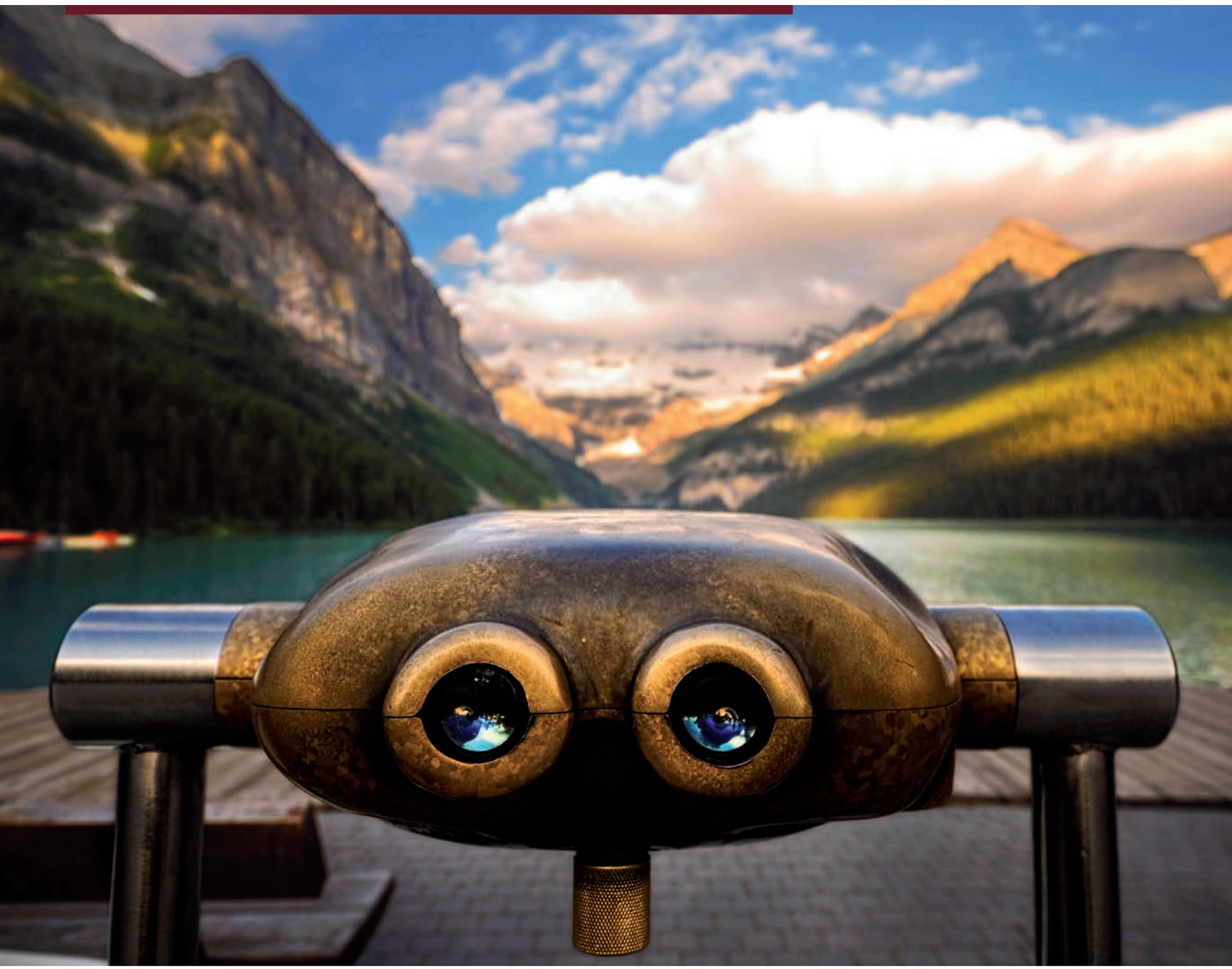
Risk publications

Reprinted from

Operational Risk & Regulation Awards 2014

May 2014
Volume 15 Issue 4
risk.net

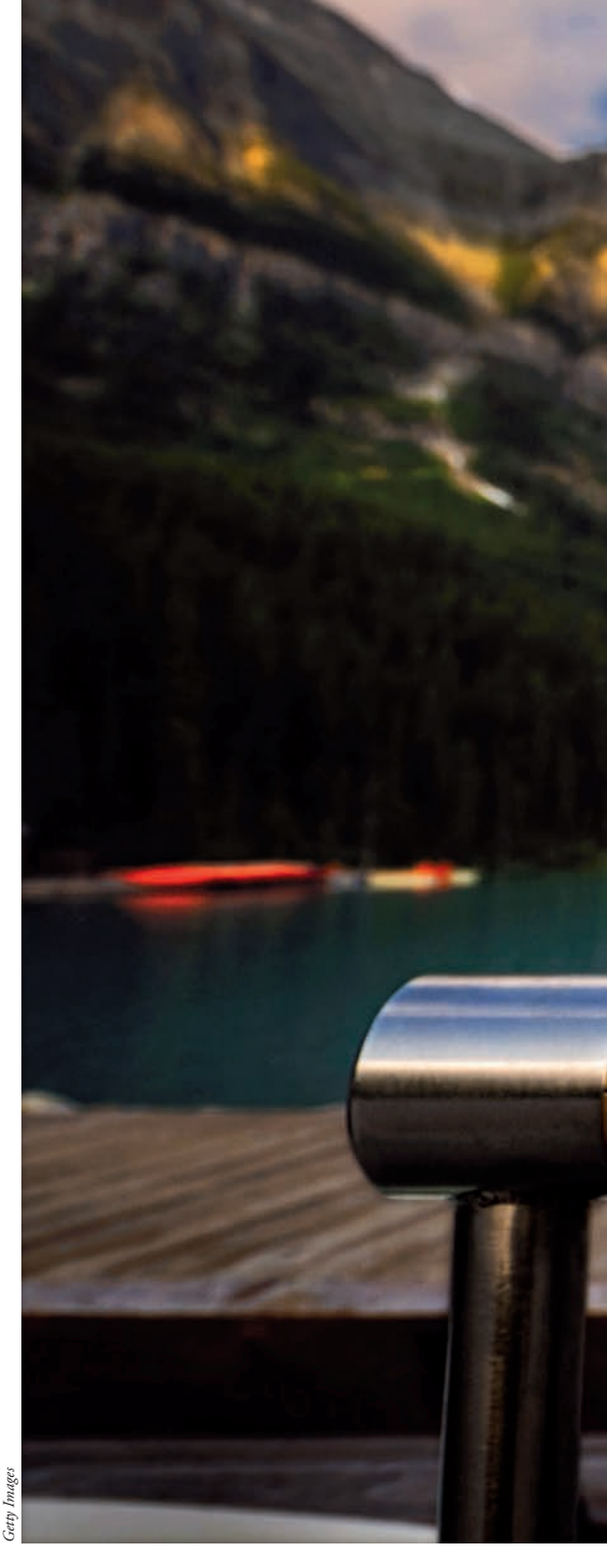


OPERATIONAL RISK ■ CORPORATE GOVERNANCE ■ FINANCIAL CRIME ■ REGULATORY COMPLIANCE

Operational Risk & Regulation Awards 2014

The long lens of the law

ORR Awards 2014



Getty Images

THE WINNERS

Bank of the Year
Nordea

Regulator of the Year
Mark Carey

Paper of the Year
'A Bayesian Approach to Extreme Value Estimation in Operational Risk Modelling',
by Bakhodir Ergashev, Stefan Mittnik and Evan Sekeris

Fraud and Financial Crime Software Provider of the Year
Oracle

Operational Risk Software Provider of the Year
Thomson Reuters

Law Firm of the Year
Stephenson Harwood

GRC Platform of the Year
Wolters Kluwer

Consultancy of the Year
KPMG

Reporting and surveillance have been among the biggest challenges for the financial sector in 2013 – the steady and strengthening flow of news about benchmark rigging, money laundering, mis-selling and other control failures have left regulators around the world with the impression that the industry cannot be left unsupervised for a moment.

The result – and this is a trend that has been under way since the crisis itself – is a constantly growing requirement for banks and other financial entities to report more and more details of their operations, their internal structure and controls, their policies, their customers and their transactions to various national and even international regulatory organisations. Hasty deadlines, uncertain reporting requirements and harsh penalties for non-compliance make this a difficult period for banks, and their operational risk managers in particular.

The US Foreign Account Tax Compliance Act (Fatca) is one of the most salient examples. Due to come into force in July, the uncertainty around its requirements – particularly in relation to the various intergovernmental agreements (IGAs) put in place to implement it – continues to cause alarm. But it is just one of many cases: tighter anti-money laundering (AML) and anti-corruption requirements are also coming into force, the spread of sanctions as a foreign policy tool will also mean heavier data requirements at the customer onboarding stage, and the need for regulators to have a better picture of exposures across the critical parts of the financial system will mean still more reporting and modelling efforts at institutions judged to be systemically significant.

Our awards this year recognise the institutions that have done best in this and other areas of operational risk management – and the companies that have

supported them. **Nordea**, our Bank of the Year, has stood out for its emphasis on AML, and its practical, risk-based approach to business continuity and crisis management. On the other side of the fence, the Federal Reserve Board's **Mark Carey** has won praise from the industry – and our Regulator of the Year award – for his tireless efforts to help the US banking industry to meet new requirements on improved compensation schemes and back-testing processes.

And a focus on the need to save money – and reputations – by clamping down on illicit transactions has led many banks to seek help from **Oracle**, our Fraud and Financial Crime Software Provider of the Year. The increasing overlap between previously separate types of risk has made unified risk management ever more valuable – **Wolters Kluwer** wins the Governance, Risk and Compliance (GRC) Platform of the year award for its successful and popular efforts in this direction.

Law Firm of the Year, **Stephenson Harwood**, has been at the centre of some of the highest-profile regulatory cases in the UK, representing clients against the SFO and FCA. Dealing with evolving regulatory requirements and the need to improve overall risk management earned **KPMG** the Consultancy of the Year award. And ease of use and flexibility were the key features in **Thomson Reuters Accelus Risk Manager**, our Operational Risk Software Platform of the Year for the second year running.

Meanwhile, banks themselves have been wrestling with the problems posed for operational risk modelling by the shortage of reliable loss data – a novel approach to this problem, using elicitation techniques for expert opinion and Bayesian analysis, won **Bakhodir Ergashev**, **Stefan Mittnik** and **Evan Sekeris** our Paper of the Year award.

Fraud and Financial Crime Software Provider of the Year

Oracle

Penalties for control failures and illicit transactions provide an excellent motive for banks to take fraud and financial crime more seriously – for many, this has meant following the path to Oracle

The biggest trend in financial regulation over the past year has been a drive to take illicit transactions more seriously. Whether that's tax evasion, money laundering, sanctions busting or bribery, national regulatory authorities are gaining new legal powers to impose harsher penalties, and working to improve international co-operation. Several large banks have run afoul of this, with billions of dollars in fines for anti-money laundering (AML) failures in 2013 in the US alone – and this has pushed many of them to invest heavily in fraud and financial crime software to ward off future penalties.

"We now see a lot of large customers who have gone through large fines coming to Oracle for some of these big AML or enterprise/CRO level products," says Sasi Mudigonda, senior product manager at Oracle Financial Services.

Oracle's Financial Crime and Compliance product suite covers several areas with a common reporting framework, using the overlap between different topics to ensure better coverage, and focusing on the advantages of a large customer base using a generally standardised product. AML, currency transaction reporting, case management, know your customer (KYC), and several other products are all included in the suite, which also feeds into the customer relationship management, performance management and credit risk areas of the overall OFS Analytics product suite – all depending on the same underlying platform, collecting data from across the business.

Mudigonda says: "The advantage of this approach is that we can leverage the overlap of these analytic approaches. KYC not only does operational risk and compliance scoring, but shares the customer insight that is used to drive more business around the customer. Fatca [the Foreign Account Tax Compliance Act] is another example, as is model risk management. We always had model risk applications for credit risk, we are now applying the same models for AML and fraud."

> **"We have a regulatory reporting module that helps file SARs, currency transaction reports, Fatca reports, all from the same module"**
>
> Sasi Mudigonda, Oracle Financial Services

Oracle's platform has also made it easier for banks to keep up with evolving regulatory reporting requirements, he says: "It's a single unified case management platform to investigate all cases coming out of this engine, and we have a regulatory reporting module that helps file SARs, currency transaction reports, Fatca reports, all from the same module."

Oracle's main efforts in the past year have been aimed at updating the systems to meet new compliance and reporting requirements, and improving the system's ability to handle real-time and unstructured data feeds. Oracle's previous model avoided customising the underlying engine to meet each customer's specifications; keeping the engine standard meant that installations and, critically, upgrades were far simpler to carry out. Instead, it presented customers with a data interface specification, or DIS, a set format in which all relevant data such as transactions and customer onboarding details had to be presented to the engine.

But larger customers are increasingly demanding the ability to handle unstructured data. This could produce real performance improvements, Mudigonda says – experiments with the prototype AML system have shown that skipping the DIS and collating stages can cut 60% off the time needed for the nightly batch processing stage. Further off is a plan to speed up processing of unstructured data still further, to the point where a real-time fraud detection system is possible – "but we are a little further away from that experiment", Mudigonda admits.

Customers praise the company's support efforts – not only continual upgrades, but its Smart user group. Inherited from Mantas, the company acquired by Oracle in 2006 whose technology is at the heart of the financial crime suite, Smart allows users to discuss scenarios and operational risk and compliance issues.