



Automating Risk and Compliance Through Challenging Times: Prepare for the Future

A White Paper for Financial Organizations

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Executive Summary

After a year of disruption from the global pandemic, financial services companies are pushed to mitigate risk, adopt technology with artificial intelligence (AI) to address increasing regulatory focus, aggressively roll out digital analytics, strategically balance risk with new opportunities for growth and automate risk and compliance processes to increase operational efficiency for better performance.

Regardless of how advanced your financial institution is in its risk and compliance management strategy, this white paper identifies where you want to be and how to get there.

Ten key regulatory challenges of 2021

"2020 was a banner year for disruption to all industries. From the lasting economic impacts caused by the pandemic to the policy outcomes that a new administration brings, 2021 will push financial services companies to mitigate risks as they accelerate online and digital technologies; innovate products, analytics, and systems; adopt long-term remote working practices; and expand their management of climate and ESG-related financial and non-financial challenges." – KPMG Advisory, 2021

A 2021 report from KPMG recommends 10 steps financial services organizations can take now to prepare for the future. Risk and compliance management are on the list of priorities.

"As we deal with the near- and long-term effects of the pandemic, banks will need to re-evaluate their resiliency across all aspects of risk."

KPMG, 2021

KPMG's risk management playbook predicts a new reality for banks and suggests taking these actions NOW:

1. Invest in technology and data
 2. Keep credit risk management at the forefront
 3. Develop new models for operational risk and resiliency to cope with the unexpected
 4. Stay attuned to opportunities for growth, not just risk mitigation.
1. Change Management
 2. Credit risk and LIBOR (London Interbank Offered Rate)
 3. Climate and ESG (Environmental, Social and Governance)
 4. Core risk management
 5. Operational resiliency and cyber security
 6. Compliance risk
 7. Fraud and financial crime
 8. Consumer and investor protections
 9. Payments
 10. Expanding regulatory authority

What does it take for financial institutions to be at the top of their risk, compliance and performance game?

To win in the next normal, McKinsey & Company says the risk-management function must make itself more efficient and effective—something high-performing risk organizations have already done—and prioritized six specific moves:

1. Redesign underwriting to streamline processes and add automated ones
2. Enhance monitoring
3. Optimize and automate reporting
4. Improve processes for reporting financial crimes
5. Streamline the market-risk operating model
6. Make other changes by taking a big-picture look at risk management's overall organization, governance, and performance management

When these changes are successful, McKinsey & Company estimates that “they can improve efficiency and effectiveness enough to raise the productivity of specific activities by 40 percent or more. Banking-sector risk organizations that had been relatively efficient before implementing these moves can use them to raise their productivity by 15 to 25 percent. Less efficient bank risk organizations can raise it by 30 percent or more.”

Challenging times create opportunity for change

“COVID-19 was unprecedented, and it hit the world by storm, disrupting our lives and industries across the board. But it posed a different challenge for financial institutions, one that could lead to a complete shutdown.” – Banking CIO Outlook Magazine, Risk and Compliance Edition, March 2021

The pandemic was a wakeup call for financial institutions to end the practice of managing risk and compliance using a traditional silo approach. A 2021 risk and compliance article in Banking CIO Outlook Magazine explained that “companies had to quickly pivot, at scale, to sustain their businesses while ensuring compliance at every step.”

“Given their siloed way of tackling GRC, the task was not easy to achieve, since a dedicated GRC management system can help automate certain aspects and create workflows, but often lacks the relevant and timely content required to make such initiatives seamless. Going forward, financial institutions need a solution that can foster an integrated approach to compliance and risk management, proactively offer timely content, and automate the entire process.”

ContinuityPlus automates compliance and risk to improve performance management.

Continuity relied on industry research to map the product development of ContinuityPlus, which is a full suite of risk and compliance technology, combined with on-demand consulting. This total solution helps financial institutions seamlessly plan, track, manage and sustain every aspect of the non-negotiable regtech disciplines of risk and compliance on one integrated platform.

The automation of compliance and risk allows financial organizations to immediately move away from a silo method to avoid an unmanageable number of GRC and performance-related requirements, increasing efficiency and boosting performance.

Regardless of the circumstance, whether it's disruption from COVID-19 and its lasting economic impacts, mounting regulatory changes, human resource turnover or policy outcomes from a new administration, automating risk and compliance management offers strategic advantages.

Compliance at every step

At its core, a Compliance Management System (CMS) is the financial institutions' overall methodology for managing the entire compliance process. A CMS is made up of three parts: board and management oversight, the compliance program, and the compliance audit function.

Board and management oversight is responsible for ensuring that audits identify the root cause of weaknesses and make sound remediation recommendations. The compliance program encompasses monitoring policies, procedures and processes put in place to ensure an institution is adhering to laws and regulations. The audit function tests the effectiveness of the compliance program.

The CMS is a financial institution's internal enforcement agent. To ensure institutions comply with applicable changing regulations and laws, FI's need an effective technology solution to automate manual processes, therefore creating operational efficiencies by identifying, preventing and facilitating monitoring to detect potential compliance issues preserving the FI's integrity and reputation. This allows Compliance Officers to spend more time advising management and facilitating resolution.

Continuity's compliance technology suite includes: RegAdvisor Pro, RegAdvisor State, RegControls, ControlsBuilder and OnDemand Consulting. Together these products and services work to alert your organization to relevant federal and state regulatory changes, streamlining your entire compliance management process and reducing your regulatory burden. By consolidating efforts, financial institutions can save time, money and resources.

Six compliance management objectives:

1. Understand the regulations that apply to the FI.
2. Keep up with applicable regulatory changes.
3. Make sure everyone understands their regulatory responsibilities.
4. Embed regulatory requirements into daily operations.
5. Verify the FI is on track on a routine basis.
6. Have a reliable and transparent way to fix what breaks.

The company's flagship products – RegAdvisor Pro and State cover everything – from prudent deployment of capital and liquidity buffers and how loan modifications will be treated – to how ACH processing is affected. With data feeds directly from Federal databases, and simplified analysis from experts with decades of experience, financial institutions won't risk missing vital regulatory information.

Continuity's regulatory experts provide condensed summaries and recommended implementation steps to reduce the time it takes to read and examine these regulatory changes. Intuitive task delegation provides the tools needed to create, assign and track implementation steps – whether it's to update policies and procedures, system upgrades, training or create custom tasks tailored to an institution.

Risk: Balancing risk with opportunities for growth

“Leaders everywhere face increasing risks for their organizations. These risks come from all directions – regulatory, cybersecurity, financial, global competition, litigation, etc. – and put every leadership position on the front lines of risk management.”

– Grant Thornton Governance, risk and compliance survey

Financial institutions need to create an environment where risk can be understood and Identified, then measured and monitored in real time. At the same time, they need dynamic knowledge to better understand customers and the associated risks to ensure they don't miss key opportunities.

According to a Grant Thornton Governance, risk and compliance survey, “Not all risks are created equal. And not all organizations or executives have the same appetite – or tolerance – for these risks.”

Top risks for financial institutions include:

- Financial risk, which can include credit risk
- Market risk
- Regulatory risk
- Security, cyber and third-party risk
- Liquidity risk
- Operational risk

No matter what type of risk a financial institution faces – it needs to limit exposure by having a well-constructed technology infrastructure to follow government regulations.

Continuity's Enterprise Risk Management (ERM) technology helps identify, measure, monitor and control risk. This increases the Risk IQ to proactively address and communicate risks across a financial institution's organization.

“Balancing risks versus opportunities, or proactively viewing risk as a driver of opportunity, is a key component of 21st century strategic planning. Grant Thornton Governance maintains that “successful leaders will evaluate and implement risk management approaches that add strategic value to their organizations while prudently managing risks, thereby maintaining and enhancing competitive advantage.”

Continuity's core product, RiskAdvisor, is an integrated, innovative approach, not a mechanical process. From an operational and holistic standpoint, it's about how risk informs management with meaningful risk data to enable decision making to grow your organization and reduce costs – while taking tolerance for risk into consideration.

RiskAdvisor provides both a qualitative and quantitative process to rate, analyze and mitigate risk using a simple uniform approach. This technology provides built in expertise with over 4,000 pre-identified key risk indicators tied to over 150 risk assessments to measure and monitor a financial institution's current risks. The technology brings all risk assessments into one dashboard to simplify and aggregate data to produce meaningful and comprehensive reports.

InsightsEngine: Continuity's technology embeds artificial intelligence (AI) to enable automated decision making for competitive advantage

Financial institutions operate on thin margins. Gaining competitive advantage requires leveraging new technology and automation. Banks, credit unions, and fintech firms are required to adhere to changes in compliance and risk mandates to ensure their organizations are managed and led toward achieving strategic, capital and performance goals. This requires knowledge.

Continuity's InsightsEngine is a built in technology layer that has the AI capacity to analyze data, suggest potential root causes to problems and understand the risk and compliance environment. Using this knowledge, InsightsEngine takes automatic actions to maximize regtech and performance goals. This creates an optimal operating environment. With regulatory scrutiny at an all-time high, financial organizations need to capitalize on every available advantage.

In a World Economic Forum/Deloitte report: The New Physics of Financial Services – Understanding how artificial intelligence is transforming the financial ecosystem," one key finding states:

"We observe that both private institutions and collectives are moving to use AI to address shared problems, like increasing regulatory focus which is straining institutions' budgets."

Another key finding points to the importance of deploying AI technology: "The power of data regulators: Regulations governing the privacy and portability of data will shape the relative ability of financial and non-financial institutions to deploy AI, thus becoming as important as traditional regulations to the competitive positioning of firms."

The automation and intelligence built into Continuity's technology shifts risk and compliance into cruise control, boosting performance, saving resources and adding shareholder value.

During the pandemic, the added layer of regtech intel was vital. One client working through the crisis, shares First National Bank of Germantown's experience.

"When the COVID-19 pandemic hit, Continuity's platform enabled us to seamlessly continue operations through the crisis. Because Continuity is cloud-based, our team was set up to access vital, real-time information and regulatory intelligence, across departments, within one weekend. This allowed us to make urgent decisions as we dealt with the immediacy of the national state of emergency. The technology was a lifeline to our bank."

JoAnn Call, Compliance Officer, First National Bank of Germantown

Conclusion: Assess the need to automate risk and compliance

Automation equals strategic advantage.

Change is a perpetual challenge. Increased regulatory volume and velocity will affect the outcomes of financial institutions everywhere, into the future.

If your financial organization is one of the banks, credit unions or fintech firms spending too much time, budget, resources and energy on regulatory issues, or, if you lack confidence in your risk and compliance strategy, it's time to assess the need to automate your process.

Here are 5 key considerations:

1. Has your financial institution had problems with past exams?
2. Has your organization missed new market opportunities by not calibrating the right degree of risk?
3. Do operational red flags exist in your institution?
4. Does your staff have trouble keeping up with the volume and velocity of regulatory change?
5. Has your institution had difficulty delivering consistent board-level reports?

If the mounting federal and state regulatory requirements are affecting the performance of your institution, it's time to automate.

ContinuityPlus is secure, cost effective and easy to use. Because its cloud-based, deployment is fast and seamless, making critical regtech intelligence available immediately.

About Continuity

Connecticut-based Continuity is a provider of regulatory technology (regtech) solutions that automate compliance and risk management for banks, credit unions, mortgage companies and fintech firms. By combining banking, regulatory expertise and AI based cloud technology, Continuity provides a proven way to reduce regulatory burden and mitigate risk at a fraction of the cost of traditional solutions. ContinuityPlus is a full suite of risk and compliance technology combined with on demand consulting services. Continuity serves hundreds of financial institutions across the United States and its territories.

For a no cost demonstration and consultation about how your financial institution can automate risk and compliance, contact us at: sales@continuity.net or 866-631-5556.

For more information, visit continuity.net