

Risk & Compliance

Empowered by Cognitive Business Decision Solutions

October 2018

Industry Trends

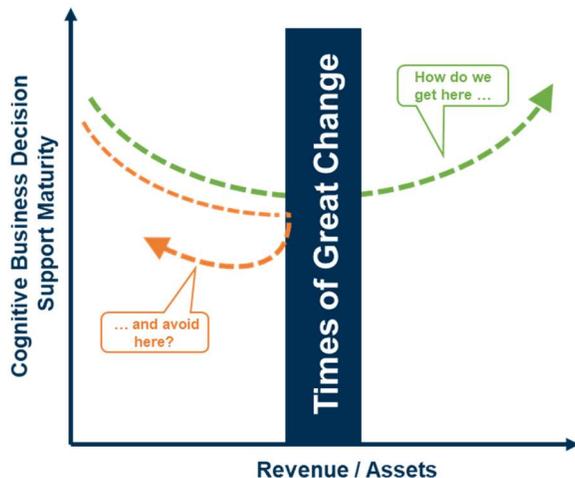
In the ten years since the financial crisis, there has been a significant focus within the Financial Services industry on conservative, organic growth while managing risk and regulatory expectations. Over the past 18 months, the industry has been experiencing a shift. The rapid adoption of Fintech and increased pressure on cost reduction has created an opportunity for leading practice firms to adopt an information-led strategy using Cognitive Business Decision Solutions (CBDS) tools to achieve rapid growth and market share while effectively managing risk and compliance.

The Challenge

The established financial services firms are the latest to be set up for examining the integration of digital, data, analytics, and risk management and compliance into all facets of its business and operating model. Some recent externalities continuing to drive the industry's shift include:

- **Fintech's existential threat** to traditional financial services as Fintech is mainstreamed.
- **Regulatory reform** from potentially freeing up capital for the reinvention of FS business models.

As a firm grows, the relative requirements for enhancing and expanding the operation of its business using Digital increases. The result is a relative decline in its CBDS maturity, as illustrated in the figure below. If the firm is prepared for these challenges through investment in appropriate infrastructure, including CBDS capabilities, it tends to more efficiently scale the business.



Evolving CBDS Capabilities Keeps Organizations on the "Green" pathway, avoiding "Amber."

The Opportunity

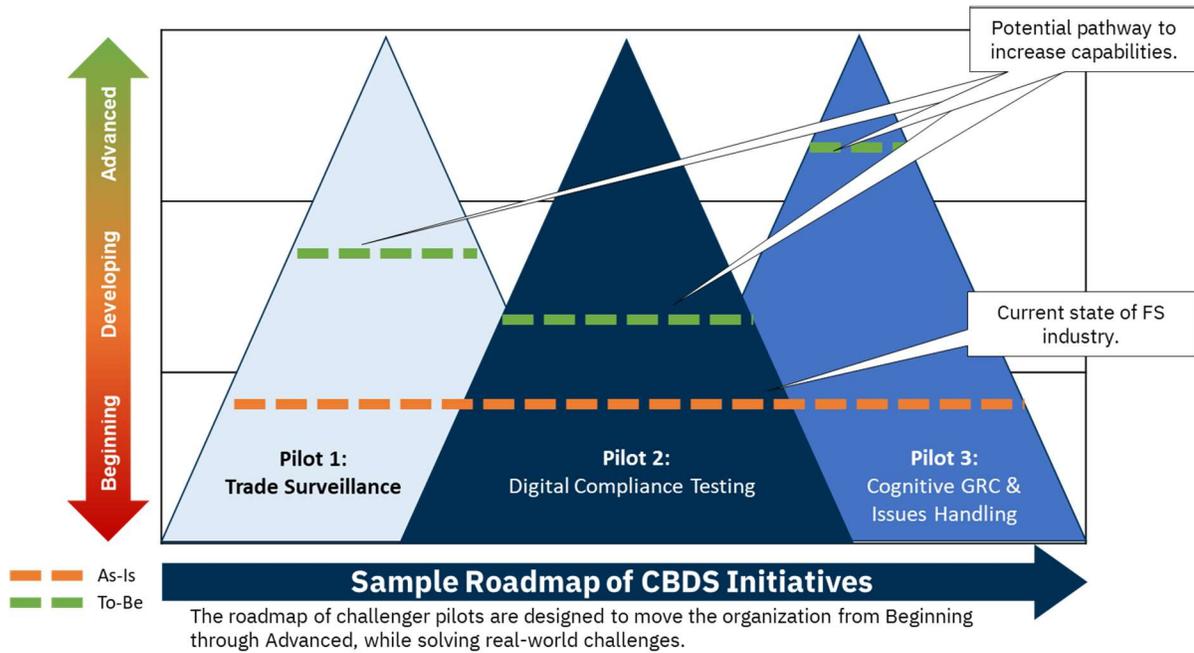
To meet these challenges through the utilization of CBDS capabilities, proactive financial services firms tend to address their market proactively through:

- **Data to support insight-driven solutions**, innovation and development of predictive analytics capabilities, utilization of the wealth of data available to existing institutions. This all relies on quality, governed data and often customer master data.
- **Shift the role the firm provides** to deliver more value to customers by becoming a go-to resource for how customers live, rather than being a pure financial utility. This includes real-time, personalized interactions and integrating digital platforms to capture customer intent through cognitive triggers.
- **Cross-channel experience**, providing a seamless experience that blends physical and digital. As few firms are meeting their customer digital demands, minimizing channel conflict, and increasing digital adoption helps firms stand out.
- **Digital Audit, Compliance, and Risk** monitoring and testing. By improving efficiency and effectiveness of risk and compliance, CROs, CCOs, and CAOs can transform into a consultative proactive team.

Leading Practices

In implementing CBDS transformation, leading-practice organizations have been differentiating themselves through:

1. **Shared Vision:** Development of a shared CBDS vision amongst executives from the front line to the top of the house. This vision is based on a strategic plan that includes collaboration across product lines, through all lines of risk, and ecosystem collaboration through B2B and B2B2C partnerships.
2. **Common Coordination of Investment:** Coordination of CBDS-related investments throughout the organization and sharing these investments within operations, new product development, pricing, and data monetization.
3. **Near-term Results:** Implementation of CBDS pilot initiatives, focusing on near-term results, while ensuring that these include a broader roadmap for organization advancement.
4. **Ecosystem/Platform Business Model:** In implementing a CBDS strategy, consider an ecosystem approach and/or the use of an Open Banking platform, including APIs and partnerships with Fintech and RegTech players.



Assessing and Advancing CBDS Capabilities

An effective strategy for building CBDS capabilities includes the development of a “Strategy and Journey Map” followed by implementing CBDS production “Pilot” initiatives, for short-term progress, to build foundational long-term sustainable processes and tools.

To accelerate Cognitive Business Decision Support capabilities for financial services organizations, we developed a CBDS Capabilities Maturity Model and leverage a series of IBM accelerators and tools. In implementing the CBDS roadmap, we recommend the following approach:

Starting points typically include:

- CBDS Capabilities Assessment
- Strategic Plan & Pilot Journey Map
- CBDS Technical Architecture Requirements & Design
- Conceptual Data Model Requirements & Design

CBDS “production pilots” typically include:

- AML / KYC Transformation
- Payment Fraud Solutions
- Surveillance & Conduct Risk
- Governance, Risk, and Compliance
- Credit & Market Risk
- Risk Data Aggregation
- Data Privacy

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