



Productivity: process excellence in financial crime compliance

December 2020

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A variety of forces have put pressure on financial crime compliance in recent years, leaving many financial institutions with extensive resource and operational burdens. Against a background of renewed cost pressures, but also an ambition for transformation and improvement, a productivity lens on process excellence could make the difference to efficiency and effectiveness."



Where we are today

Leading financial institutions are already working towards adopting new practices, accelerated by analytics and insights, to transform their financial crime risk management and compliance operations. They represent a shift that others must follow. After a period of sustained spending on all aspects of financial crime risk management, and the operations required to undertake it, we now see organisations seeking to transform processes in order to identify simplification opportunities, optimise costs and generate value from technology investments, while maintaining the focus on effectiveness.

It's a challenging undertaking. While technology has a crucial role to play here, it is only an enabler of transformation. There are a number of important steps that all financial institutions should take to review and renew their processes before they implement new technology. This paper sets these out and explains how they meet the common challenges we see in the industry. Ultimately, we show how a productivity-based framework can help identify and prioritise the interventions and actions that will enable financial institutions to move towards process excellence in their financial crime risk management and compliance operations.



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From a compliance and risk coverage standpoint, financial institutions are in a much better place than at the time of the 2008 global financial crisis. But are they getting value for costs and are the processes that are taking the most effort, the most effective?”

The classic definition of productivity is as a measure of efficiency. In a financial context, productivity describes the outputs created from inputs. Units of materials become units of product. For financial crime risk management, the more effective the processes, the greater the relevance and value of the activities identified and crimes prevented. Framing the transformation opportunity as one of productivity allows organisations to identify the levers for efficiency, simplification and cost saving, while maintaining the focus on effectiveness.

In order to respond to this opportunity, banks and financial services organisations need to adopt a new framework and deploy analytics to identify potential gains in their operating models and processes. In a regulated function this cannot be an exclusively cost-driven exercise. A productivity-based approach, both of processes and resources can deliver results where processes are overly complex, technology initiatives are not delivering expected value, data poses a challenge or where permanent, radical change is needed.

We identified key areas where clients are focusing their efforts. Workforce, digital, and an agile mindset combined in an advanced approach to refining, integrating and evolving all the micro-processes that are a necessary part of financial crime risk management.

More than

50%

Most financial institutions invested heavily in financial crime compliance over the past decade. Over half did so because they learned the hard way. Most still spend and suffer. Financial crimes and regulatory matters remain top threats that can generate major crises.

PwC 2019 Global
Crisis Survey

Rising costs

An unavoidable expense?

We see an increased trend for the cost of compliance (especially financial crime). This is a necessary cost of doing business in Financial Services. The key is to understand what is causing rising costs and direct the spend towards activities of greatest impact. More analysis of the effort and resources for compliance activities can drive a better evolution of financial crime compliance with regulators.

Increased risks

We don't know what we don't know

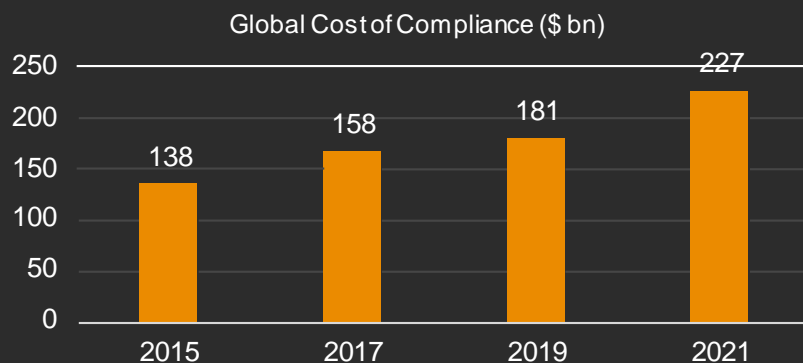
Unknown unknowns existed before COVID-19 and are now more relevant than ever. The trends impacting the financial services sector: a period of low interest rates, high cost-ratios, along with an accelerated regulatory agenda and proliferating alternative capital providers, present an interesting picture for financial crime operations. Is it an environment in which failure is more likely, or an opportunity to realign resources to new risks?

The opportunity

There are gains to be made

The traditional method of tackling financial crime compliance (mostly by increasing the size of various teams) needs to evolve. The large effort invested by financial institutions to perform these compliance obligations is well documented. Now process excellence practices can be applied to that spend to transform and optimise operations.

Global cost of Compliance



Source: LexisNexis Cost of Compliance Report

Rising costs of compliance. In 2019 the estimated total for global compliance spending was \$180bn. This is predicted to rise by an average of 12%, per year.

Ineffective processes and systems are detrimental to risk assessment. Despite its huge costs, monitoring produces—on average—between 90% to 99% false-positive alerts. And there remains a risk of failing to detect suspicious activity. Similarly, more than 80% of KYC resources are focused on data and/or document collection. These, and other ineffective processes are detrimental to risk mitigation.

Increased regulatory enforcement, with fines totalling more than \$36bn since the 2008 financial crisis, with \$10bn in 2019.

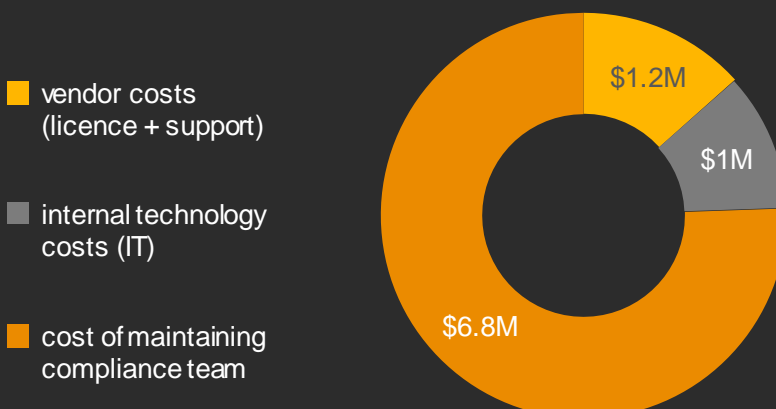
Cost and quality challenges, driven by largely manual processes, with an average spend of fighting financial crime of 1.3 to 2.5% of annual revenues.

Business transformation provides an opportunity to enhance the customer experience and create significant competitive advantage.

Source: LexisNexis Cost of Compliance Report and PwC insights.

Example estimated breakdown of the major transaction monitoring costs

Cost estimates are based on a mid-tier organisation with 100 AML transaction monitoring analysts (annual).



Source: PwC benchmarking. Transactions Monitoring example (MM USD)

What are we learning?

Strengthening operational performance of financial crime controls is increasingly a specific target

We know that spending on financial crime risk and compliance has grown alongside the rising trend of global losses associated with those crimes, as well as fines for failure. We also know that demonstrating the level of resources and assets financial institutions dedicate to the task of combating financial crime is important. Our experience indicates that few financial institutions are setting productivity goals for major programmes of financial crime compliance – and still fewer are bringing those same goals into business as usual. However, the creation of transformation and operational roles in financial crime, from KYC to ongoing monitoring, is an example of a step in the right direction.

Many banks recognise that there are gains to be made by removing waste and friction from their processes. But they find it more challenging to identify precisely where and how they could make them.

Take advantage of technology innovation in compliance tasks

Process excellence is, or should be, a precursor to digitisation and the use of tools for automation and straight through processing. Yet organisations often turn to technology before they have prioritised, rationalised and improved processes. Instead, they should deploy data-analytics tools to understand more about the time, friction, hand-offs and other aspects of compliance controls. Financial institutions can harness the insights they derive from this to change and improve complex processes.

41%

of all benefits from improved productivity are in Finance, Risk and Compliance

PwC 2018 Productivity in Financial Services Survey

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Leading financial institutions will recognise that they will pursue parallel tracks – focused on both threat management to reduce risk and control efficiency to manage costs, while at the same time, pursuing best-in-class processes to maximise performance”

Financial crime compliance transformation provides the opportunity for productivity review

There's another phase of transformation in financial crime function underway. We increasingly see mission statements defining new organisational designs referring to consistency, harmonisation and integration. Leading organisations are taking a disciplined approach to identifying processes and activities across the whole financial crime system in order to ensure they achieve end-to end coverage. This also enables them to identify further micro-processes to measure and analyse. Financial institutions recognise that for financial crime compliance, the conventional cost-reduction tools have reached their limits. Cutbacks are likely to be counterproductive to long-term effectiveness and unsustainable from a regulatory compliance standpoint. In contrast, newer entrants and FinTechs have an opportunity to embed metrics and data points across processes to adopt process excellence at an early stage.

90%

of manual work can be eliminated in some processes of financial crime operations

PwC benchmarking and insights

The ultimate outputs of efficient processes are high value interactions

Productivity and process excellence enables financial institutions to deliver high return on investment to customers and the business. While reducing risk coverage is not an option, productivity improvements are a must, given the current imbalanced ratio between them. More efficient onboarding provides a better customer journey, improved processes for monitoring alerts and improved regulatory reporting. Enhanced consistency across global locations means better business interactions.

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Financial institutions that get the financial crime productivity approach right, will be the winners in the short and long term. They will have the benefit of innovating and adopting new solutions, while understanding more about the tasks that are really effective”



How do we respond?

There are four ways in which organisations can create value opportunities across their financial crime operations.

1. Revisit the operating model

Financial institutions need to take a fresh look at their processes and identify what work gets performed where and how. As they get their arms around a process excellence initiative it helps to look at four macro processes: the set of regulatory standards that define the control process; the data sources feeding into the process; the outputs of the process and the core workflow upon which the process is managed. Different analytics can be applied to each of these in order to improve processes. Optimising the core processes generates the greatest value in the initiative.

2. Build a continuous improvement capability

PwC research suggests that less than half of all performance transformation initiatives achieve their goals. One aspect of those that succeed is that they sustain the changes made. Adopting a dynamic base to the approach, along with the use of analytics, has allowed successful organisations to adopt a “sense and adjust” model. This continuously gathers data and turns it into actionable information. Adjusting allows for processes – or the effort, resource and investment in those processes – to be altered based on outcomes and performance.

Less than

50%

of financial crime
transformation
initiatives achieve
their goals

PwC insights



A balanced measurement capability will allow a fully optimised process for risk, quality, and client experience.”

3. Establish a measurement for all in-scope processes

Define each of the processes and micro-processes to be measured. Focus on multiple dimensions of risk, effort, elapsed time, friction points, volume, value added, client experience and quality. That enables the measurement and baselining of actual performance, comparison with standards and best practices, and framing and prioritising of improvement opportunities.

4. Embrace analytics to drive financial crime process excellence

We often see financial institutions setting out to replace their incumbent technologies rather than attempting to improve and augment them. They may be reluctant to adopt new analytical tools, but are more likely working out how to best to use those same tools to gain insights. Which means missing the opportunity to enhance and correct.

Leading financial institutions have taken a more centralised approach, creating data science ‘hubs’, while also adopting analytical tools to address their performance challenges. It means they can better zero in on the impact of productivity levers such as re-thinking change functions, improving digital IQ and unpicking time and motion studies of manual tasks. These help enhance risk coverage and decrease waste. Examples include a reduction in monitoring residual risk; reducing false positives or increasing risk coverage.

Up to

80%

of effort can be
nonvalue add vs risk
assessment

PwC benchmarking

The PwC framework

By taking account of all the areas outlined above, we have been able to create a framework to measure, analyse and apply insights to financial crime processes. That has, in turn, supported the development of tailored, multidimensional solutions for achieving excellence in financial crime operations.

A PwC financial crime productivity framework

More than two-thirds of financial institutions have engaged in some sort of transformation journey focussed on their financial crime models. Regardless of whether these are event- or excellence-driven, all transformation journeys include (or should include) a process-excellence element.

We take a data led approach to assessing productivity opportunities and assisting with transformation. We define a baseline using a benchmarking-based qualitative assessment across financial crime operations, using our analytics proprietary tools. In addition, we use our experience from the delivery of financial crime operation services in our own near and offshore centres. This then evolves into a data analytics-driven, quantitative assessment of those areas that may yield the greatest benefits, linking actions to impact.

The final step is the design of change programmes that focus on the levers of productivity to enhance outputs and overall effectiveness and efficiency. We observed that organisations were able to:

- redesign and streamline operating models
- make outsource and co-source decisions
- understand costs more accurately to make strategic decisions
- better define financial crime operations internally
- distinguish even further between volume 'coverage' tasks and a risk-based approach.

70%

of financial institutions have engaged in transformation journey. Productivity and process excellence play a pivotal role in achieving the right level of focus and maximising return on investment

12:29 0% 100%

pwc Financial Crime

1) Please provide the primary region your organisation operates in from the list below

- North America
- Western Europe**
- Central and Eastern Europe
- Middle East and Africa
- Latin America
- Asia Pacific

2) Approximately what is the value (in billions of US Dollars) of your organisation's total assets?

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Back Next

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By concentrating on increasing the financial crime risk coverage and being open to increasing productivity, financial institutions can build a sustainable transformation foundation”

The opportunity

Financial institutions want to meet their regulatory obligations and protect the reputation of their organisations. At the same time, they want to ensure they are efficiently focusing resources where they best support risk control-based decision-making.

Financial crime operations are increasingly connected, made up of many moving parts which perform at their peak when they are coordinated, synchronised, managed and measured. Using process re-engineering, improving process flow, implementing digital tools and using financial crime technology will increase productivity – the actionable and relevant output from financial crime operations.

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This paper is brought to you using the capability of PwC's global financial crime practice. Together, we transform organisations by developing actionable strategies that deliver results.

We identified these elements through comprehensive research and observation across numerous projects and the synthesis of a number of PwC's most knowledgeable experts on anti-financial crime compliance and risk management. Although the cases varied by size of institution, circumstance, region and personality, the four factors were consistently observed where change, enhancement and transformation had taken place with successful results.

PwC's financial services productivity thought leadership looks at issues and opportunities facing the financial services industry and how institutions are responding to combine the benefits of technology and human effort.

PwC's financial crime practice is a leading consultancy combining strategy with technical, industry and execution expertise. We embed our strategy capabilities with expert teams across our PwC network, to show you where you need to go, the choices you'll need to make to get there, and how to get it right.