch-Up

Although fintech has disrupted almost every part of the financial sector, compliance innovation hasn't had the same impact. The disparity is partly a result of the high stakes involved in compliance, an area where failures have significant consequences: in the decade after the 2008 financial crisis, combined fines and losses from compliance failures have exceeded \$300 billion, and continue to factor into firms' decision-making processes.

The financial risks of compliance are particularly acute in the current climate, as European money laundering scandals such as Danske and Swedbank dominate headlines and push costs higher. ABN Amro recently saw quarterly profits dip after implementing AML safeguards as a reaction to ongoing cases, while the fine on Danske is expected to exceed \$8 billion. Compliance costs and fines aren't limited to banks: in 2017, money transfer company Western Union received a \$586 million AML fine, despite devoting 20% of its payroll to compliance.²

The Real Cost of Financial Crime

\$1.26tn:

The annual cost to developing countries of illicit financial flows, including corruption, bribery, theft and tax evasion. This amount of money could lift the 1.4 billion people living on less than \$1.25 a day above this threshold for at least six years.³

€120bn:

The amount lost every year to corruption throughout the 27 EU member states.⁴

£73bn:

The yearly cost to the UK economy from fraud.⁵

\$150.2bn:

The estimated proceeds from human trafficking in 2018 – up from \$32bn in 2011, making it one of the most significant generators of criminal proceeds in the world.⁶

A New Dawn for Compliance

These high-profile failings demonstrate the urgent need for change in the way compliance is done. Looking beyond the headlines, however, the challenge is more complicated, and companies in every sector face the prospect of complying with regulatory requirements without getting results, and possibly even hampering business growth in the process.

“The financial services landscape has changed drastically over the last 10–15 years. Business models are now even more complex as new start-ups disrupt ever-more obscure areas of the industry, while traditional players disrupt the disruptors. For compliance officers, with this disruption comes risk.”

Philip Creed,
Director of Financial Crime at FSCOM

Poor compliance has consequences: if a compliance function isn't agile enough to adapt to criminal risk, businesses don't just face fines, but reputational damage and even the loss of operating licenses. Meanwhile, onboarding delays or unnecessary stops on payments invariably mean lost customers. Companies that fail to match compliance to the pace of product development or market expansion will fall behind and see competitors capitalize.

Keeping up with new regulations and an evolving threat landscape means dedicating a potentially disproportionate amount of resources to compliance. However, in lower-margin environments, businesses are often frustrated by growing costs without corresponding results. An era of digital transformation has changed the fundamentals of business and, for many companies, previously reliable systems are no longer fit for purpose. With old compliance solutions failing, a new, smarter approach is needed.

“In the past, there was strict adherence to the guardrails. Innovating might have attracted attention, and deviation from the status quo was discouraged. That has changed. Compliance needs to be on the forefront, innovating alongside the business.”

Gilles Gade
CEO of Cross River Bank

²Western Union Press release, September 2017; <http://ir.westernunion.com/news/archived-press-releases/press-release-details/2017/Western-Union-Hosts-its-11th-Anti-Money-Laundering-Anti-Fraud-and-Compliance-Conference/default.aspx>

³Global Financial Integrity 'Illicit Financial Flows from Developing Countries over the Decade Ending 2009' (2011); World Bank 'World Bank Indicators Database' (2011); Oxfam Discussion papers, 'A safe and just space for humanity' (2012) pg. 5 <https://www.transparency.org.uk/corruption/corruption-statistics/>

⁴Nikolaj Nielsen, EU Observer (2013) EU commissioner for home affairs Cecilia Malmstrom quoted; ⁵€120 billion lost to corruption in EU each year. <https://euobserver.com/justice/119300>

⁶The National Fraud Authority (NFA) (2012)

⁷Jomo Kwame Sundaram and Zera Zuryana Idris; Green Watch (2017) Mounting illicit financial outflows from South <http://greenwatchbd.com/mounting-illicit-financial-outflows-from-south/>

The Evolution of an Industry

Increased Spending, Inconsistent Results

Following 9/11, countering the financing of terrorism became an international priority and resulted in significantly increased regulation and enforcement activities. Over the next decade, investigations by US regulators ramped up and huge increases in AML spending ensued, with employers focusing specifically on recruiting in sufficient numbers to better manage their compliance obligations. For a while, the amount spent on AML compliance was the yardstick by which banks were measured, and CEOs would highlight their AML headcount increases on analyst calls.

The new emphasis on AML recruitment spending did not, however, yield expected results. While budgets were increasing, regulators continued to find fault, and with the mid-decade impact of the financial crisis, extra scrutiny was placed on compliance as cost margins continued to tighten. That frustration is ongoing: AML teams operate in an environment which has changed dramatically, and in which a simple increase in spending is no longer enough to achieve satisfactory compliance performance. This new era of compliance puts an emphasis on innovation and information, rather than expense and effort, and rewards new ways of thinking, rather than simple administrative competency.

FinTech Impact

With AML budgets falling under closer scrutiny, the innovative potential of Fintech has emerged as a way to generate results in compliance. Newcomers to the financial services industry are at an advantage in this new environment: with no need to depend on legacy systems, those new companies are able to act faster in adopting innovative compliance strategies than their established counterparts, and in doing so place a stronger focus on the customer experience.

More than ever, compliance has become a distinguishing business asset: the quicker a firm can make compliance decisions, the more

positive the experience they create for their customers. The desire for more agile, Fintech-focused approaches has led towards a demand for compliance automation, and, although it is by no means a foolproof solution, the accompanying development of RegTech.

The goals of a compliance officer have evolved to include delivering compliance in a way that facilitates business growth. By driving efficiency through understanding technological implications and operational realities across the business, a compliance function can empower the company.

Livia Benisty,

Head of Financial Crime at ComplyAdvantage

A Need for Flexible Solutions

While compliance automation is a logical step for tech-minded newcomers to the finance market, incumbent firms find the adoption of new technology more difficult. Technologies like the cloud, in particular have seen rapid uptake in other industries, but data security concerns continue to limit their use in traditional financial institutions, which opt instead for on-premise data centre installations. In fact, financial services firms still have 46% penetration of traditional data centres, and have only 29% penetration of private clouds,⁷ a lower usage rate than any other industry. The disparate spread of data across systems also prevents those institutions from building a centralized view of customers, and given their preference to own the tech stack, slows their adoption of outsourcing tools.

As the technology gap is stretched further, incumbent financial institutions are finding their legacy compliance systems too expensive and inflexible to accommodate more agile Fintech business models. Building their propositions on speed and customer experience, Fintechs seek flexibility and control without huge professional service fees – and look to RegTech to find this combination.

Cloud Advantages

The rise in cloud ecosystems is triggering a mindset shift amongst financial institutions. Changes to the norms of corporate IT mean companies are seeking to optimise costs and take advantage of newer, more flexible technology: as a result, the move towards cloud platforms in particular is gathering pace. That trend is reflected in the distribution of the best data security engineers, who banks struggle to hire when competing with the data security giants establishing best practice like Amazon Web Services and Microsoft Azure.

With competing demands for budget and high professional services fees, it has been difficult for compliance teams to implement the changes they require. With new technology, compliance officers are empowered to act quickly and independently when they need to.

Stephen Ball,
Chief Revenue Officer at ComplyAdvantage

Embracing Specialized Solutions

In the era of Fintech the compliance function no longer needs to rely on a single provider to meet its needs. Enabled by APIs, financial institutions can manage compliance, global governance, and risk management in an ecosystem of specialised solutions designed to integrate and interact with each other. This shift away from the high, upfront costs of a perpetual compliance model, to the SaaS model, means that companies are not locked into a single solution. The SaaS approach reduces capital expenditure and, since vendors have to earn business every year, helps to align their interests with their clients’.

Identifying AI Potential

For years, AI has been hyped as a dramatic source of innovation in multiple industries, not least financial compliance, but has often failed to deliver on its promised potential. The noise and enthusiasm surrounding AI has made it difficult to distinguish genuinely innovative solutions, and led to disillusionment. However, for compliance and risk in particular, AI holds significant potential: categorising and extracting insight from huge volumes of data, or identifying unusual patterns of activity representing two best-use examples. Given its potential value to compliance, vendors that neglect AI may find themselves unable to remain competitive.

Regulators Recognize Innovation

International regulators are increasingly acknowledging the potential of technological innovation in compliance. The UK’s Financial Conduct Authority (FCA), the Hong Kong Monetary Authority (HKMA), and the Monetary Authority of Singapore (MAS) are at the forefront of this trend, setting up sandboxes to encourage innovation by RegTech and FinTech firms, and enabling companies to meet their regulator requirements with technological solutions.

Big data, natural language processing, machine learning and AI will all combine to provide powerful effects in the compliance space. The cloud allows for consistent SaaS solutions to be delivered across multiple jurisdictions and multiple financial institutions, this passive collaboration allows us all to benefit from and improve how the mechanisms such as NLP and ML function.

Jonathan Holman,
Head of Digital Transformation
Santander Corporate & Commercial Banking

⁷Nutanix; Enterprise Cloud Index Report, 2019

Building Better Compliance Teams

The technological evolution of the compliance industry, and new data-focused approaches, have had a significant impact both on recruitment and on the teams that oversee the compliance function. Practically, while companies still seek traditional legal and operational backgrounds when hiring for compliance roles, they also increasingly value data-science and analytics skills. To handle the modern threat landscape, compliance teams are expected to be comfortable working with tech-based solutions, and be able to leverage specialist expertise in multifunctional ways in order to spot warning signs before they become threats.

“The strong growth we have in our business at Holvi requires us to be able to react fast and add further flexibility to our operations by being able to introduce new scenarios and new customer segments, as well as new geographical locations in a more efficient way. APIs and automation allows us exactly this; to increase automation and through that reduce manual errors in our processes.”

Sascha Bross,
VP of Control (compliance, risk & legal) at Holvi

However, even as wage costs increase, companies continue to employ large numbers of compliance officers in manual roles. To capitalise on tech-driven solutions, and drive efficiency, compliance teams need to become more versatile and develop the skills they need to work with both internal functions and third parties that can help them navigate in a new landscape.

While an understanding of data and analytics remains a critical skill for compliance teams working to meet regulatory obligations, that alone is insufficient protection against the evolving threats of financial crime, terrorist financing, and money laundering. To mitigate risk effectively, compliance officers must now possess a deep understanding of operational realities, while actively seeking technological solutions and leveraging compliance for a positive commercial experience.

View from the industry

Joanna Jenkins, Head Of Compliance at Railsbank

“The role of compliance officer is a hugely multifaceted role nowadays, one which sees them having to be extremely proactive. We have to create compliance functions that meet the demands of a rapidly changing financial services industry.”

Towards Successful Compliance

Modern compliance must handle an array of constantly shifting regulatory challenges. Financial criminals and money launderers are resourceful and creative, often spotting systemic vulnerabilities before businesses do.

To successfully address that threat, and continue to appeal to the customer experience, firms must be just as innovative with their compliance function: compliance teams must be proactive rather than reactive, have access to the right technology, and be empowered with a tech-driven, data-centric solution.

The synergy between an efficient, agile compliance function and its human compliance team is a critical factor in managing modern

threats without creating adverse business effects. That factor, more than any other, embodies the tipping point on which the compliance industry is balanced: today, an increasing number of firms are scrutinizing their compliance performance closely, and seeking to leverage it as a commercial advantage rather than an obstacle. The companies leading this trend share, as a core competency, a tech- and data-driven compliance approach tailored to their unique risk requirements. Rather than a box-ticking exercise, these companies treat compliance as a strategically important capability, and strengthen their performance further by innovating in both recruitment and technology.

The automation of the more basic data gathering and conciliation tasks within AML / FinCrime will lead to a skew toward a data-led, analytical and predictive AI approach to compliance. Policy application will benefit from NLP and AI as well as systemisation, and this will result in officers becoming owners of models and rulesets rather than policy wording and quality controls, as is the focus today.

Jonathan Holman
Head of Digital Transformation
Santander Corporate & Commercial Banking



Formulas for Success

Working with a variety of financial services firms, we've been able to demonstrate the effectiveness of a tech- and data-driven compliance approach in a diverse and challenging threat landscape. In the following contexts, firms used our solutions to exploit data within their compliance function to become more responsive to risk, and deliver not only regulatory efficiency but enhanced customer experiences.

Pockit

An alternative payment provider focused on shaking up the banking world, Pockit's compliance function integrated the ComplyAdvantage AML data feed and case management platform into their customer onboarding process to screen their new customers for AML risk. This allowed for a risk-based screening approach which tailored criteria to customer profiles, including choosing specific sanctions or watchlists, level of political exposure, and even specific crime types. With a clear audit trail of user activity and decisions, as well as high-quality AML exposure data, Pockit's compliance function now satisfies card issuers and regulators while simultaneously driving efficiency.

Holvi

As the deadline for the EU's 4MLD approached, digital banking platform Holvi (acquired by BBVA in 2016) wanted to ensure the data that it relied upon to identify illicit behaviour updated. Facing the prospect of overhauling its dataset to ensure ongoing compliance, Holvi opted for ComplyAdvantage's proprietary global AML database which could be delivered in real-time to support their technology-forward approach to business banking. Following integration of the AML database, Holvi has been able to cut the time it spends remediating false positives by half, using AI to monitor thousands of media sources for an array of risks, and converting those signals into structured, actionable information. Meanwhile, automated onboarding

and payment screening processes minimize manual work, and facilitate easier, more efficient case management should remediation be necessary.

Azimo

International money transfer firm, Azimo previously used a global data solutions provider offering an unstable API which suffered frequent downtime. As a result, the company's compliance function often had to bypass that system to run manual checks, creating significant payment delays and customer dissatisfaction. A lack of whitelisting functionality also meant the provider's API could not learn from decisions taken by the Azimo team, leading to duplicated work and further inefficiency. By implementing our REST API, Azimo was able to apply a flexible risk-based screening approach, tailored for factors such as fuzziness and crime type, along with a whitelisting function to reduce false positives and drive efficiency. Adding the ComplyAdvantage Adverse Media solution also provided richer insight into clients, eliminating the need to find that information via manual internet searches.

Earthport

Payments company Earthport operates within a complex payments ecosystem exposed to varied degrees of risk. In order to effectively monitor a high volume of transactions for financial crime risk, without compromising on the efficiency of their internal processes or customer experiences, the company considered building a solution in-house. Realising that technological resources were better employed in other core priorities, Earthport chose instead to use ComplyAdvantage's transaction monitoring platform. The platform now enables Earthport to automatically monitor different segments of clients, while delivering the highest standards of compliance, data security, and governance: a key factor in maintaining its crucial banking partnerships. Configurable for different scenarios, the new system is flexible and user friendly, and can learn from decisions in order to improve efficiency and free the company's compliance team from time-consuming manual tasks.

Seizing Opportunities for Change

Compliance in the financial services industry is at an inflection point: as barriers to change are broken down and innovators find ways to outpace incumbents, firms must adapt to an environment dominated by data and technology, or become obsolete. While the dramatic pace of change presents significant challenges, it has been accompanied by a paradigm shift in attitudes towards compliance technology from CEOs, and a willingness by regulators to work with, and even help develop, new solutions. Compliance evolution is necessary, and firms that wish to adjust to the new environment still have an opportunity to do so.



What compliance has been doing in the past isn't good enough any more. Rather than complying with the letter of regulations, compliance is expected to do better, innovate and understand more. **Those who are still using old, legacy tools risk being caught out.**



Charles Delingpole
Founder and CEO of ComplyAdvantage

Current solutions:

- Cannot manage unstructured data on the hundreds of thousands of people not included on sanctions lists but who have been prosecuted for drug trafficking, human trafficking, embezzlement, and insider trading.
- Have no real-time transaction monitoring capabilities.
- Require businesses to fit compliance processes around them, rather than the other way round.
- Rely on dated analytical techniques that cannot cope with today's velocity and volume of data.
- Employ a standardised approach which leads to false positives and negatives, creating over-screening and alert fatigue.
- Compile AML exposure data manually, and then resell it around the world, meaning it may be out of date by the time it is used.
- Don't allow for automated on-boarding and monitoring processes, so are unable to let companies choose which types of risks they want to screen for.

New solutions:

- Cover 10,000 unique media sources.
- Process 150+ million articles per month.
- Handle 4 million adverse mentions per month.
- Add 100,000 unique new entity profiles per month.
- Update 50,000 existing profiles every day with new risk insight.
- Sanction list updates extracted on average 7 hours ahead of the official source email.
- Over 4,500 structured sources contribute to our comprehensive global coverage of Sanctions, PEPs & Watchlists.
- Integrate machine learning algorithms capable of processing 6,5 million articles per day more accurately and consistently than human counterparts. By contrast, a team of 50 researchers working an 8-hour day without breaks can only process 24,000 adverse media articles per day.
- Takes less than 0.1 second to read an article, as opposed to at least 1 minute required by a human analyst

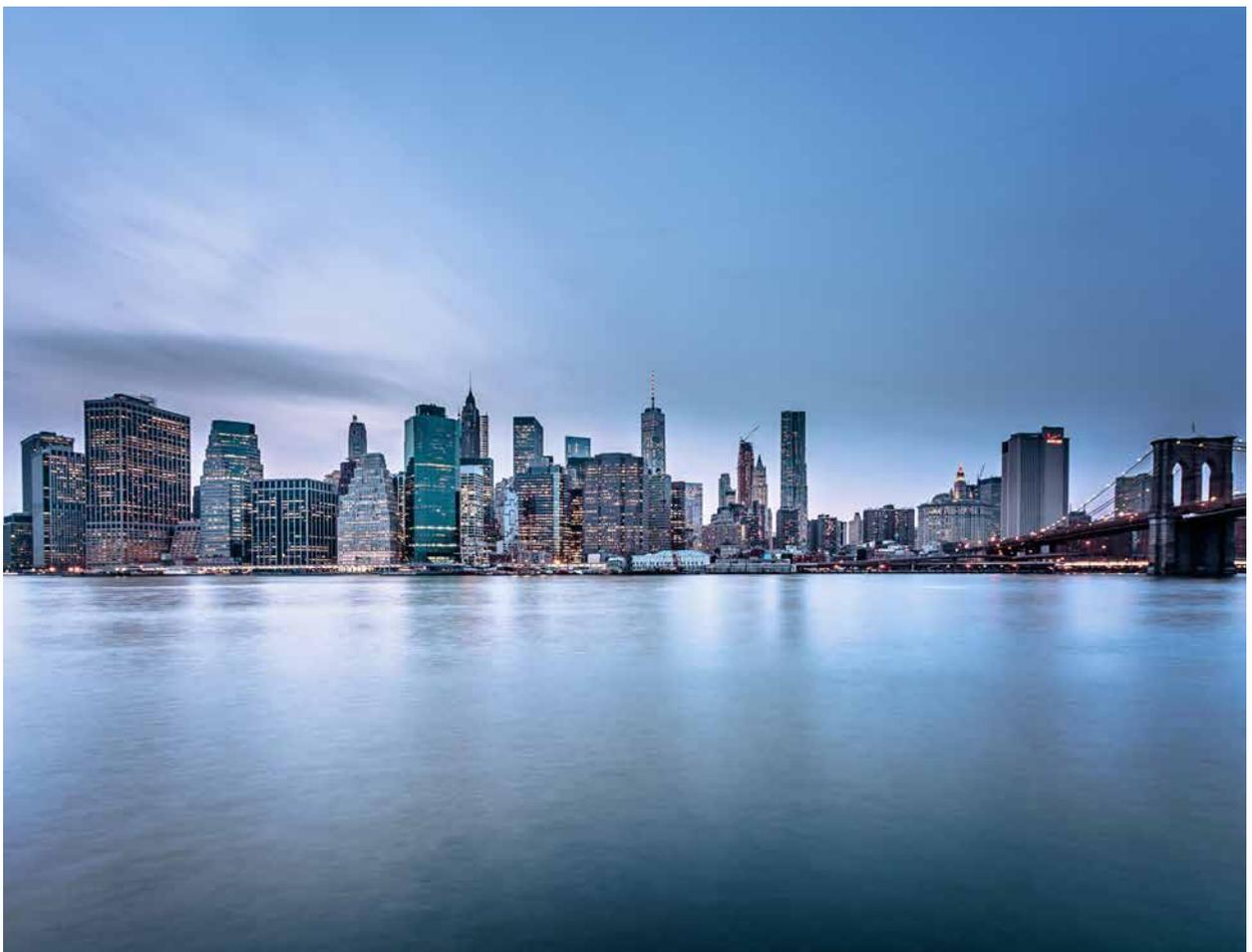
Compliance has Come of Age

Financial crime should always be a priority for every business, but in an often bewildering threat landscape, fear of change can paralyse the compliance function, and leave firms vulnerable to new threats. To remain competitive, firms must become proactive in their approach to compliance, and compliance teams must become comfortable in a constantly evolving working environment, and be open to the possibilities of integrating third-party expertise to exploit tech and data-driven solutions.

In 2019, many of the trends explored in this report are being consolidated, and presenting compliance teams with an array of new approaches to managing financial crime risk. Technological disruption continues to be a consistent factor in almost every corporate function, meaning off-the-shelf solutions which can be set-up and forgotten are no longer sufficient, and indeed, are becoming rarer.

ComplyAdvantage has embraced a data-driven, technological approach to fighting crime as a way to empower compliance, helping firms to understand who they are doing business with, and ultimately make decisions faster. Practically, that approach means offering easy access to a constantly-updated, multifunctional suite of data, and the technology needed to exploit it effectively. Our platform includes sanctions lists, transaction and adverse media monitoring tools, global AML databases and more, integrated seamlessly with existing tech infrastructure, and navigable with intuitive, user-friendly APIs. We focus on regulatory efficiency, flexibility, and usability, as a way to demystify, the compliance function, and unlock its potential for every type of financial services firm, from fledgeling start-ups, to established international banking firms.

In this new era of risk management, it is vital to treat the compliance function as a living, breathing process, robust enough to satisfy regulatory obligations, and nimble enough to match the trends and patterns revealed by data.



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