

# A Primer on Agile Compliance



Forensic Inquiry



Predictive  
Modeling (AI)



Intelligent Automation

Regulatory System of Insight (RSOI)



Systems of Record  
(Core banking)



Systems of Automation  
(Legacy AML/KYC)



Systems of Engagement  
(Web banking)

*Shirish Netke*  
CEO, Amberoon  
[Shirish.Netke@amberoon.com](mailto:Shirish.Netke@amberoon.com)  
408-689-2846

*March 2020*

## Background

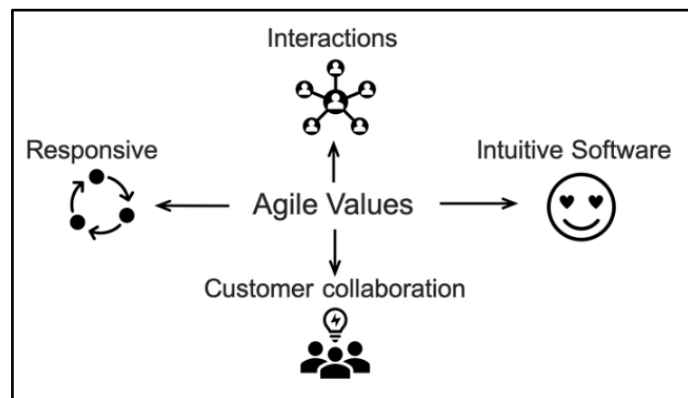
Banks continue to make headlines for failing to effectively monitor and report on money-laundering activity. More than \$2T is laundered through the global banking system every year. Around \$25B is interdicted by law enforcement, which is less than 1% of the total funds laundered. The financial services industry spends an estimated \$70B annually on Anti-money Laundering (AML). And yet, banks large and small are facing sanctions, enforcement actions, fines and shareholder lawsuits for failing to execute effective AML processes.

Regulators are likely to increase scrutiny on financial institutions in future, creating even more pressure. The Financial Action Task Force (FATF) advocates a risk-based approach for banks to meet the challenges of illicit finance. This recommendation was echoed in the US Treasury Departments Strategy 2020 document to address illicit finance challenges faced by the banks.

## Agile Values

There is a strong economic imperative to rethink the approach to the AML problem and implement a risk-based process. Agile Compliance is closely aligned with regulatory guidelines which require that financial institutions identify risks related to the specific products, services, customers, entities, and geographic locations unique to the institution. Agile Compliance enables banks to harness innovation while adopting best practices related to Safety & Soundness.

Agile Compliance is derived from best practices originally implemented by software developers over the last two decades for managing projects. This approach values human communication and feedback, close collaboration with customers, adapting to changes, and producing working results. The Agile Compliance approach also favors intuitive software over extensive training and documentation.

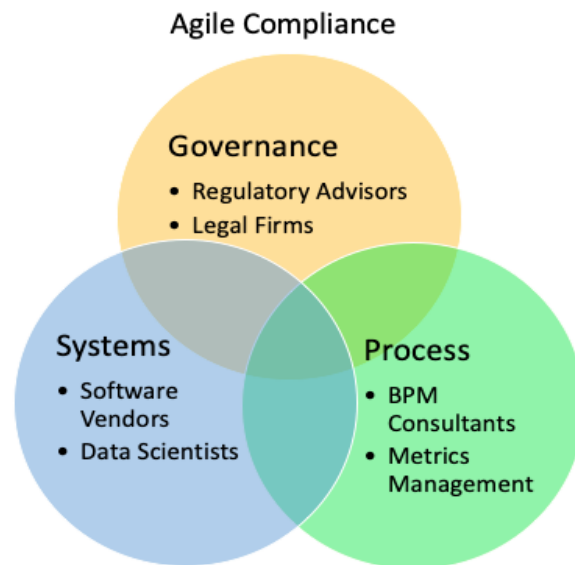


BCG has estimated that using Agile Compliance could cut banks' IT spending by 20% to 30% and could significantly improve their ability to deliver regulatory projects on time.

## Governance, Process, Systems

Banks are typically diligent about following regulatory requirements and use some variation of the five pillars approach to safety and soundness. These can be briefly described as (1) written policies and procedures; (2) a designated AML compliance officer; (3) independent testing of the institution's AML program; (4) implementation of an adequate employee training program, and (5) ongoing customer due diligence.

The implementation of these five pillars is based on best practices associated with governance, process, and systems. Governance, process and systems are increasingly interdependent and looking at them in isolation may lead to sub-optimal results. However, it is not unusual to look at governance, process and systems as separate activities managed by specialists in their respective areas. This is often because the skills associated with these areas are very specialized and it is rare to find personnel or even organizations which have a holistic understanding of all three areas.

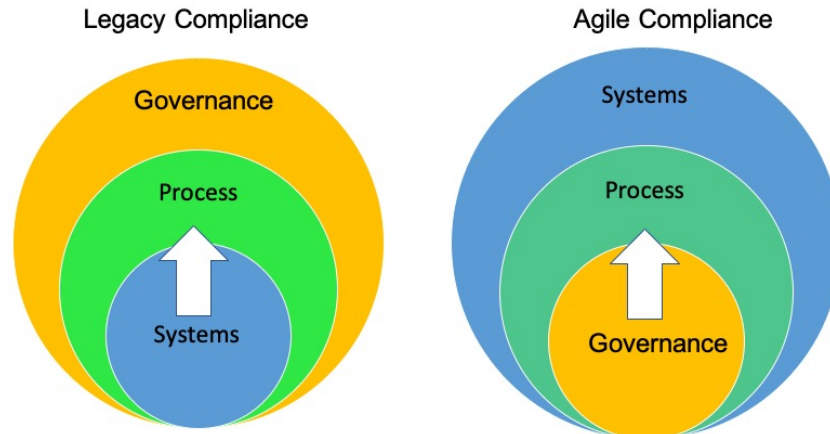


Agile Compliance facilitates the integration of policy, process and systems within the overarching requirements of safety and soundness. Agile Compliance combines the human intelligence elements of compliance (governance and process) with machine intelligence (data analytics and AI) to implement a **risk-based process for compliance**.

## Compliance Processes

AML compliance processes today are determined by the legacy technology in place. Legacy solutions are hard-wired, preventing adaptability, improvement, and the flexibility needed to evolve with the AML ecosystem. This puts constraints on how business processes can be implemented which in turn has an inevitable impact on how governance can be implemented in the bank.

***Agile Compliance: governance drives process and process drives systems***



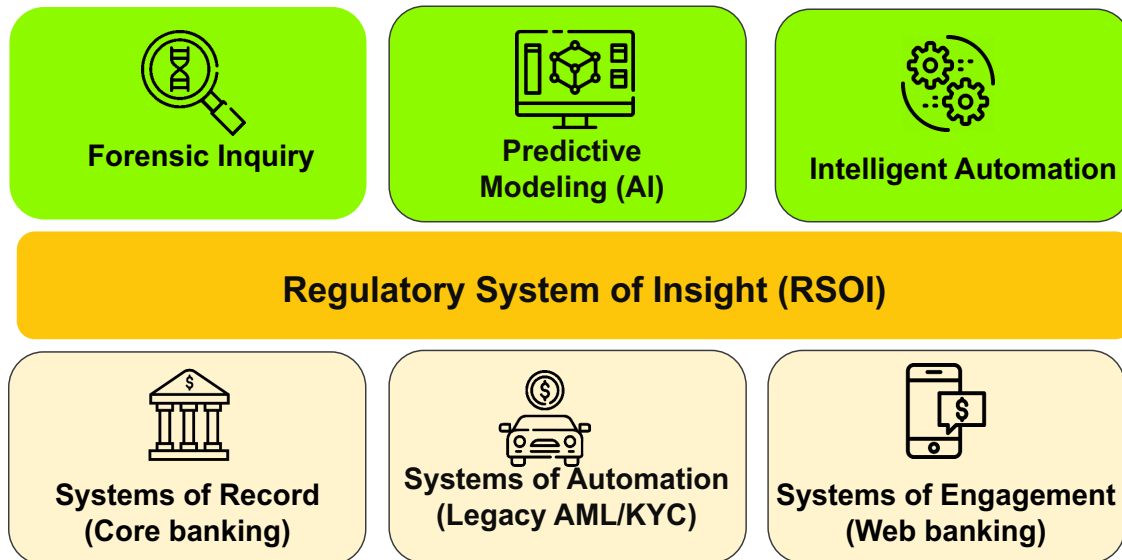
A common concern among bankers about technology solutions is that when they buy enterprise software for AML, they also buy a rigid business process. Compliance processes are hard-wired into the software by technology companies and have been used for years.

Legacy AML systems typically produce high volumes of alerts, of which 90% or more are false positives which hurts the productivity of human resources. To address the high level of false positives generated by legacy AML systems, banks have increased compliance staffing levels up to 10 times in the past 5 years to 'brute force' process the alert volumes generated by rules-based legacy systems. A recent study by Lexis-Nexis indicated that in North America, more than 50% of the \$31B spent on AML was labor costs. Increasing staff has helped make some banks become more effective but not more efficient.

Agile Compliance leverages modern technology to create a risk-based approach to AML that is more effective and efficient than the legacy rules-engine workflow model. Agile Compliance provides insights into operational risk as well as the flexibility to build a process to manage those risks. Investigating financial crime requires forensic inquiry to selectively drill down into certain information based on the results of inquiry. Agile Compliance gives financial institutions the flexibility to create processes and systems in response to governance requirements. Agile Compliance requires that the technology follow the process and not the other way around. This is much more effective and efficient than the legacy rules-engine workflow model.

## Regulatory System of Insight

Agile Compliance uses modern technology to create a *Regulatory System of Insight (RSOI)*. Data from disparate banking systems including systems of record (core banking), systems of automation (loan origination) and systems of engagement (mobile and Internet banking) are aggregated to form a regulatory system of insight. The data are combined with predictive analytics to provide insights which are directly pertinent to operational risk management for a bank.



The Agile Compliance approach to AML is driven by data analytics and supported by process automation. This approach is based on modern technology which has evolved dramatically since 2015, particularly in the areas of Big Data, Machine Learning and Predictive Modeling.

A Regulatory System of Insight (RSOI) is designed to look for answers to questions which are ad-hoc in nature and cannot be defined in advance. The data captured in the RSOI is the basis of conducting forensic inquiry, building predictive models and also creating a risk-based process that is tailored to the unique risk profile of the bank.

## Conclusion

Regulatory guidelines state that a risk assessment process is to identify the specific products, services, customers, entities, and geographic locations unique to the bank. This requires a tight integration of governance, processes and systems. Bank leadership oversees governance and needs processes and systems to follow. Agile Compliance powered by modern technology, makes this possible.