

DIGITAL mid-life crisis

An article about GRC, AML and Digital Maturity

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ARTICLE

INTRODUCTION

I just read an article which states researchers now have concluded that the mid-life crisis actually exists – and it peaks - or reaches rock bottom, at the age of 47,2. According to this research, my mid-life crisis will fall on Monday, May 25th, this year. However, there's not a single indication in my life that this scenario will impact me, besides some grey hair, teenage kids, and a dog. A few weeks back (mid-March 2020), I was speaking at the AML & ABC Forum in London hosted by Informa. Attending the different sessions listening to the other speakers and panel discussions, it struck me that everybody is seeking a “holistic” software platform that could provide a “one view” for all their risk and compliance data. They discussed the vision of how to “jointly” collaborate on operational risks, compliance risks, controls, investigations, and reporting. On the question from one of the panel moderators, “How many of you have a software in place that allows you to have one view for all your risk and compliance information and will let you

collaborate across the AML and ABC compliance domain?”. Nobody raised their hands.

My presentation abstract

Utilizing digital tools for effective AML governance

While paying attention to AML penalties over the recent years in a global context, we've seen a pattern for a high number of penalties given due to the lack of satisfactory AML program governance. Given today's rapid changes in geopolitical risks, regulations, and sanctions, the need to take an increasingly integrated and coherent approach to global risk and compliance governance is paramount.

This means that the components of a financial institution's AML program, sanctions, and ABC compliance must be integrated and collaborative to proactively identify and mitigate risk. It also means that institutions must take a global view, understanding how different components of their organization(s) interact with each other.

CULTURE EATS STRATEGY FOR BREAKFAST

In my presentation, “Utilizing digital tools for effective AML governance,” I decided to discuss the root cause of the mid-life crisis we're observing in the governance, risk & compliance (GRC) domain. I have been a technology professional and devotee for 20+ years. Keeping in mind the mid-life crisis mentioned above, “20+” is a professional way of saying, “I'm getting old.” GRC is also getting old. It was introduced in 2002 by OCEG.org – and “Digital” is getting old; Did you know that the first version of Microsoft Word was released in 1983 – 37 years ago?

It is a well-known saying that culture eats strategy for breakfast. It illustrates how hard it is to introduce new methods in a set environment. The poor people working within the GRC domain face this challenge every single day, driven by continuous regulatory updates. How can we change the culture to achieve our business objectives within the GRC space? A significant

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stake in GRC is “the tone at the top” that sets the foundation for cultural change. We are trying to improve the risk culture, culture of behavior, accountability, conduct to comply with regulations such as Basel, Solvency, IAC, AML, ABC, and more. I will jump the conclusion for now and break to you my suggestion, which is to improve the organizational digital culture. Eventually, the digital culture will aid in driving the inherent corporate culture in the right direction.

MAN VS. MACHINE

Through 20+ years, I have observed hesitance among GRC professionals to embrace technology. GRC professionals are risk-averse by nature, which also makes them brilliant at what they do. The typical question is, “Is your software approved by lawyers?”. I wonder; do lawyers approve Microsoft Word? If the software makes decisions for you, then that’s a relevant question. And, yes, we have seen ugly examples of GRC professionals and lawyers being burned in the past by bad software. Can we expect GRC professionals to embrace technology in their risk-based work? How can technology companies expect GRC professionals to be experts on both GRC and “Digital.” Digital infancy is probably us “technical people’s” fault – we have not been able to speak the language of GRC professionals, lawyers, and other disciplines for that sake. There are thousands of software components for GRC

available, the jungle of LegalTech and RegTech is hard to navigate. Not to mention all the focus on Artificial Intelligence and Machine Learning – digital evolution can be scary. To illustrate my point, let us simplify how we’re looking at digital maturity by splitting it into three main phases; Digitization, Digitalization, and Digital Transformationⁱ.

DIGITAL MATURITY

Let us start with a success story. Core banking has gone through a transformation the recent decades – a digital transformation. What banks did with their core banking is an excellent example of how organizations/industries can utilize “Digital” to transform their business models and provide customers with an improved experience and added value.

First, the phase of “Digitization” (level 1 and 2) means to make something digital. In essence, in this stage, we focus on the data, unstructured (e.g., like Word and PowerPoint) and structured (e.g., like databases, structured file/exchange formats (e.g., XML, JSON) and Excel, if used correctly). In this stage, it is of the essence to apply proper data governance for the data that should be structured. Next, by “Digitalization,” we build on the digitized data and focus on processes and automation. Ultimately, we have the fundament to achieve “Digital Transformation,” where we focus on improving/changing the business model and improving the experience

for our customers. This is, of course, a very simplified explanation; however, it serves its purpose to illustrate how digital can help us improve our governance, risk, and compliance challenges. It is, all in essence, about building and maintaining an enabling GRC information and technology architecture in your organization.

Digital infancy is more common than we think. Based on this model, if you, e.g., are doing your risk assessments and

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treatment in Word or PowerPoint, you are on maturity level 1. If you are using Excel, you have started your journey towards maturity level 2 and, depending on your organization, have probably experienced the limitations of using these tools in the GRC context.

Many of the challenges we observe – not only in the GRC domain but in general, can be traced to the fact that organizations are still basing their business-critical decisions on unstructured and even ungoverned data.

The benefits of structured data vs. unstructured data

"Structured data is highly-organized and formatted in a way so it's easily searchable in, e.g., relational databases. Unstructured data has no pre-defined format or organization, making it much more difficult to collect, process, and analyze".

Many organizations are trying to solve their unstructured data related challenges through the use of AI. AI is an umbrella term involving technologies such as Machine Learning, Natural Language Processing, and more. These techniques can solve many challenges across both unstructured and structured data and are essential components of Cognitive GRC (or GRC 5.0)ⁱⁱ. However, AI is not an alternative to Data Governance. So, where do we draw the line between humans and computers for decision making?

CONNECTING THE DOTS - DIGITAL MATURITY AND AML

We observe a pattern for a high number of penalties given due to the lack of satisfactory AML

program governance, including knowledge management, risk management, and data governance. We see rapid changes in geopolitical risks, regulations, and sanctions. We discern a general inability to demonstrate compliance with regulators/auditors, and top management is seeking the appropriate tools to make timely and high-quality decisions.

In my role at Corporater's Global Program Management team for GRC & Performance, I meet companies around the globe that want to move into a holistic/integrated approach for their GRC and Performance program to achieve a data-driven approach to decision making. Particularly at this AML & ABC Forum, we were focusing on

DIGITALIZATION
- AUTOMATION FOCUS
4

DIGITIZATION
- STRUCTURED DATA
2

5 DIGITAL TRANSFORMATION
- CHANGE OF BUSINESS MODEL/
CUSTOMER FOCUS

3 DIGITALIZATION
- PROCESS FOCUS

1 DIGITIZATION
- UNSTRUCTURED DATA

AML Program Management

3 lines of defense

Digital Maturity

AML Program

AML Governance Risk Context & Criteria, ERM alignment, Policies, Processes, multi-jurisdictional compliance framework	1
AML Knowledge Management Policy Enforcement, Procedures, Processes, Training, External context, Monitoring Framework	1
AML Risk Assessments Risk Identification, Risk Assessment, Risk Treatment, Risk Reporting, Risk Control Self Assessment	1
AML DQIM & Analytics Customer Risk data, KYC, PEP/External Data, Data validation, Technology review, Data trends, DD, EDD	2
AML Assurance & Monitoring Control Environment, Control Inventory, Effectiveness, Internal Audit, Quality Assurance	2
AML Alert Management SAI, SAR Decision Process, Escalation, Metrics, Separation of Duties, Document Retention	3
AML Program Reporting SAR Filing, Board Reporting, Line of Business Reporting, Subpoena	3
AML Transaction Monitoring Transaction Detection, Machine Learning, Validation, Pattern Detection	4

how to holistically govern, manage, and assure an organization's AML program. During my presentation, I focused on the different elements of an AML program to illustrate the digital maturity for each element.

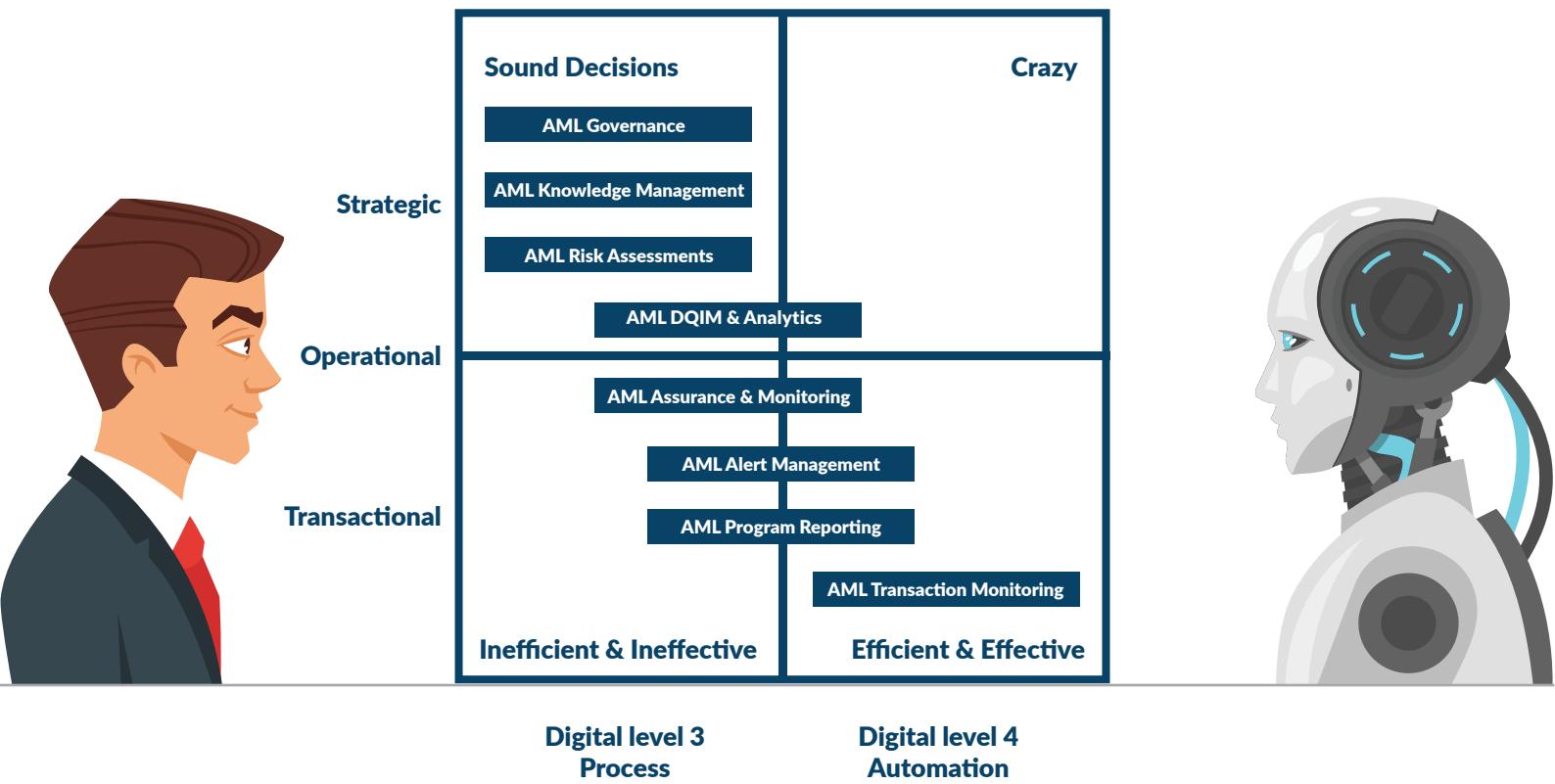
The illustration above shows that the majority of the elements of a holistic AML program are in its digital infancy and can be matured digitally to level 3 or level 4. The business benefits of

doing this include, e.g., reduced fines, higher efficiency, effectiveness, reduced risk of reputational loss, and reduced personal liability for managers in charge.

DECISION ENVIRONMENT, MAN VS. MACHINE

At digital level 3, digitalization has an "enabling" role for humans to make timely and right decisions. In digital

level 4, digitalization has an "automating" and even a "cognitive" function that, governed and applied correctly, can have beneficial business outcomes with regards to efficiency, effectiveness, cost, data availability, and data integrity. However, leaving the wrong decisions to the machines would be "crazy."



THE CDO TO THE RESCUE

With the introduction of the CDO role (Chief Data/Digital Officer), many organizations have established initiatives to establish an enterprise-wide data and information strategy, governance, control, policy development, and effective exploitation of data assets. The CDO often sees the value of “integrated” and “holistic” GRC and Performance-related data, and they possess the ability to bring the C-level together to bridge the organizational silos, bridging the information gap between strategy and operations, and enable a modern decision-making environment. There is a clear trend that the CDO is equipping its GRC professionals with proper software tools for integrated and holistic GPRCⁱⁱⁱ, and at the same time, providing its C-level with high-quality decision-making information.

CONCLUSION

While I do not see any indications for my upcoming personal mid-life crisis, I do see clear evidence of a GRC mid-life crisis in many organizations around the world. We live in a “Digitized” siloed GRC and Performance (GPRC) information Chaos where the indications of a mid-life crisis are many; lack of oversight, lack of collaboration, lack of awareness, and highly inefficient programs.

By moving to “Digitalization” and applying information governance to your GRC data, you can achieve a more efficient and effective, holistic GRC program across the enterprise, breaking down silos – vertically and horizontally. In practice this will look like, e.g., a shared risk register, consolidation, and aggregation of risks across the enterprise, collaborating on shared controls, learning from each other’s risks, shared and aggregated KPIs, KRIs, and additional metrics, integrated audit, incidents, automation of reports, the correlation between performance and risk, and much more.

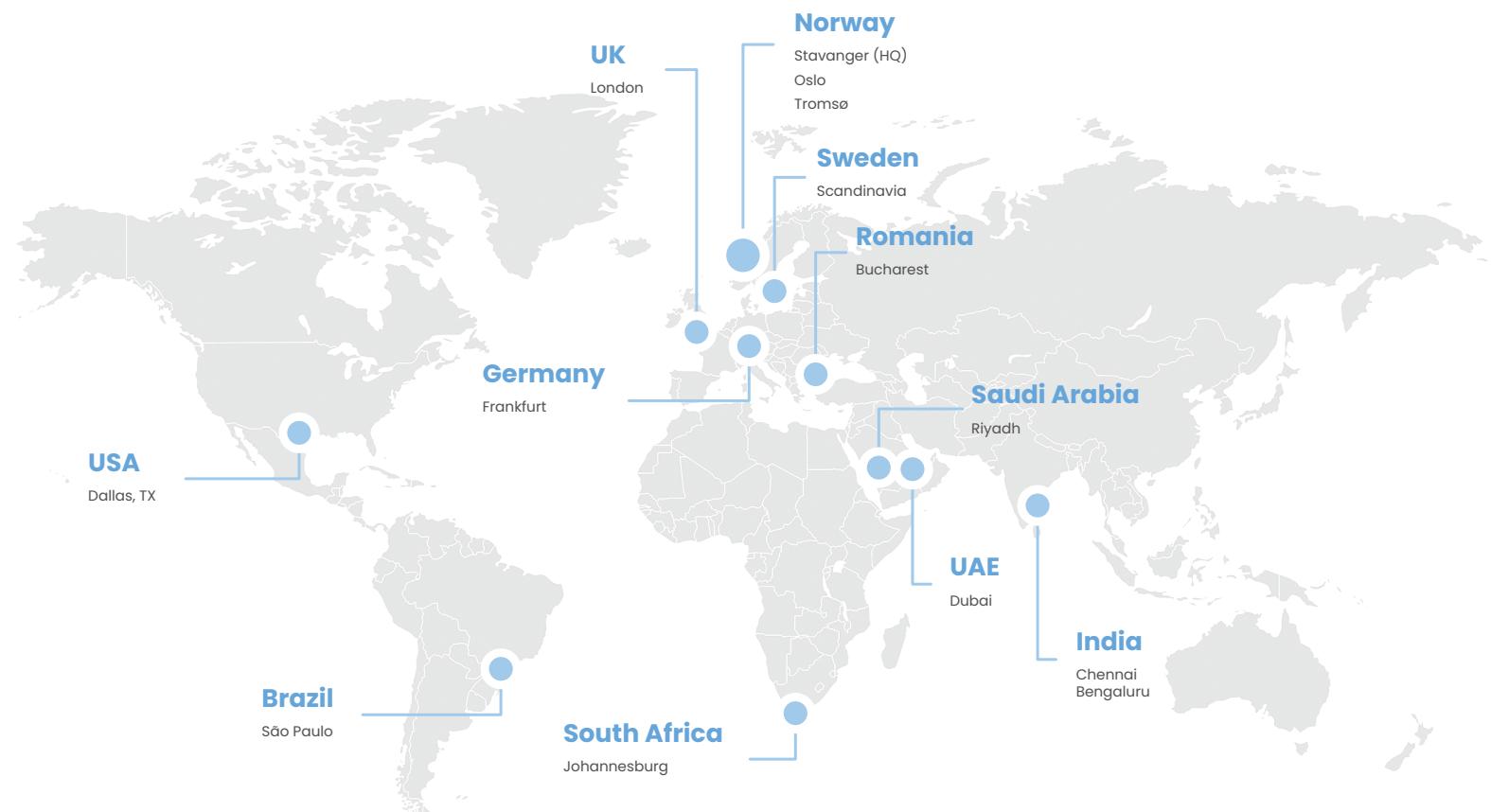
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- [ii] <https://grc2020.com/2019/10/29/from-grc-1-0-to-grc-5-0-a-history-of-technology-for-grc/>
- [iii] GPRC is the GRC 4.0 platform provided by Corporater that enables integrated, holistic GRC and Performance.

Author



Owe Lie-Bjelland is a certified senior risk manager, a technology enthusiast, and an information security professional. He has more than 18 years of international GRC experience in business management, software innovation, cyber & information security, legal & financial compliance, and data & information governance from working as a management advisor and consultant for several fortune 500 companies across different industries in Europe, USA and Latin America.



Corporater empowers medium and large organizations to manage Governance, Performance, Risk, and Compliance by providing them with a business management platform that is highly configurable and adaptable to their unique business model.

Corporater AML solution is a digital tool that empowers organizations to facilitate, manage, and demonstrate compliance for their AML/CTF Program.

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