



COVID-19 Impact Assessment: Applying Digital Transformation to FCC

This is the second piece in the COVID-19 impact assessment series, which looks at how changes in the operational landscape of the financial services industry have impacted firms and highlights the key considerations for firms when undertaking digital transformation projects in response.

COVID-19 has not only led to a shift in [the risk a customer may represent to a firm](#), but has also impacted the operational landscape of the financial services industry. Firms have had to quickly adjust to change, with notable scenarios including:

- Changes in both customer and bad actors' behaviour resulting in traditional monitoring scenarios and risk scoring thresholds becoming outdated.
- Impacts on an individual's ability to prove their identity leading to increased levels of financial exclusion for prospective customers.
- Challenges for firms in meeting CDD obligations due to issues in collecting documentation and difficulties accessing paper-based files and documents.

Rapid adjustments towards digital transformation have been made by firms in order to address these issues. Some of the key areas of focus include:

1. Digital Onboarding

The pandemic and subsequent lockdowns has restricted customer's access to branches, as well as led to the closure of branches (see [example](#)), with non-face-to-face business becoming the norm. [FATF guidance](#) has reiterated that non-face-to-face business is not necessarily high risk if data is obtained from a reputable source and can be standard or even lower risk, and some regulators have even offered [guidance](#) on alternative identification methods. Indeed, FATF noted that the use of digital ID could better facilitate financial inclusion for individuals and lead to a more efficient customer journey. Some enhancements firms could consider include:

- eKYC – digital due diligence used to identify and verify individuals through electronic means.
- digital signature collection and verification.
- Online document submission.

Though these offer potential efficiency gains to firms, any successful implementation will need to factor in the GDPR and the ethical use of data as part of an effective data strategy, as well as potential enhancements to controls including fraud and cyber.

2. Big data and data analytics

The adoption of a data-driven approach to financial crime risk management could assist firms in responding to the challenges presented by COVID-19. The use of [big data and data analytics tools](#) is assisting firms in mapping complex customer networks, performing extensive peer comparisons and reducing false positives when monitoring customer activity. Utilising data effectively can also facilitate a customer-centric approach and empower firms to more effectively align risk appetite with business models. The use of Application Programme Interfaces (APIs) to link systems, data and people is helping to enhance customers' experience and yield better data – though the security risks with the use of APIs should be considered and addressed as required.

3. Regtech

Although some firms may have reprioritised resources during the pandemic, there is evidence of growth in the regtech sector over the last year, in part owing to the agile nature in which it can be used to respond to challenges such as those presented by COVID-19. This includes the deployment of [AI and machine learning tools](#) that are helping to reduce false positives, prioritise alerts, segment risk and spot patterns and trends in customer behaviour. Its use has been aimed at bolstering a firm's resilience and responsiveness to change demands and minimises the risk of human error by automating processes – and in turn helping to change perceptions around the speed of delivery of compliance programmes.

Summary and key considerations

As a result of wider changes originating from the pandemic, many firms may already be executing or in the process of planning digital transformation programmes, and this presents a great opportunity to either incorporate Financial Crime Compliance within scope, or utilise the infrastructure developed under digital transformation programmes to enable better financial crime controls. At the same time, firms should keep in mind that implementing an effective digital transformation programme needs to ensure that operational risk and disruption is minimised. Key points for a firm to consider are:

- The rapid adoption of digital technology needs to be complemented with effective controls to mitigate any increased financial crime risks, such as heightened fraud and cyber-security risks.
- When implementing digital onboarding, the use of digital ID&V should involve reliable and independent sources. When defining acceptable levels of identification for customers, alongside operational and commercial consideration firms should consider a jurisdiction's adoption of eIDAS and biometric systems, as well as customer, product and geography risk.
- A robust financial crime control framework relies on a solid data foundation and the effective use of both structured and unstructured data to increase efficiency and reduce noise. A firm's risk-based approach should therefore be complemented by an effective data strategy and usage of analytics tools.
- APIs can assist with linking systems and data points and provide a 360-degree view of a customer; but data privacy and data security concerns need to be considered.
- Legacy systems, poor architecture and data silos have the potential to constrain any planned digital technology transformation. Investment in digital and data transformation programmes should therefore be undertaken on a harmonised common-IT platform across business lines and geographies where possible, to maximise efficiency and minimise disruption.
- The rapid move towards implementing technology and regtech may result in some firms being left behind – with potential future ramifications for how such firms are supervised.

As part of our advisory and transformation services, we are helping clients maximise the impact of their digital transformation by incorporating FCC in their scope in an effective manner. We also offer our own cloud-based tool [Regsight](#), which is a great resource to identify regulatory requirements and efficiently link them to policy and control frameworks. To discuss how we could help as part of your FCC transformation journey or to arrange a demonstration of Regsight, drop us an email at enquiries@plenitudeconsulting.com

The next and final instalment of this COVID-19 impact assessment series will look at how the pandemic has contributed towards a change in how people interact with the financial services industry, and some of the considerations for firms as we emerge from the pandemic and into a new form of normal.

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