

Bridging the gap between Operational Risk, Financial Crime and Regulatory Compliance

Institute of Operational Risk

Operational Risk in the Insurance Business – July 2014

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Oracle
Software Provider of the Year -
2014

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Getting to the truth is easy.....you just ask!



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A quick poll....

Program Agenda - bridging the gap

- 1 Stating the obvious – these are challenging times
- 2 Avoiding the pitfalls – what the market is saying
- 3 Bridging the gap - creating a “single source of the truth”
- 4 Example – money laundering risk
- 5 Summary & Wrap Up

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A challenging environment....



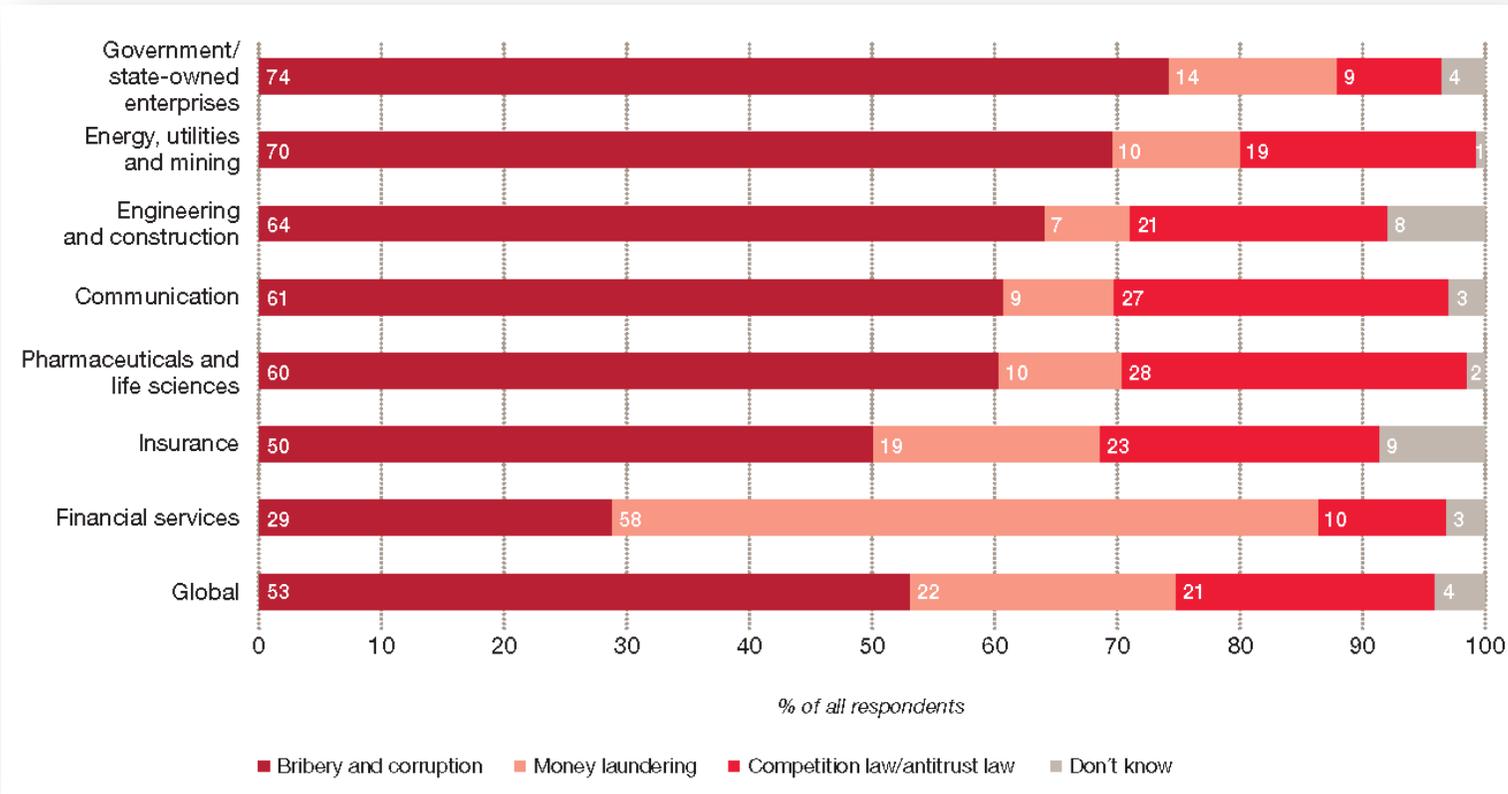
Profitability up BUT...

- High impact and high volume of “regulation”
- Increased focus on risk and control oversight, Board reporting
- Silo'd and aging, inadequate systems, processes and people
- Simplification and cost efficiency driver
- Financial crime levels increasing

Source : Ernst & Young, Future trends in insurance A global perspective on the life and non-life sectors,

2013

A challenging environment....



Perceived greatest relative economic crime risk, by industry
(KPMG International, Global Anti-Money Laundering Survey 2014)

“....Friends Life has already blocked some 482 suspicious pension transfer requests in the first five months of 2013. Compared to 56 for the entirety of 2012. *Already, half way through the year, a 760pc increase.* Phoenix insurance group has seen the number of cases **rise from 150** in a four-week period three months ago, *to more than 520 recently.....*”

The changing face of financial crime

Martin Wheatley, Chief Executive, the FCA, at the FCA Financial Crime Conference, London
<http://www.fca.org.uk/news/speeches/the-changing-face-of-financial-crime>

A challenging environment....

- **Anti-money laundering and corruption programs to face greater scrutiny.**

Global regulators.....continue to press large, global financial institutions on the issues of money laundering, trade sanctions and bribery and corruption, stressing the need for robust program controls, sophisticated monitoring systems and knowledgeable personnel at the watch. **The regulatory scrutiny is now moving beyond the traditional banking sector into non-banks, including credit card issuers, insurance providers and gaming enterprises, prompting the need to seriously review and enforce their compliance programs and controls.**

Source : EY Names Top Fraud and Corruption Trends for 2014

<http://www.ey.com/US/en/Newsroom/News-releases/News-EY-names-Top-Fraud-and-Corruption-Trends-for-2014>

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A new consolidated approach is needed

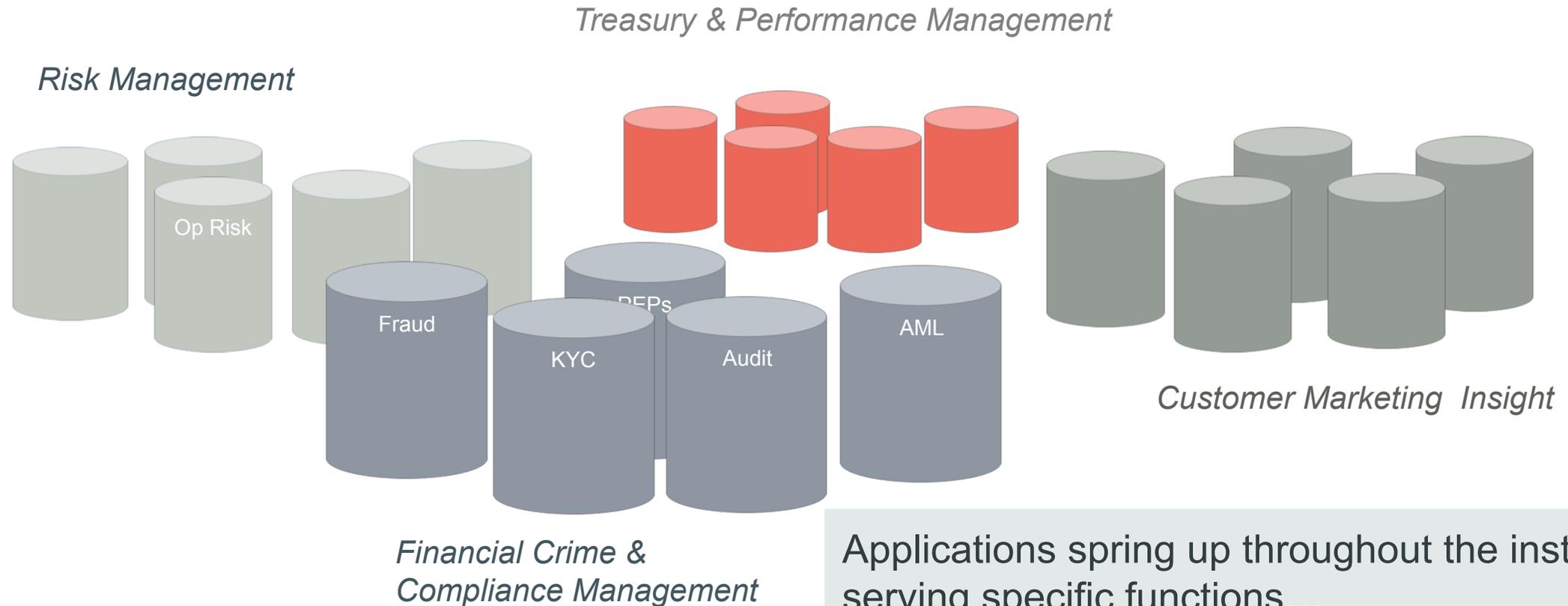
*“.....**design a new approach that integrates operational and compliance risk programs**....The operational and compliance risk programs are coordinated and follow **a consistent standard and single platform**. Integrated reporting and analytics provide compliance and LoB management with a more constructive, single view of risk.....” Let’s make a difference: Managing compliance and operational risk in the new environment,” PwC FS Viewpoint, August 2013.*

*“...Although some firms are utilizing separate systems for operational risk requirements, cost and complexity pressures are driving them to consolidate into enterprise operational risk platforms....As an extension of the above trend, **neighboring disciplines are being incorporated into operational risk such as audit, compliance, and financial crime**. These in turn are leading to the incorporation of advanced analytics from these systems. Operational Risk Management Systems for Financial Services 2014, Chartis 2014*

Program Agenda - bridging the gap

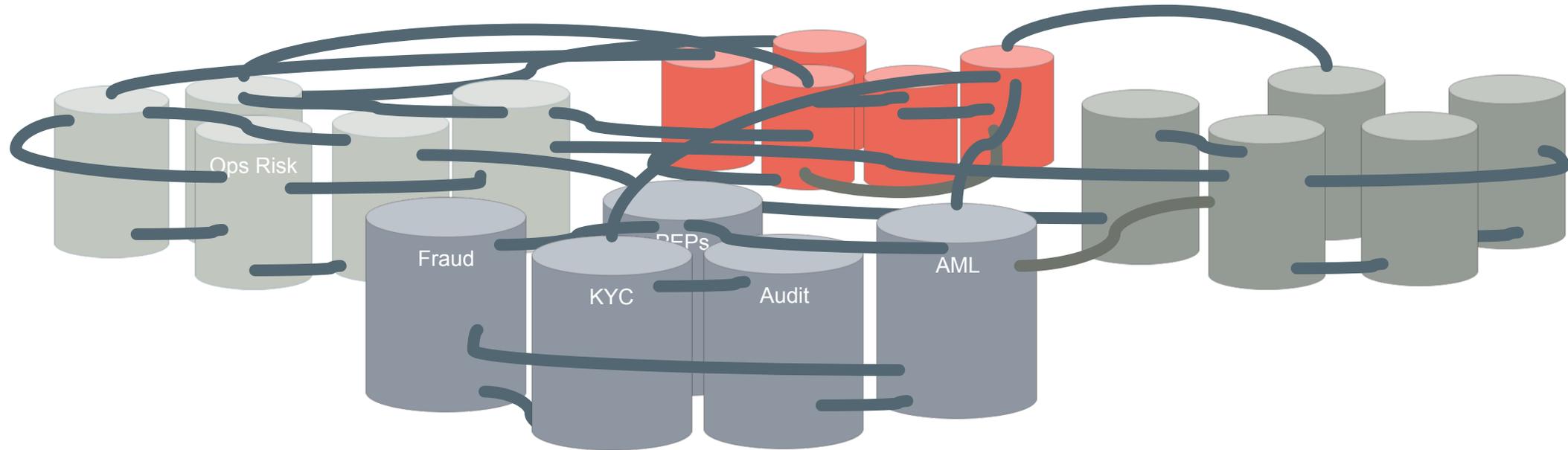
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What we see in most firms – the proliferation of silo's



Applications spring up throughout the institution, serving specific functions...
Manual or limited sharing of data and lack of consistency become big headaches....

Integration to the rescue? Partially.....



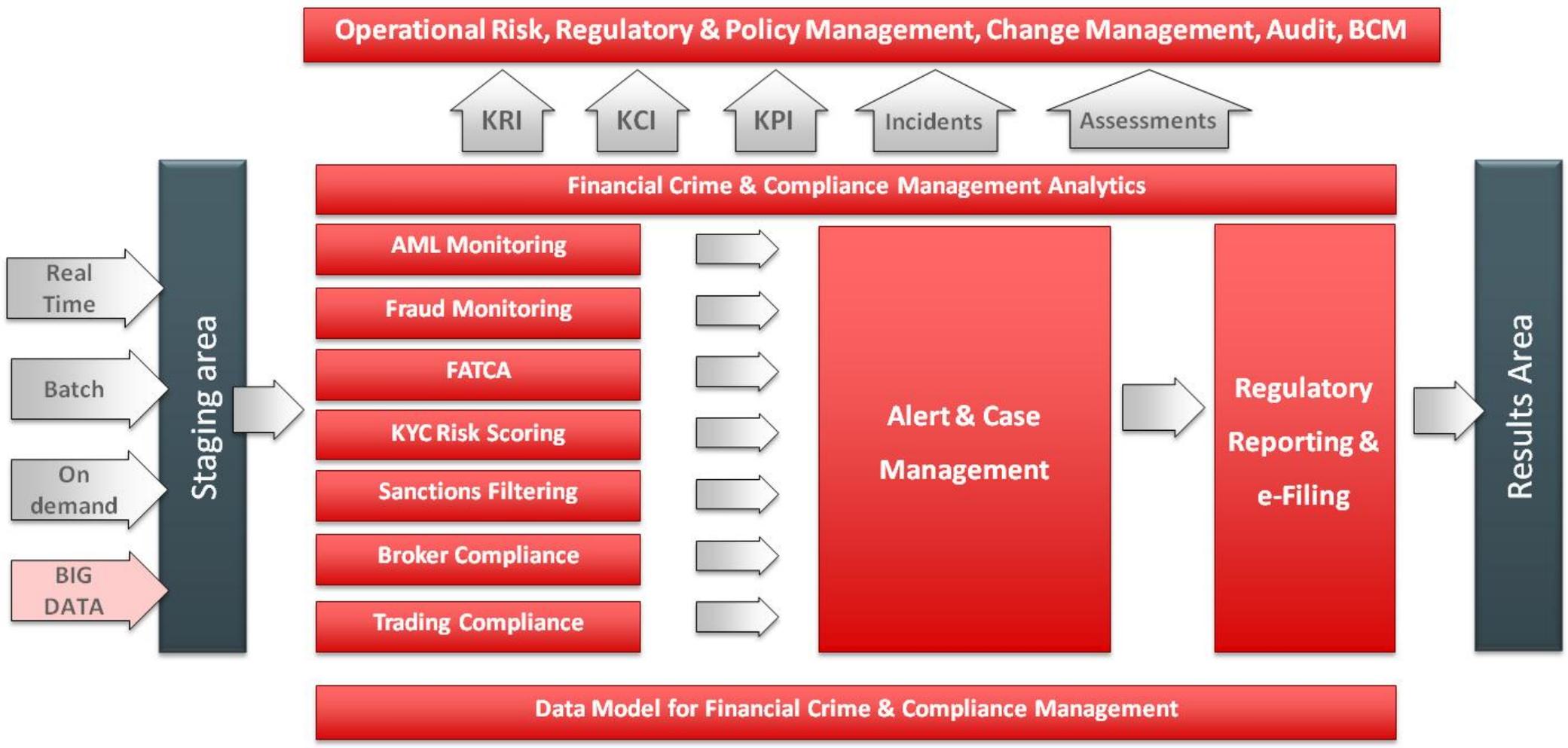
Integration within and across common functions, like Risk, Financial Crime and Compliance becomes business as usual, but remains rigid, costly, hard to trace and audit, not future proof and easily broken...

Emergence of the unified platform.....a single source of the truth

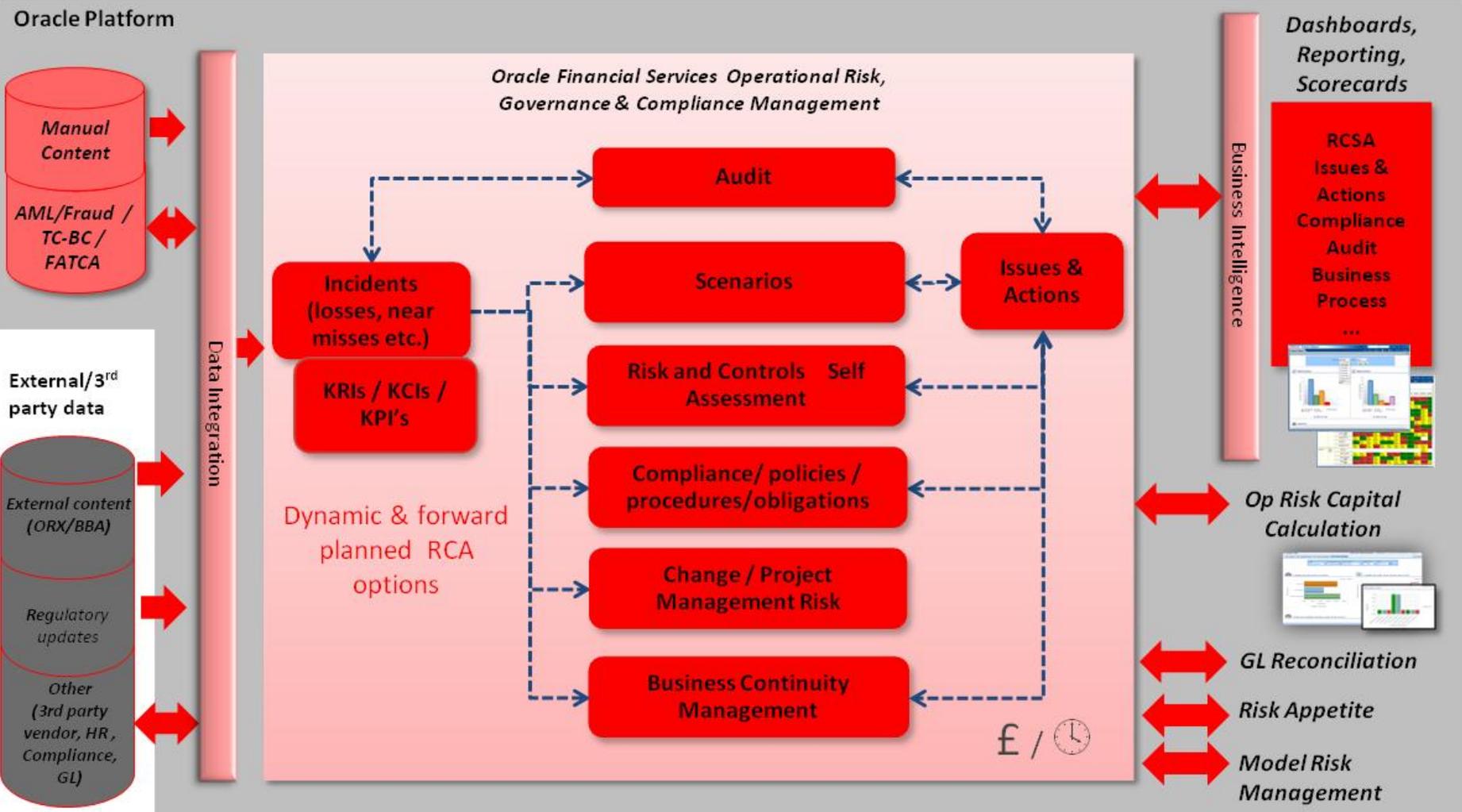


More than integrated.. a UNIFIED Risk, Financial Crime and Compliance platform, built on common infrastructure, data models, technologies and components... engineered and designed to work together now and into the future...

Emergence of the unified platform.....a single source of the truth

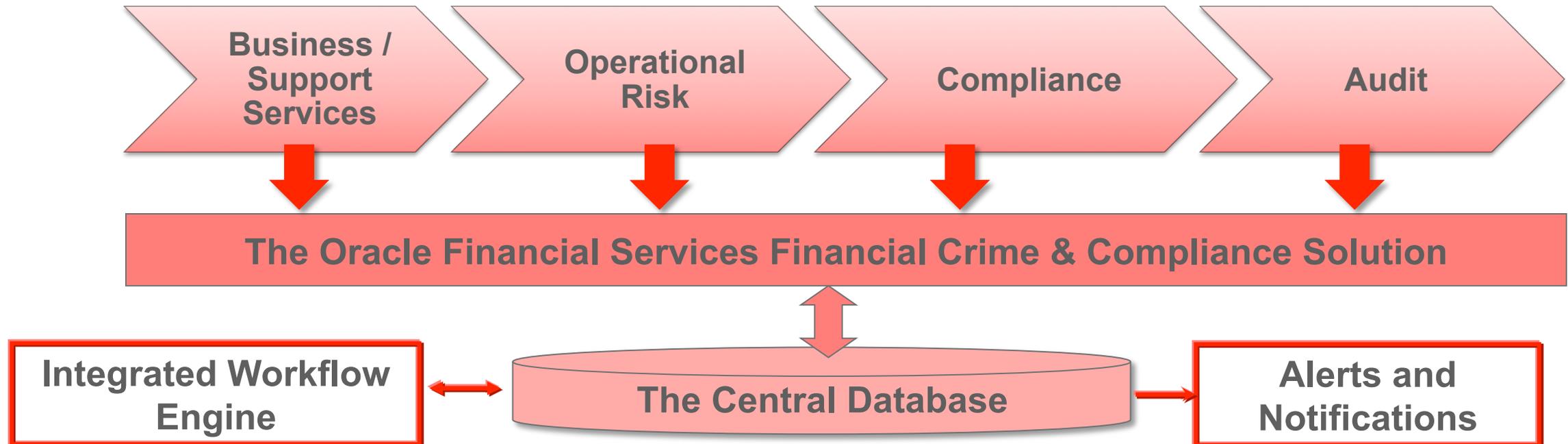


Emergence of the unified platform.....a single source of the truth



Achieve a truly unified three lines of defence

- Different roles and different disciplines, but **common concerns across three lines of defence**:
 - Potential for losses
 - Potential for fraud, money laundering and trading irregularities
 - Regulatory breaches
 - Capital requirements



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Example - Tackling Anti-Money Laundering Risk

Non exhaustive list of common activities ...

- Know Your Customer programme (on-boarding & lifetime of relationship)
- Know Your Employee programme
- Transaction monitoring & regulatory reporting
- Annual staff training & certification
- Compliance monitoring assurance programme (including desk reviews etc.)
- Audit programme & assurance (internal and external)
- Periodic risk and control assessments – surveys, questionnaires, manual etc.
- Periodic policy / procedure assessments and attestations
- **All carried out by a range of different functions, using a range of different processes, methodologies, systems and taxonomies**

Example - Tackling Anti-Money Laundering Risk

The results:

- **No common view** across three lines of defence (enterprise), **difficult to join the dots**
- **Stand-alone** risk and compliance systems **no longer seen as sufficient** (assurance key theme ACAMS 2014)
- **Reactive, not proactive** approach – minimal early warning of emerging risks, failing controls
- Difficult to (stress) test the AML model and track any capital impact end-to-end
- No direct link to audit results, issue & action plans
- **Difficult to retrieve data** required by the auditors/regulators **when things go wrong!**
- Creates opportunity for “**gaps**” in systems, processes etc. **that can be exploited by criminals**, resulting in losses
- **Difficult to report** consolidated & single view of enterprise risk and compliance **to Senior/Exec Management**
- **Resource intensive** – high cost of ownership over data, replicated effort etc...

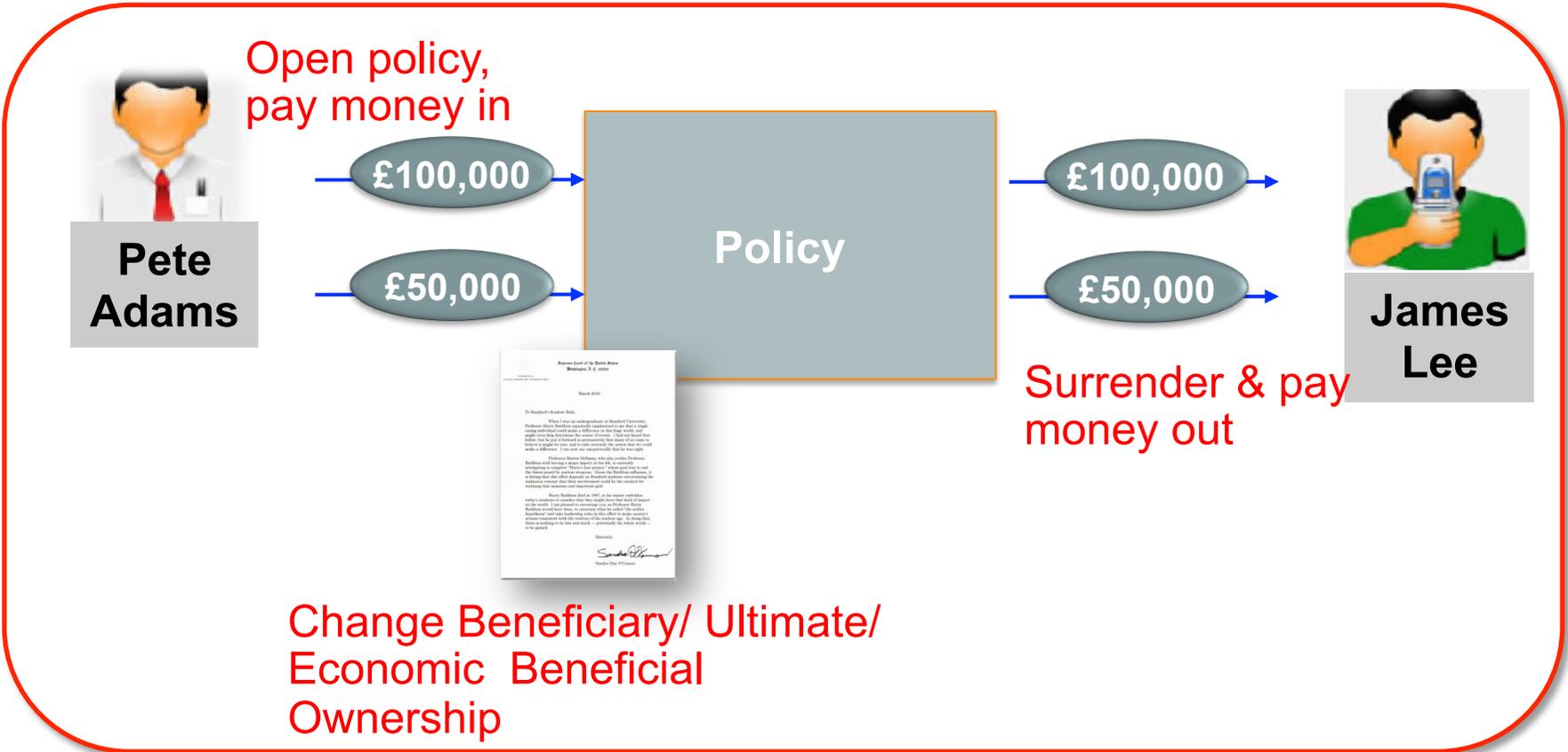
How to bridge the gap



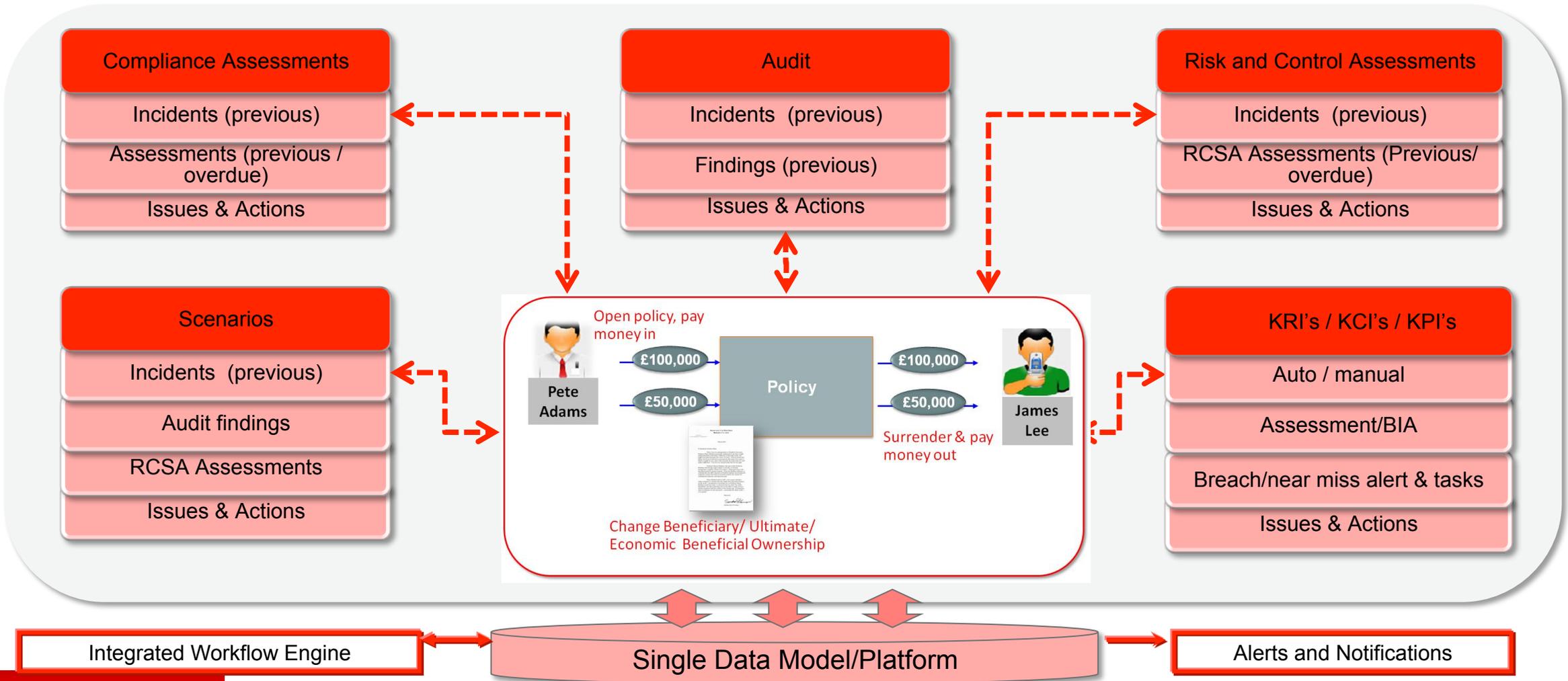
Example - Tackling Anti-Money Laundering Risk

Current approach to tackling AML/CTF/Fraud

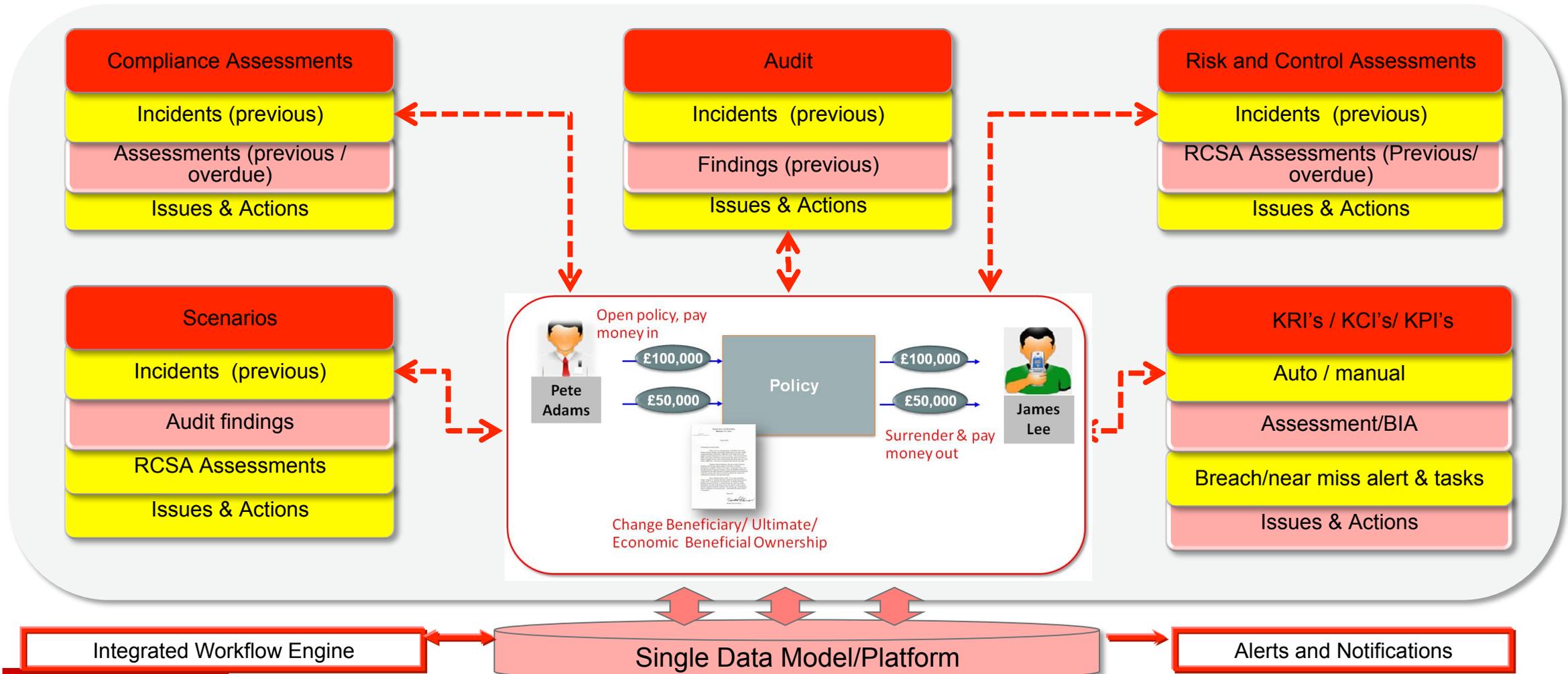
Customer Risk Scenario – “Change in Beneficiary/Owner Followed by Surrender”



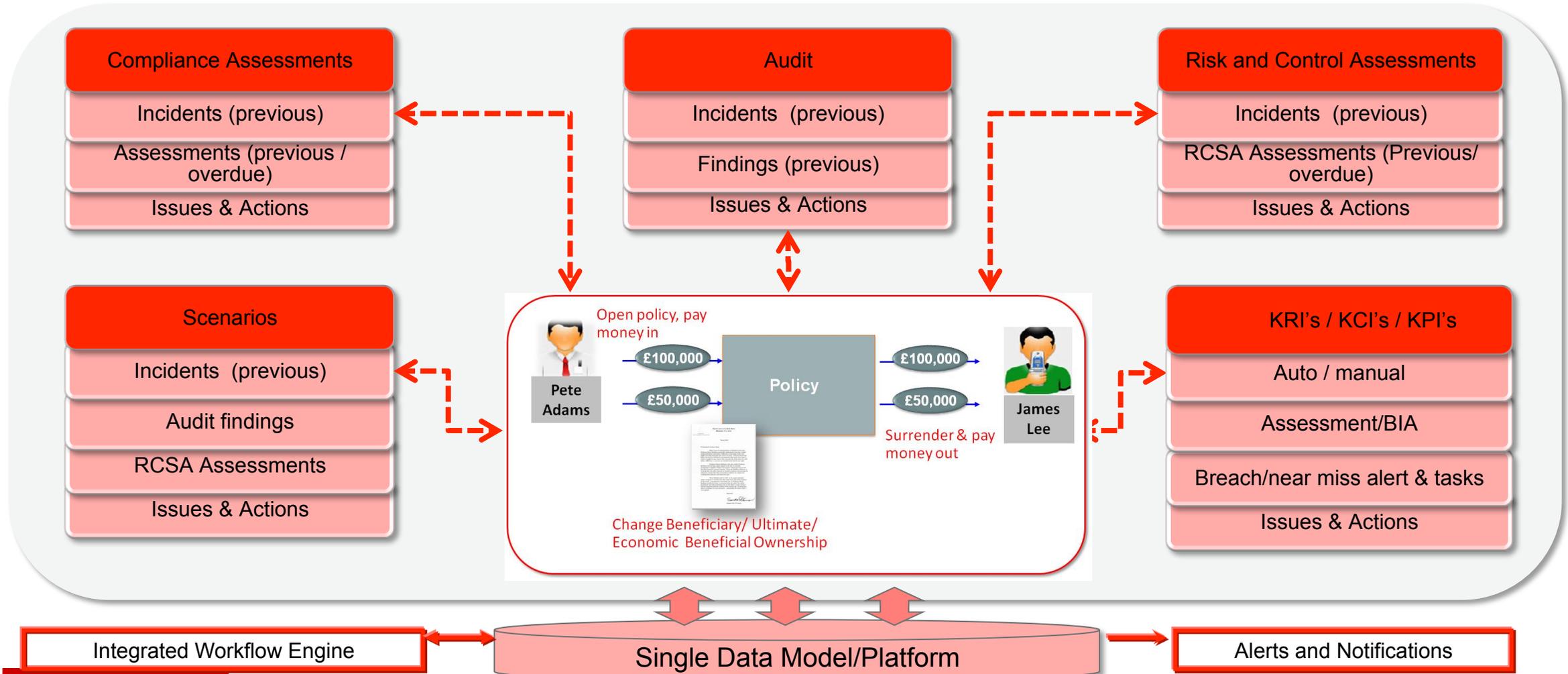
Number of false positives per AML scenario



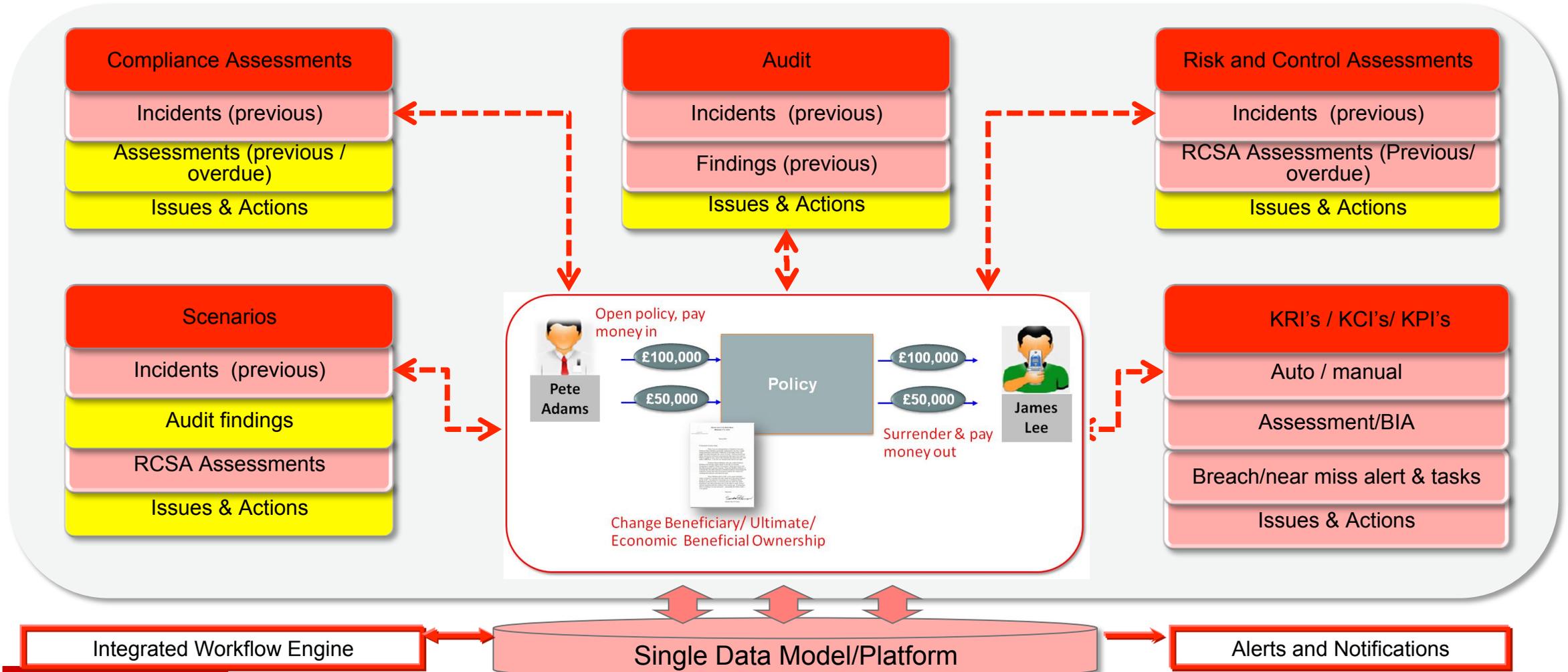
Number of false positives per AML scenario – breach KI/SLA



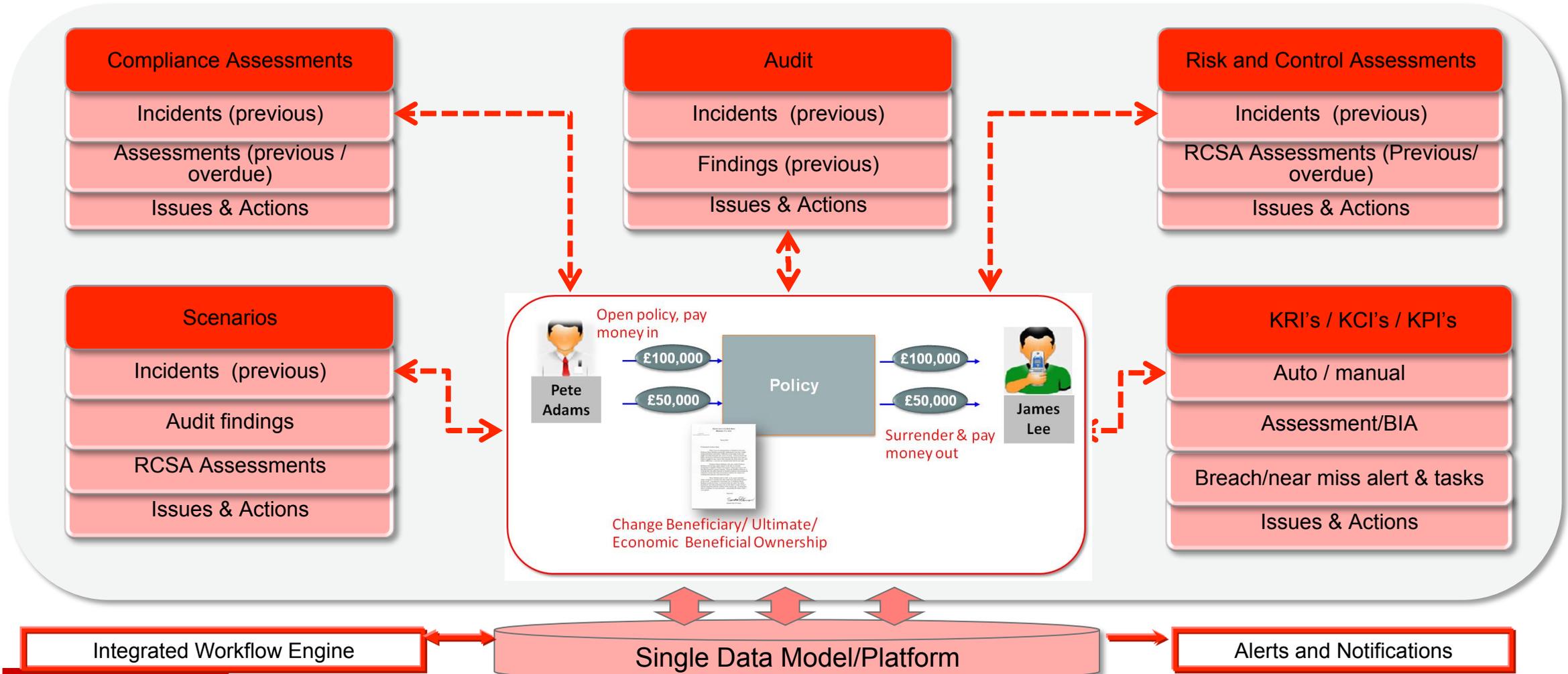
AML policy attestation



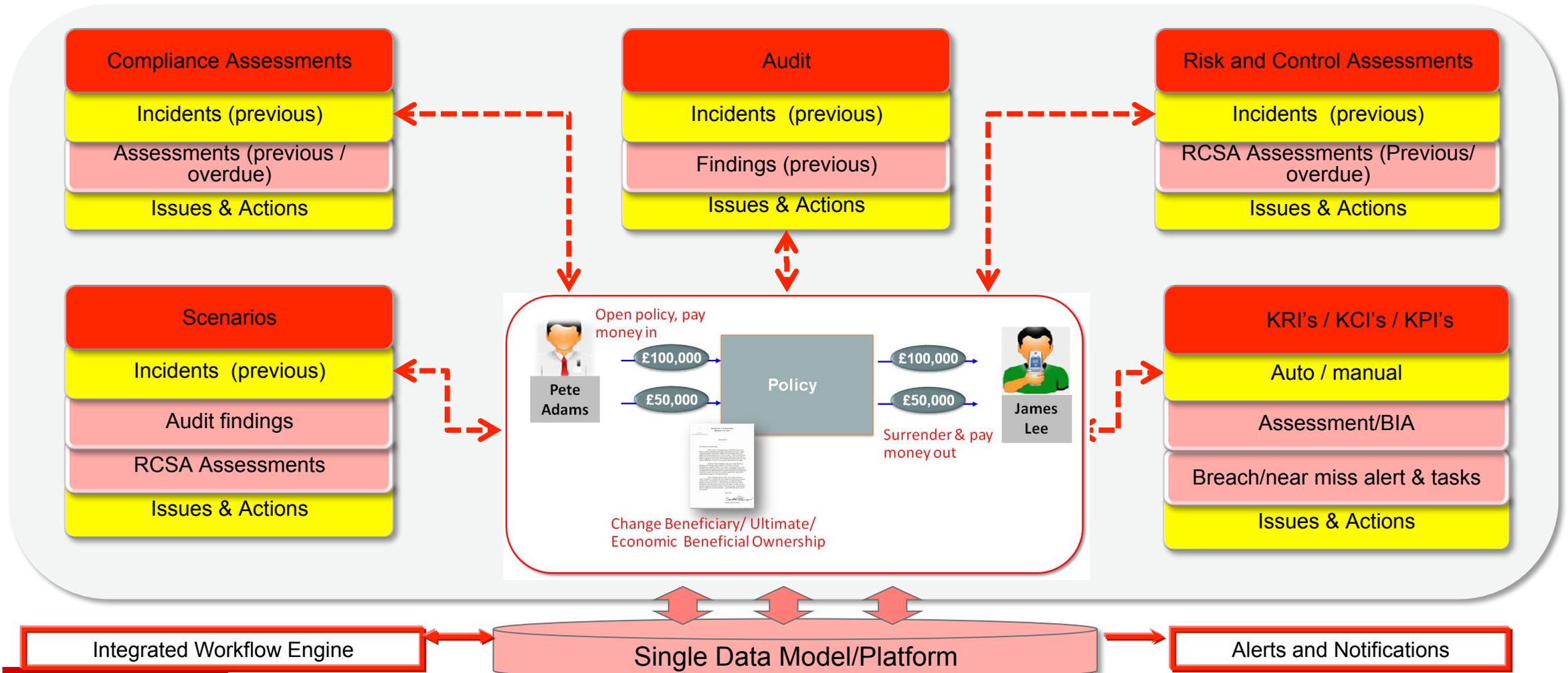
AML policy attestation – pending/late...



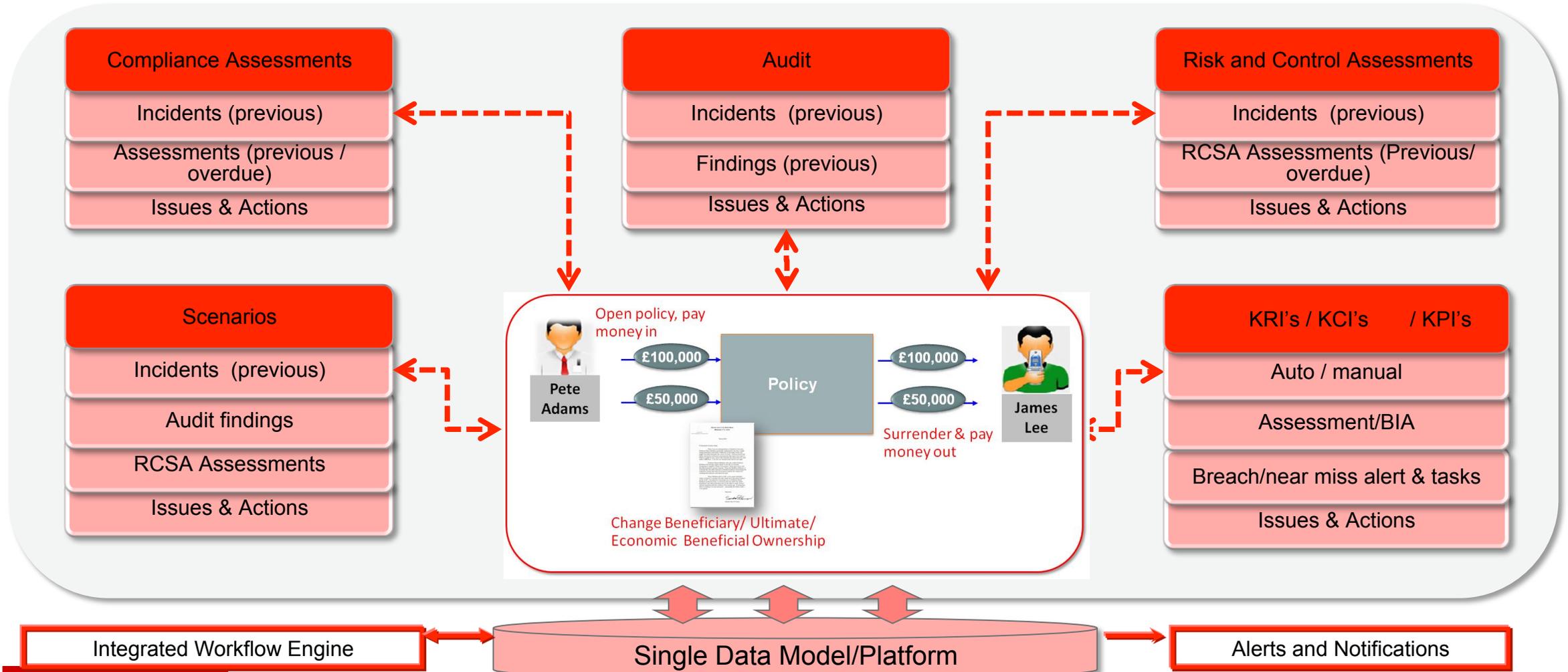
AML staff training



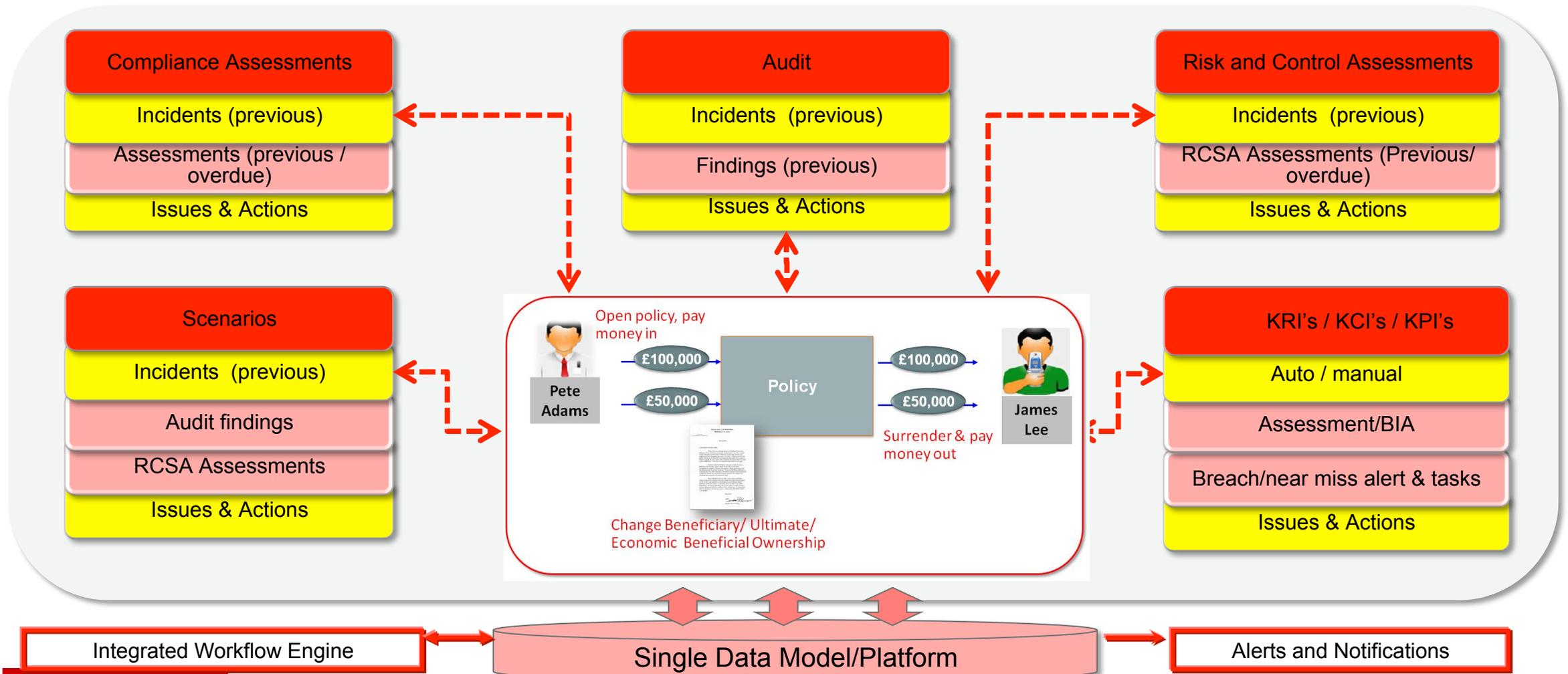
AML staff training – pending/late...



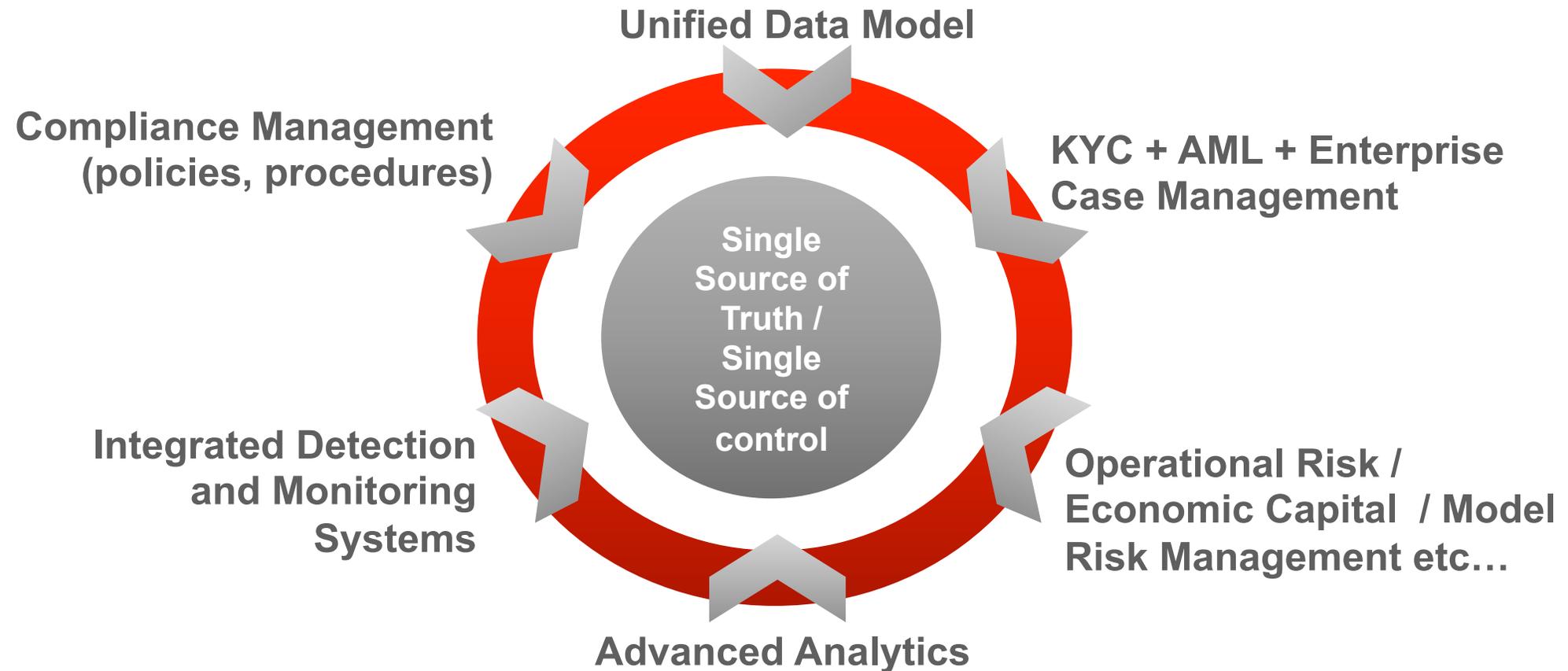
Claims Fraud



Claims Fraud – same address as AML alert (link analysis)



The end result...



A more “realistic, holistic” view of the business to help ensure better informed and managed risk based decision making

Considerations/ steps to help bridge the gap

- Not regulatory requirement – proactive business driven change
- Current and targeted level assurance – systems and processes
- Costs - human effort, annual system maintenance
- Scalability
- Common data points, gaps and requirements
- Key matrices , common taxonomy and assessment methodology
- Market assessment – what are my peers doing, vendor offerings
- **Finally overcome the mindset, “we’ve always done it like that. My AML/Ops Risk/ Fraud/Policy Management system just works fine” as it is.....**

Thank you



Hardware and Software Engineered to Work Together

ORACLE®