Risk & Finance Integration Part 2: Leveraging Digital Technologies for Effective Risk Management

Abstract

The financial industry’s efforts to comply with regulation and structural reforms have led to several changes in risk management practices. Risk organizations need to find effective ways to consolidate, optimize, and innovate—to sustainably operate in the evolving regulatory terrain for strategic advantage.
Introduction

Risk and compliance costs are skyrocketing—catalyzed by a combination of prudential regulation, strict conduct supervision, and structural market changes. This ‘perfect storm’ is creating a transient environment that is potentially destabilizing (at least in the near-term), and at the same time, it also opens latent sources of risk and exposes operational vulnerabilities.

Risk organizations need to radically envision and rethink their risk management and regulatory compliance and technology strategies.

Besides cohesive risk and finance decision-making, leaders can focus on:

- Real-time risk management capabilities as a paradigm
- Risk management digitization and enablement

Toward Real-time Risk Management Paradigm

Against the backdrop of round-the-clock, real-time (or near real-time) transactions in frontline web and digital channels, the existing paradigm of batch processing in middle and back offices represents an operational disconnect between risk-taking and risk control activities.
Drivers for Change

Investments choices and the adoption for real-time capabilities are determined by business and domain-specific regulations, applications, and market dynamics—depending on the line of business, products, and regulatory environment.

As firms architect NextGen risk ecosystems, they must chalk out and develop business use cases to understand how latency requirements feature in new capabilities where there is a disparity between risk taking and risk control activities.

Action Points and Recommendations

The notion of real-time is not merely one of being instantaneous in a specific part of a transaction chain. Instead, it encompasses an end-to-end approach where a transaction lifecycle, both within a financial firm and across external parts of the chain, needs to be compressed in terms of latency.

To enable this shift financial services firms need to look at:

- Aligning velocity requirements and processing intensity.
- Mapping out and tracing the efficiency of existing risk data or information production chains in reacting to ‘latency’ demands.
- Enhancing architectural foundations for the right performance levels.
- Driving a flexible and agile data integration and middleware strategy for risk management technology.
Risk Management Digitization and Enablement

In a digital banking ecosystem, front line risk takers and risk controllers will need to respond to the evolving nature of how risk is originated, assessed, transformed, and managed.

In order to define digital strategy for their risk functions, we believe that risk organizations need to consider three strategically pertinent implications around evolving digitization themes in relation to risk management effectiveness and efficiency.

Drivers for Change

In a hyper speed, interconnected digital world, firms can get influenced by:

- The proliferation of anytime, anywhere omnichannels, their impact on how firms operate, and the associated increased risks of cyber-attacks and fraud.
- The rise of digitally migrated, more empowered prospects and customers leaving digital footprints, which lets firms apply advanced risk profiling or segmentation techniques around customers, counterparties, and prospects.
- Technological innovations such as Big data powered approaches that exploit the digital information ecosystem, and yield more accurate insights delivered in (near) realtime.

Strategic Options and Approaches

In looking at the risk value chain, we see opportunities for financial services firms to draw out the greatest value for digitizing their business models in various areas. Firms must begin exploring options and use cases for digitization of risk, regulatory, and compliance processes.
Here are some notable examples.

**Credit underwriting**

- Use client interactions, social media, and peer-to-peer data to augment traditional approaches for underwriting and risk assessment (for example, in retail credit underwriting, for counterparty risk assessments).
- Build capabilities around digitally enabled risk segmentations of prospects to enable effective marketing campaigns, and to create a more accurate pricing of risk to drive revenues and enhance profitability.

**Reputational risk management**

- Develop enhanced, data-driven reputational risk monitoring and mitigation approaches that can handle the increased velocity of information through social media in the digital world.
- Incorporate news and commentary about the firm’s and counterparties’ reputation profiles to supplement risk reports.

Additionally, firms can report conduct risk, centralize risk data utilities, and digitize risk management operations.

**Action Points and Recommendations**

Firms must bear in mind these factors for success:

- Focus on experiences of both internal and external clients.
- Digitize internal risk, audit, and compliance management operating models to improve process orchestration and STP from the outside in.
- Build and strengthen digitally-oriented risk data and analytics Centre of Excellence (CoE).
- Incorporate flexibility and agility in both business and technology operating models.
- Implement a cohesive applications strategy to overcome legacy constraints.
- Ensure that the data middleware layer is fit for purpose.
- Be clear about the context of how economic value will be derived.
Conclusion: Looking Forward

Regulatory-led risk management alone will not automatically translate into a source of competitive advantage. Firms must stimulate and infuse innovative ideas and build strategic foundations in the midst of mandatory business and regulatory investments.

This will give enterprises the ability to discern threat signals earlier, and formulate preemptive responses—leading to increased chances to seize the right opportunities and protect a financial firm’s franchise. Now is the time to prepare.

References


About The Authors
Vijayaraghavan Venkatraman
Vijayaraghavan Venkatraman (Vijay) is a Senior Consultant and the Global Head of the Risk Management practice within the BFS, totaling 17 years of experience in the IT industry with focus on banking, risk management, and regulatory compliance.

Raghunandan M
Raghunandan Mahadev is a Domain Consultant with the Risk Management practice of the BFS, with a focus in risk management capabilities and solutions covering transformational and regulatory programs for global banks and financial institutions.

Contact
Visit TCS’ Banking and Financial Services unit page for more information
Email: bfs.marketing@tcs.com
Blog: Drive Governance

Subscribe to TCS White Papers
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services Ltd (TCS)
Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India’s largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com