

The extra mile: Risk, regulatory, and compliance data drive business value

Want to enhance business value while responding to risk, compliance, & regulatory needs? Learn how to go the extra mile.



The heart of the matter

The multitude of compliance, risk, and regulatory requirements for financial institutions will continue to increase on several fronts, leading to additional cost and complexity. At the same time, current market and economic conditions make it challenging to drive revenue and reach other strategic goals. In our view, financial institutions can leverage the results generated by risk, regulatory, and compliance activities to drive profitable growth.

Consider the following example. In response to regulatory feedback, the compliance department of a major financial institution enhanced its know-your-customer (KYC) program. As part of this effort, a dedicated team spent months analyzing accounts to identify suspicious transaction patterns. The results helped demonstrate to the regulators that the accounts were compliant with anti-money-laundering (AML) regulations. Rather than stop there, however, the financial institution took advantage of insights from this analysis to generate additional value for the business. The team gained insights into customer travel patterns and foreign transactions. The financial institution leveraged this information to market products such as travel insurance and targeted credit card offers to a specific customer segment.

In this paper, we outline our observations of the industry and present our views on how the risk, regulatory, and compliance functions can evolve to generate value for the business. Leading financial institutions are exploring the strategic possibilities of the risk, regulatory, and compliance data they own, as well as how to use insights from this data and analyses of it, to reduce costs, improve operational efficiency, and drive revenue. Getting risk, regulatory, and compliance data to “go the extra mile” can help financial institutions achieve their business objectives and gain a competitive edge.

An in-depth discussion

Risk, regulatory, and compliance requirements are driving significant costs for financial institutions in today's market. It is our view that, if approached strategically, the compliance, risk, and regulatory functions can evolve from their traditional value-add activities to help drive strategic business priorities.

As part of our exploration into the future of banking, PwC's "Retail Banking 2020" report discusses six priorities that retail banks should focus on in the coming years. These priorities include customer centricity, innovation, business and operating model simplification, information advantage, proactive risk management, and optimized distribution.¹ Later in this paper, we provide an example of how financial institutions can leverage the information collected by the risk, regulatory, and compliance functions to drive the strategic priority of customer centricity. This proves difficult in the current complex business operations of many financial institutions, because risk, regulatory, and compliance teams traditionally do not actively collaborate with the sales and marketing teams. In addition, unique product lines and varying business types drive natural divisions and siloed behavior, making it difficult to reuse data across the organization. We recognize that integrating risk, regulatory, and compliance information with business operations cannot realistically be implemented overnight. However, there are key areas in which data and analytical results can be shared across the organization to help drive profitable growth.

Our industry observations

We have seen financial institutions make tremendous investments to comply with regulatory requirements. And although these processes and systems have begun to mature, the process is far from over. IDC Financial Insights forecasts the worldwide risk information technologies and services market will grow from \$79 billion in 2015 to \$96.3 billion in 2018.²

New regulation stemming from the financial crisis has cost the six largest US banks \$70.2 billion as of the end of 2013.³

We have seen leading financial institutions begin to explore the strategic possibilities of using the risk, regulatory, and compliance data they already own to drive operational efficiencies. These financial institutions are breaking down silos to transform established risk, regulatory, and compliance capabilities into revenue generating opportunities.

¹ PwC, "Retail Banking 2020: Evolution or Revolution?" 2014.

² IDC, "Worldwide IT Spending 2013-2018, Risk IT Spending Guide," 2H2014.

³ Federal Financial Analytics, "The Regulatory Price-Tag: Cost Implications of Post-Crisis Regulatory Reform," July 2014.

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Our point of view

There are many ways for financial institutions to begin using risk, regulatory, and compliance information to help achieve business objectives. We propose an incremental approach to sharing data across functions. Based on our observations and experience, the following objectives are critical to success:

1. **Gain leadership buy-in:** Repurposing risk, regulatory, and compliance data to generate business value is an enterprise-wide undertaking that cannot succeed without the support of and funding from top leadership.
2. **Establish a CDO role or assign a similar role in the interim:** A chief data officer (CDO) can serve as a bridge between the risk, regulatory, compliance, and IT functions and the business (see sidebar).
3. **Develop an enterprise-wide information management strategy:** Determine which information assets can be shared and decide how to improve the sharing and reuse of these information assets across the organization.

4. **Establish a working group:** The CDO (or equivalent) should work closely with functional leaders and the chief strategy officer (CSO), chief risk officer (CRO), and/or chief compliance officer (CCO) as part of a working group. The mission of this group should be to define a sustainable engagement model, to ensure the objectives of all parties are aligned, and to determine funding procedures.

5. **Align individual projects with strategic business priorities:** Senior management and the CDO should work together to determine what risk, regulatory, and compliance data and insights can be reused to address business priorities. Using this information, the team should conduct a pilot before attempting to implement the project on a larger scale.

We discuss these objectives in more detail in the recommendations section below.

The crucial role of the CDO

In today's environment, risk, regulatory, and compliance teams are generally overworked and face tight deadlines. They have little time left to focus on how the data they generate might be used for business purposes.

The CDO can serve as a bridge between the business and the risk, regulatory, and compliance functions. The role of the CDO should include:

- Collaborating with leadership to understand their business priorities.
- Working with risk, regulatory, and compliance teams in addition to IT to identify data and information that could be repurposed to benefit the business.

To learn more about the role of the CDO, see our publication "Great expectations: The evolution of the chief data officer." In cases where the organization does not have a CDO, we recommend assigning a specific person in the interim so that one person has responsibility for this role.*

*Available from www.pwc.com/fsi.

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The benefits of getting it right.

As shown in Figure 1, financial institutions that leverage their risk, regulatory, and compliance data for business purposes can reduce costs and improve operational efficiency to help drive revenue.

Figure 1: Benefits of leveraging risk, regulatory, and compliance data for business purposes.



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Our recommendations

PwC has developed an approach that includes the following steps.

1. Gain leadership buy-in.

Repurposing risk, regulatory, and compliance data to generate business value is an enterprise-wide undertaking that cannot succeed without support and funding from top leadership. Before they commit to such an effort, executives will need to be shown that risk management and regulatory and compliance data, when used effectively, represent a strategic asset, not just a substantial cost. Without leadership buy-in, functional units will not take project ownership due to a fear of increasing costs to the business unit without management's prior approval. In addition, functional units may become concerned about data ownership, further driving siloed behavior. Incentives will also need to be aligned to drive the desired behavior in both the business and the functional groups that are collecting the data.

2. Establish a CDO role or assign a similar role in the interim.

A chief data officer can serve as a bridge between the risk, regulatory, compliance, and IT functions and the business. To be effective in this role, the CDO should have an enterprise view of data, as well as a mandate from senior leadership. In addition, the CDO's role should not be viewed by the C-suite as a cost center. Rather, the CDO's position should be viewed as one that can help generate measurable business value. If an enterprise-level CDO is not appointed, financial institutions may choose to create a CDO role at the business-unit level. Although this approach lacks the benefits of an enterprise-wide view of data, it serves as a stepping stone to a more centralized model.

3. Develop an enterprise-wide information management strategy.

The information management strategy should be driven by the CDO (or equivalent) to help ensure it meets the financial institution's key business objectives. Currently, business leaders are not necessarily aware that the information they seek is already available elsewhere in the organization. As part of the information management strategy, the CDO should determine which information assets can be shared, how to share those assets, and with whom they should be shared. The strategy should also address how the security and privacy of data will be managed when it is distributed more broadly. When developing the information management strategy, the CDO should work closely with the chief privacy officer (CPO) and the chief information security officer (CISO) to drive alignment in all three areas.⁴

⁴ For more information, please see our publication, "Closer to fine: Separating data privacy from information security." www.pwc.com/fsi.

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4. Establish a working group.

The CDO (or equivalent) should work closely with functional leaders and the chief strategy officer (CSO), chief risk officer (CRO), and/or chief compliance officer (CCO) as part of a working group. The mission of this group should be to define a sustainable engagement model, to ensure the objectives of all parties are aligned, and to determine funding procedures. The working group should:

- Help ensure the objectives of all parties are aligned.
- Establish a process that can be embedded in the organization's existing portfolio and program management structure. For example, as projects go through the funding process, the CDO should enforce cross-functional data reuse and standardization as part of that process. This will provide the CDO with oversight into data requirements for new projects and enable the CDO to provide input as to what data is already available and can be leveraged.
- Determine the policies, processes, and infrastructure needed to repurpose risk, regulatory, and compliance data.
- Clearly articulate the metrics used to measure the success of initiatives at an enterprise level, and agree on the skill sets and people required for the project. For example, the working group needs to include a well-rounded mix of employees who can understand not only the business aspects and data analytics but also the nuances inherent in risk, regulatory, and compliance data.

5. Align individual projects with strategic business priorities.

Once the working group has been set up, members should review and assess what data can be leveraged to support project objectives on an ongoing basis. For each potential project, we recommend that business leaders identify the associated strategic business priority, and then work with the group to determine what risk, regulatory, and compliance data and insights can be reused for that particular initiative. The working group should:

- Collaborate with the marketing team to determine key use cases and associated metrics to test and measure outcomes.
- Partner with the data governance team under the CDO (or equivalent) to identify data sources; seek advice on how to repurpose the risk, regulatory, and compliance data; and collaborate on opportunities for increasing business value.
- Conduct a pilot before attempting to implement the project on a larger scale.
- Review outcomes from the pilot and determine whether it was successful.
- Refine or adapt the process as needed before implementing it on a larger scale.
- Prioritize ongoing projects and make adjustments as they move forward.

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Our recommendations in action: Linking to customer centricity.

PwC's "Retail Banking 2020" report cites customer centricity as a top priority for retail banks in the coming years. Financial institutions face competition from traditional rivals and new market entrants, as well as evolving customer demands. Technology has delivered new capabilities to distribute services and reduce the traditional costs of doing business. Non-traditional players have entered the market using digital channels that have lowered barriers to entry and customer switching costs. For these reasons, financial institutions that do not focus on customer centricity will likely find themselves at a severe competitive disadvantage.

We have developed the following case studies to highlight how data and insights derived from risk, regulatory, and compliance activities can be reused to drive customer centricity.

For each of these case studies, we assume that steps 1 through 4 detailed above have already been implemented and that the working group has identified the strategic business priority of improving customer centricity. Figure 2 illustrates how the output of risk, regulatory, and compliance activities can benefit business activities to improve customer centricity.

Figure 2: Illustration of how financial institutions can apply risk, regulatory, and compliance data and insights to become more customer-centric.



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Case study 1: Linking know-your-customer analyses to customer centricity.



As part of KYC efforts, financial institutions collect a variety of data about customer behavior, spending patterns, business ownership, and sources of wealth. For example, a KYC risk score will likely be based on information such as client location, client type and ownership structure, length of relationship with the financial institution, sources of wealth, and product history.

We recommend that financial institutions use the data collected, in addition to the resulting risk score, for a variety of business opportunities. These may include offering more customized products and services to specific clients, identifying new customer segments, and/or developing more effective marketing strategies for existing customer segments.

Case study 2: Linking adverse media scans performed as part of anti-money-laundering initiatives to customer centricity.



Financial institutions use social media monitoring (sometimes referred to as social listening) and adverse media scans of their customers to comply with AML requirements. Leading financial institutions have begun to use natural language processing (NLP) engines in their media scans to mine unstructured data such as postings on social media sites. This enables them to gather sophisticated information and create detailed customer profiles that better explain transactional behavior.

We recommend that financial institutions use the information gathered from social media monitoring and adverse media scans to better understand customer attitudes and areas of potential concern. Specifically, they can use these analyses to understand potential risks to the business, develop new ways to engage with customers, and understand overall consumer sentiment toward their brand.

Case study 3: Linking Consumer Financial Protection Bureau complaints analyses to customer centricity.



Financial institutions are required to respond to complaints submitted by consumers to the Consumer Financial Protection Bureau (CFPB). As such, they analyze the data and insights within the individual complaints filed against the institution.

We recommend that financial institutions analyze the CFPB data to identify patterns such as segments, lines of business, or other areas where problems may be prevalent. In addition, the data can be used to identify customer pain points. The insights gained can help financial institutions improve the customer experience, ultimately reducing customer churn (see sidebar).

These case studies provide a few examples of how data and information gathered for risk, regulatory, and compliance activities can be repurposed to drive the strategic business priority of customer centricity. However, a similar model could be applied to the other priorities discussed in PwC's "Retail Banking 2020" report.

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Analyzing consumer complaints to improve the customer experience

Financial institutions can extract complaints data about their organization from the CFPB web portal, as well as uncover information about their competitors from the complaints that have been closed and added to the public-facing CFPB Consumer Complaint Database.*

By analyzing competitor and industry trends, financial institutions can identify their strengths and weaknesses relative to their peers on a product-by-product basis. The results can be used to improve customer loyalty and boost revenues.

We recommend the following steps when using CFPB complaints data:

1. Download complaints data about your financial institution and your peers. Normalize the data using market share (for example, 100 complaints for a financial institution with 40% market share would equate to 50 complaints for a financial institution with 20% market share).
2. Analyze industry and peer data.
 - Look at the normalized number of complaints by product (such as mortgage) and sub-product (such as home equity line of credit). Analyze complaint types for each product/sub-product of interest. Complaint types include: loan modification, collection, and foreclosure; loan servicing, payments, and escrow account; incorrect information on credit report; continued attempts to collect debt not owed; and account opening, closing, or management.
 - Use NLP to examine unstructured complaint narrative data in combination with other data (such as product, sub-product, issue, date, and company response) to better understand consumer sentiment toward specific products and services. As of March 19, 2015, the CFPB has expanded the information available to the public. Consumers can now opt-in to share scrubbed complaint narratives.**
3. Compare peer trends to your own financial institution's trends, including the timeliness of responses.
4. Identify areas to improve based on a combination of self-assessment and performance relative to peers.
5. Take steps to address areas identified for improvement.

* The database can be accessed at www.consumerfinance.gov/complaintdatabase/.

** CFPB, "CFPB Finalizes Policy to Give Consumers the Opportunity to Voice Publicly Complaints About Financial Companies," www.consumerfinance.gov, accessed March 20, 2015.

What this means for your business

Financial institutions are finding it difficult to grow profitably in today's environment of rising competition, greater restrictions on fees, and increasing compliance and capital requirements. In our view, financial institutions have the opportunity to capitalize on the information assets they already collect and analyze.

There are several challenges that financial institutions face as they look to repurpose risk, regulatory, and compliance data to drive business value.

Obstacles	How to overcome them
Unique product lines and varying business types drive natural divisions and disjointed behavior, making it difficult to reuse data across divisions.	The working group should show the value in sharing data across the enterprise to drive changes in behavior. Improving the underlying data environment will enable data to be shared more easily across the organization. This will help the working group better connect the data to the organization's business initiatives. ⁵
Business leaders do not fully appreciate the nuances or complexity of the data.	The working group should meet regularly with business leaders to share what type of risk, regulatory, and compliance data is available and to help them better understand it.
Potential skills gaps related to data collection and analysis.	The working group should have an open discussion about necessary skills, as well as provide training and ongoing support. We recommend that the project teams be staffed with the right individuals regardless of where they sit in the organization.
Funding is trapped in silos and rarely becomes available for cross-functional uses.	The working group should identify business-enabling benefits such as enhanced customer centricity to gain front-office buy-in and commitment. Although cost-reduction benefits are generally easier to agree on and quantify, avoided duplicate spend is a real potential benefit and should be highlighted.

⁵ If the organization is either already making or considering investments in big data, business owners can take advantage of this opportunity to access risk, regulatory, and compliance data. The big data approach that "links" data across multiple sources and allows search, discovery, and exploration of information without transforming or moving the data to a central location can be faster, better, and cheaper. These investments should also include a "service bus" capability that creates an "information highway" across traditional and big data sources.

Our approach can help financial institutions address these obstacles and implement an incremental approach for successful collaboration among the risk, regulatory, and compliance functions and the business. Success will require the buy-in of leadership, employee training, and collaboration.

Financial institutions should not underestimate the level of effort required to reuse risk, regulatory, and compliance data and information to benefit the business. But those institutions that succeed in generating business value from these overlooked assets have an opportunity to see their risk, regulatory, and compliance data go “the extra mile” on their behalf.

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