RPA as a Compliance Enabler – Exciting Times Ahead

Abstract

The regulatory tsunami triggered by the decade old global financial crisis is yet to abate. This is putting pressure on banks to improve oversight by reinventing their compliance processes. With its ability to perform routine compliance tasks faster and more accurately than human resources, robotic process automation (RPA) offers a cost effective way to ensure a robust compliance strategy. As a result, RPA has caused a lot of excitement among banks that are looking at leveraging this technology to address longstanding pain points in the risk and compliance space. This paper discusses a few key use cases to highlight the benefits of RPA adoption in the risk and compliance space.

Driving Regulatory Compliance with RPA

Robotic process automation (RPA) is gaining popularity in the financial services industry given its ability to drive cost efficiencies and reduce manual effort, which in turn helps the business focus on creating exponential value for the end customer. Most global banks are investing heavily in the technology and initiating proofs of concept (PoCs) to ascertain the business value of deploying RPA systems. Banks are looking to move from plain automation to intelligent automation by extensively embedding cognitive capabilities into RPA solutions to exponentially enhance the value add across functions. One such area is the risk and compliance management function. Given the stream of complex regulations, tighter deadlines, and high compliance costs that ultimately impact revenues, most banks find themselves in a tough spot when it comes to risk and compliance management. With the regulatory onslaught set to continue, banks are looking at driving efficiencies and reducing compliance costs through RPA solutions. Risk and compliance processes that are typically stable, rule-based with few exceptions, require structured inputs, are well documented, manual, and repetitive in nature are ideal for robotic automation.

In the risk and compliance area, RPA can help banks to:

- Automate manual, repetitive reporting requirements of upcoming and existing regulations that mandate frequent disclosures

- Gain the requisite operational agility to scale up or down as per changing regulatory expectations

- Improve controls and checks on end user computing (EUC) applications and drive adherence with some of the BCBS 239 principles

- Reduce remediation effort by cutting down manual processes

- Free up valuable human capital to focus on higher value-adding activities like analyses and review

Key Risk and Compliance Use Cases

In the risk and compliance function, RPA can primarily be deployed in the areas of risk monitoring, risk controls, and risk reporting. Let's look at a few use cases.

Suspicious activity alert investigation

Transaction monitoring systems generate a large number of alerts that must be investigated to identify suspicious activity. For example, a majority of the processes involved in resolving and closing AML alerts are semi-automated or manual, leading to delays in review and remediation. Also, most of the work involved in resolving alerts is standardized and repetitive, which is ideal for RPA solutions embedded with cognitive capabilities. By automating judgement based tasks related to suspicious activity alert investigation, cognitive RPA can speed up issue resolution and improve overall fraud management within banks.

Customer onboarding

During the customer onboarding process, collating data from disparate internal systems and external sources is a challenging task. Bots can be used to collect and retrieve data from regulatory agencies (such as the Securities and Exchange Commission) and law enforcement agencies (the Federal Bureau of Investigation and Interpol) to speed up the onboarding process. Typically, banks are implementing RPA solutions for Know Your Customer (KYC) document gather and validation processes. Going forward, banks are looking to leverage cognitive technologies like machine learning (ML) for document validation to quickly identify prospects with suspicious records, and reject their applications. This will help banks avoid opening accounts of undesirable customers.

Internal and external reporting

Internal management reporting and external regulatory reports such as daily liquidity coverage reports, delinquency reports, and so on require business teams to spend significant time on manually gathering and assimilating data from different sources. Data gathering and consolidation is a lengthy and tedious process, which doesn't leave adequate time for reviews, adversely impacting the accuracy and quality of these reports. With RPA taking over the data assimilation process, business teams will be better able to focus on analysis and review of reports.

Limit breach management

Counterparty exposure limit breaches are reviewed, and approved or rejected as appropriate by risk officers. The resolution involves manual assimilation of data from multiple sources, followed by manual analysis of the data sets to arrive at decisions. This process is time-consuming and error-prone. By using cognitive RPA solutions to automate data assimilation and ML techniques to enable faster analysis and more accurate decision making, limit management can be made more efficient.

Reconciliation

Reconciliation activities are standardized and business users test the data based on specific rules. RPA can not only automate the data gathering process but also carry out business rule checks to enable faster resolution of issues. Faster reconciliation in turn results in quicker management information reporting (both internal and external) and timely reviews that can help discover errors and anomalies.

Stress testing

The annual Comprehensive Capital Analysis & Review (CCAR) requires data to be aggregated and consolidated from multiple lines of business. Line items in the FR Y-14A report must be forecast based on the economic variables provided by the US Federal Reserve System. Most of the processes involved are typically manual, making them suitable for RPA.

The Rocky Road to Adoption

While the business case for RPA adoption in the risk and compliance function is strong, implementation is not without challenges. Banks are therefore adopting a cautious approach before embarking on a full scale implementation.

The lack of frameworks and standards in the organization may pose challenges in identifying the right processes for robotic automation. Moreover, the absence of *adequate documentation* for existing standardized, manual processes can compromise the business case. Another hurdle is that most banks perceive RPA as a short term, tactical fix to problems that cannot be addressed through third-party or bespoke solutions, which may result in siloed adoption.

The absence of a *governance framework* to oversee the implementation program in the absence of an enterprise-wide RPA strategy is another area of concern. This is compounded by regulatory ambiguity over the use of RPA solutions. Organizations will also need to take note of the *fast-changing nature of RPA technologies* as they are still evolving with features and functionalities being added on an ongoing basis.

Given these challenges, banks are currently looking at implementing point RPA solutions in the risk and compliance space. Banks will continue on this course till the technology matures and they are assured of proven benefits. The number of processes to which the concept is being applied is huge, and banks are therefore running multiple PoCs. However, the conversion into actual production is low at this point. The conversion ratio will improve once banks establish appropriate governance frameworks and standards for RPA adoption. This will ensure that the right processes are taken up for robotic automation, thereby guaranteeing a higher degree of success and quicker RoI.

With service providers deploying agents on business users' desktops to capture and document processes suitable for RPA, the number of implementations is set to grow. Banks must therefore focus on establishing RPA governance frameworks, standards, and controls to realize the desired benefits. Furthermore, as adoption rises, banks will have to evaluate the possibility of reusing prior RPA solutions to save costs and realize quicker returns on investment. Banks must look at integrating their existing investments in RPA into an overall strategy to realize long term benefits. Banks must consider integrating natural language processing (NLP) techniques, ML solutions, and chatbots as they progress in the RPA adoption journey, and eventually drive a shift toward intelligent automation that will help create exponential value for customers.

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