Meeting the Regulatory and Compliance Challenges that Lie Ahead

Hubbis and our exclusive partner for the event, Swiss RegTech provider IMTF, invited a group of Malaysian wealth management compliance, risk management and other experts to a private discussion in Kuala Lumpur. Regulatory demands have intensified, compliance requirements are ever stricter, and internal and external supervision ever tighter. How do financial institutions and wealth management firms approach this immense challenge, and how can digital RegTech solutions solve the myriad of vital tasks and processes involved?

The key takeaways

Staying ahead of the game - A firm-wide commitment to compliance

Guests agreed that it is essential to take a proactive approach to regulation and compliance, taking a bank or firm-wide approach, not simply expecting different teams to solve these vital issues. A guest remarked how firms must create a bank or firm-wide culture of compliance, to help focus the teams, from front to back office and everyone in between. Like this, compliance will not be the "enemy" for RM's, it will be a "partner."

Humans and technology still work hand in hand

The discussion explored how the vendors operating in this space have some excellent technology, but that this technology is not an all-encompassing solution for regulatory requirements; it still requires human attention. The banks and firms themselves must embrace the need for significant internal commitments of money and personnel to work alongside the RegTech solutions available. Automation can only achieve so much thus far, while human analysis of mined data is essential to take the right decisions for following up on alerts and leads.

Regulators need to sharpen guidance

An issue for all the guests is the lack of very well-defined guidance from local or global regulators, as all too often guidelines are open to misinterpretation. Nevertheless, regular dialogue with those authorities can help refine the understanding of expectations. Local forums to discuss the regulations amongst subject matter experts across financial institutions is another great opportunity.

Hubbis - IMTF roundtable in Kuala Lumpur

Talent is often lacking

For foreign entities hoping to enter a new market, the sentiment from local banks is that compliance expertise must be tailored to local practices; hence, local expertise is required. Fortunately, this compliance expertise is available locally, with banks and other firms spending plenty of time and effort to educate and continuously train in-house professionals. However, an issue is the proximity of Singapore, which can often attract the best talent due to lifestyle and financial attractions.

AML solutions are multi-faceted

AML is a major challenge for everyone, and even in a place as advanced as Singapore, there is still a lot of manual work involved. AML is not only about transactions, but it must also be looked at from a 360 perspective, considering customer behaviour, refining customer profiling and other key factors. Nothing is static.

KYC is an art as well as a science

The mission for the banks and other firms is consistency and quality. KYC is as much an art, as whatever guidelines you set, everyone interprets the rules differently. The financial institutions have to find the balance of what is really required for KYC and not overcomplicate it.

Proof of concept first

For transaction monitoring and fraud prevention, AI will come, but it is not yet sufficiently advanced to take away the human interaction. The financial institutions must first achieve security of data, correct and consistent preparation and delivery of transaction and client data in a meaningful form before RegTech solutions can become truly effective. This all takes time.

Document recognition - more time required

Document recognition and reading (OCR) are fine with official documents such as passports, or other standardised documents, but as yet anything outside those typical formats probably still needs to be handled manually. The quality of the scan will have a big impact on the results. Digital can advance the speed and reduce costs, but it must be used in harmony with the in-house human skills and practices.

Data analytics is not AI

Firms can observe client activities and profile them without AI, yet many banks have not even started on that. So, the first step is using technology to mine data, then human skills to asses that, thereby reducing alerts and making the systems more robust. AI is the next level that can be layered on top of that, but the industry is still a few years away from AI being the simple answer to transaction monitoring.

Step by step is the pragmatic approach

Although major banks and other clients desire fully automated and streamlined processes, they must adopt it step by step. A modular approach to focus, from step one of the onboarding process and then client lifecycle management, including behaviour monitoring and profiling will bring the expected results.

Biometrics still have a way to go

There are vendors for biometrics, but as yet there is no single standard which is applied in the financial industry, therefore making the effective use of such technology tricky to achieve in practice.

A KEY THEME THAT EMERGED WAS THE ACCELERATING DRIVE to take a proactive approach to regulation, so that local wealth management firms are ahead of the game, not continually chasing behind the growing wave of regulatory and compliance needs.

There was definite interest in learning more of the state-of-the-art solutions that can propel their legal, compliance and risk management professionalism in all areas of onboarding/KYC, ongoing client KYC, AML, transaction monitoring, and internal and external reporting.

Businesses in Malaysia will handle new client onboarding either directly or some will be passed through licensed advisors and distributors who must meet the same regulatory and compliance requirements. "Our clients sign declarations that they comply with all the relevant rules that fund and asset managers have to comply with," said one expert. "Those distributors are actually regulated by Bank Negara and audited by them, so that works fine."

Develop your own processes

"We do our own risk profiling, which is already automated," said a guest, "and any high-risk clients are flagged as such and will trigger enhanced due diligence, requiring more documentation and senior management approval. It is all about the source of wealth for HNWIs, and we have refined the process to a scoring-based system, and once such a client is onboarded we then have transaction monitoring which is actually system-based, driven by alerts over the lifetime of the client's activities with us."

A concern expressed was the lack of accurate guidance from the regulators and therefore the potential for misinterpretation of their expectations. "It is definitely too general," said a guest, "often open to misinterpretation, but they visit once a year, and we can ask questions and refine our understanding to match their guidelines and expected outcomes."

Hope for full automation, but people count today

A senior banker explained that they use a third-party system from a leading vendor to handle AML and transaction monitoring, with automatic updating of protocols to handle new regulations. It is also built on a basic enterprise case management tool. "It is easy

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to use," he reported, "and we also have an offline data mining process that we handle ourselves because we can't really 100% trust the product; we need to look for some other ways of identifying suspicious or abnormal transactions as well, to see patterns, to hunt for anything abnormal. Some of this is manual, some online, but we expect to upgrade everything to automated transaction monitoring, and we will use more AI and other new technology solutions."

He also explained that the bank has been expanding its compliance expertise and practices across international markets, as the bank has been expanding across the region. "It is vital to have local expertise. For example, in Cambodia practices are significantly different, so we need to understand what is normal there in order to monitor transactions properly and in order to make certain decisions in certain markets."

AI has further to go…

AI is not yet sufficiently advanced. "Automation can achieve so much, but we still believe that we need people because people somehow are still the key element of the

analysis required. Data is available through automation, but the analysis is the key element, a judgment is required, then a course of action is laid out. We do not have the budgets of the major banks, so we must also invest wisely in technology and systems, to make sure we see a return on that investment. To achieve that we need talent and we focus intensively on continuous education and training in-house," said an attendee.

"When we talk about availability of competent compliance officers or AML officers in the fund management and wealth management industry," came another voice, "we are seeing a shortage, so salaries are being bid up for the right quality staff, and often there is competition from Singapore, which can attract our best people. That can be a bit annoying, as you train them, you give them good bonuses, you give them good salaries and yet you still can't compete."

Talent and culture required

"We also need to do a lot of culture building within the organisation regarding the awareness about compliance, awareness about risk management, awareness about AML, because it is a firm-wide effort, it is not just the legal or compliance or risk or legal departments that can achieve the right outcomes in this area," said another guest. "The whole organisation, from top-down and bottom-up, needs to be involved. And we need diversity of expertise and types of people internally, in order to provide the right levels of perspectives and approaches to these challenges. The key is to let the frontline know that they are the first line of defence, they need to take care of, they are the

JORDAN LO
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first level in the battle, so they are the front liners. Awareness building is something that must be focused on."

Dr. Andreas Wenger, APAC General Manager at IMTF and Jordan Lo, Senior Project Manager, were also at the discussion to give their expert views on the world of client onboarding, AML, automated KYC, fraud prevention, name screening, and a host of other compliance areas. Their approach was not to attempt to 'sell' guests with the brilliance of their solutions, but to highlight where RegTech can solve problems, and where digital solutions must advance further to achieve everyone's optimal expectations.

Wenger took the floor, first explaining briefly about IMTF (see associated article below). He then focused his attention on AML/KYC challenges and solutions.

He explained that AML/KYC is a major challenge for everyone, but even in Singapore, people might be surprised that for wealth management this is still largely manual. "There are varying degrees of automation," he noted, "and every bank has their innovation centre, their innovation lab, but what's

happening there is maybe not ready for production. So, despite a lot of investments into new tools, we still see a lot of manual processes, especially if you go to wealth management which is maybe more complex for compliance than retail, where less money is involved, therefore less risk."

See the big picture
Wenger explained that once onboarding is complete, AML through transaction monitoring takes place, but he stressed that AML is not only about transactions. "It is customer behaviour. For example, when profiling the clients, a high-risk case is not permanently high-risk. Systems nowadays can perform dynamic profiling, and that is where you as organisations can move to the next level of AML transaction monitoring, not just looking at the transactions. Moreover, KYC data is part of AML, so, for example, regular changes of address or phone numbers might trigger alerts. In short, a holistic view is required to take this to the next level. AI is advancing, but it is not quite there yet and the regulators need to fully understand what it does for each organisation to feel comfortable with that."

Lo explained more about the firm's latest KYC solution, built on

IMTF's successful adaptive case manager. "Everything is automated onto a single platform," he explained. "For a large private bank with several thousand cases each year, this type of capability is already a huge benefit in terms of automation, at least to get a consistent level of quality amongst all the different RMs and KYC officers. Remember that KYC is as much an art, as whatever guidelines you set, everyone interprets the rules differently. So, the consistency is very valuable to businesses from an efficiency and risk management perspective."

Get your hands dirty
Lo explained that even for a major bank with large resources, there is considerable manual work involved even today. "A major private bank client we work with clearly wants to get to full e-onboarding, wants to get everything digital, but they are also very realistic, so we work on automation in terms of case and workflow automation, document guidance and data capturing as the first steps."

IMTF is working with another major bank on proof of concept (POC) for a variety of areas concerned. "For transaction

monitoring and fraud," he commented, "AI will come, because we have proven it to work with the technology, but there are lots of things that need to happen first, such as achieving security of data, and the preparation and delivery of the bank's own transaction and client data in a meaningful form for IMTF or another vendor to use. But this all takes time."

Seek stability, not complete solutions…yet
As far as AI capabilities within the field of KYC are concerned, "document recognition and reading is fine with official documents such as passports, or other standardised documents. Anything outside those probably still needs to be handled manually. AI can also help the RMs and others in name screening and the first cut of searches on new or existing clients. So, in short, there are KYC automation tools out there which can help make the process more stable, and hopefully more compliant. But there are still many stages involved and it is a big burden on any bank or firm, so if systems can help, they should be used. And remember that risk culture and front office compli-

ance is very much about teamwork, so we see our case manager as a collaborative tool. Automation can come in and support the bank from front, compliance, even the back-office operations, throughout the organisation, as it is a firm-wide issue to address," explained Wenger.

A guest remarked that from his viewpoint, there appears to be no single vendor solution available for these problems. "AI," he said, "should be helping identify the client's behaviour over time, how we actually move in on certain patterns that are dangerous, that raise red flags. We need to improve the identification and

so significantly in transaction monitoring that it will carry out the majority of AML processes, Wenger replied that AI is coming but is not here yet as a solution to this.

"There are so many AML parameters that need to come into the equation, so for now, from our experience of working with the big banks, the big players, none are yet comfortable using AI in AML to take final decisions. I am sure it will come at some time, but it will be a few years until it is truly robust." The real gap continues to be that AI is not yet able to reassure the regulators and make them comfortable.

automatically, and this sophistication is unique to IMTF, and it is easy for us to prove that our AI clearly works here. However, when it comes to transaction monitoring, so far, we are talking about building profiles, which is quite static, it is like a rule, based on the number of transactions, net asset value, AUMs, and so forth. Then the next step is dynamic profiling, which we are also able to do, but for example for clients that are very active, it takes time for the clients to prepare the data and then also for our system to learn. In short, what I am trying to say is the technology is really all there, but all these stars need to align before we are able to fully deliver automated solutions to the market and say we don't need the manual processing. It will take a few more years, honestly."

Wenger then commented on some work with a major banking group, highlighting, for example, the bank's push for a tool to pull emails and all sorts of documents together should the regulator come in to conduct an audit.

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Data analytics and AI
Wenger agreed, noting that there is sometimes a danger of vendors confusing data analytics with AI. "AI is different, so for the profiling of the client, you don't really need AI to start with. You can observe the client activities and profile without AI, yet many banks have not even started on that. However, if you start profiling effectively, you can already reduce a lot of alerts and make your system more robust. This is data analytics, and AI is then the next level to be layered on top of that."

On the subject of whether we will see a day in the foreseeable future when AI will, in fact, help

Proof of concept
Lo explained that we are at different levels of readiness with AI, in terms of readiness to deploy technologies into production at scale. The challenge IMTF now faces is getting the banks prepared so that they can all prove that AI works. "But, with the bank limitations, we are also not quite there yet in finalising all these algorithms to make sure that we have this packageable solution," he reported. "So for example, for name screening, a very cool feature we have is that we are able to detect what ethnicity the name is and, based on that, apply a specific mix of algorithms to maximise the performance of the name screening."

"This is pure AI," Lo added, "because you are doing everything

Build the map, then the roads, then the digital expressways
"They wanted a fully streamlined process," he reported. "They know their clients do not want to wait several months or even one month to be onboarded. But we knew we could not just jump in when internally things could be messy, even if the client might not see that. So, step by step, we started with the KYC review, then onboarding and finally digital onboarding will follow. It is all about controlling risks, streamlining processes, reducing false positives, and therefore manual workload, and so forth. However, while client experience is es-

sential, if you are internally not properly aligned you will still face user dissatisfaction at the end. So, we have a roadmap for the client's solutions, but it takes time."

A guest commented. "You are right about getting your house in order first before you actually move on to digital onboarding and things like that. We actually did that. We embarked on that about four years ago and late last year we came up with an e-form. And now basically most of our agents and most of our internal marketing people will be using an e-form which then passes through our sales support, fund operations, investor operations, all the way down to AML unit and all the KYC areas, as well. But verification of identity here is not the same as in India, for example, where they have all citizens digitally logged by the central government database. And we don't have what Singapore has, whereby you can just access a central database and then you can verify your client. So, in reality, it remains very difficult for us to move on with our digital onboarding because of the difficulty of the identity verification processes. The regulators have very high expectations, but we don't necessarily know how to meet those."

Wenger replied, noting that IMTF does not provide biometrics solutions. "There are other vendors that tackle the issue in different ways, that we are constantly on the lookout for and partner with," he remarked, "but as yet we also don't see a standard which is applied, so it makes it very difficult. In short, we are not going down that particular path to provide a specific in-house solution. Without a single standard, digital ID verification remains very challenging." ■

IMTF - Leading the Field in Smart RegTech KYC and AML Solutions

Founded in 1987, IMTF is an international software and RegTech company headquartered in Switzerland with offices worldwide, such as in Singapore, to meet the demands of their growing client base in Asia. The company offers innovative software solutions which enable clients to increase efficiency, achieving significant cost reductions with assured compliance. Andrews Wenger offered the guests some essential background on the firm and its solutions.

IMTF has a comprehensive offering, with competencies and tools that focus on: onboarding and client lifecycle management/KYC; AML, tax and market monitoring compliance; name screening and smart semantic open source investigation, custom-built front-ends for all types of channels and devices; technology and process consulting; secure document management; adaptive case management and collaboration.

The modular approach from IMTF is unique and offers the Financial Institution (FI) the opportunity to focus on their main pain points first, and then build up the platform.

"IMTF has three decades of experience, so we are very far from a FinTech start-up," Wenger explained. "We have a world of experience in compliance, starting with AML solutions back in Europe, and we are expanding across KYC, fraud, transaction monitoring, all of which are, as you know, very prominent regulatory topics these days. We are Swiss by origin, and our regional HQ is in Singapore, from where we are dedicated to this dynamic region."

IMTF in fact offered its first compliance solution in 1999 and has since then acquired extensive experience in the regulatory technology field.

"Nowadays," Wenger elucidated, "digital transformation has become a buzz word. At IMTF, we understand digital transformation as the convergence of technology, compliance and FIs' products/services to enhance the customer experience through customised offers, increase internal efficiencies and discover new revenue opportunities thanks to the high-quality data collected."

Wenger added that the automation and digitisation of the Client Onboarding & Lifecycle management are so fundamental to FIs and digitising even only a few key areas of the onboarding process can already bring substantial improvements.

When looking at digitalisation, he observed that too many banks just look to automate the processes, whereas IMTF aims to look holistically at solving compliance, improving efficiency/automation and also has its eyes set firmly on the end user experience. All these elements must come together seamlessly.

IMTF's ACM protocol and ICOS/2 solution
"Onboarding," Wenger explained, "is a major pain point. "Our tools are designed to fully automate this process, remove the paper, remove the manual pain points, and result in efficient client onboarding and client satisfaction."

IMTF's onboarding platform (ICOS/2), he explained, addresses all the FI clients' different journeys on all channels and devices (Tablet, Mobile or Desktop). Therefore, the data captured during the onboarding process is consistent, relevant and of high quality.

Furthermore, business/compliance rules are applied in real-time to the data being collected to guide the client advisor (or the client in self-service) with dynamic questionnaires through a personalised onboarding journey. ICOS/2 comes with "out-of-the-box" processes that can be tailored graphically and customised quickly with no programming.

The modularity of ICOS/2 supports FIs in achieving quick wins (for example automated semantic KYC and name screening, case management and so forth). It also offers a full compliance strategy (for example, digital onboarding and client lifecycle management) to drastically reduce, among other benefits, the overall onboarding time.

ICOS/2 can easily integrate into IMTF's Adaptive Case Manager (ACM), which allows a faster and automated decision making across departments on each "event/alert" raised during the onboarding process.

On automated semantic KYC, Wenger reported that with ICOS/2, name screening may be extended with a smart, semantic and federated search and filtering across various data sources and languages. The semantic search tool "Find-It" from IMTF automates the highly manual process of "googling" source of wealth and adverse media.

"Semantic highlighting," he added, "guides relationship managers and compliance officers to the most relevant text snippets and removes the need to read entire documents. The assessment and qualification of the articles are also managed within the ICOS/2 + ACM tool."

Wenger reported that the overall effectiveness of the IMTF solution results in dramatically faster onboarding, and remarkably more accurate and compliant outcomes. Eliminating or solving the false positives that arise continuously in name screening is a key part of the solution. "In the case studies," he reported, "we can reduce the false positives by a factor of 46 with AI, which increases operational efficiency incredibly."

Wenger then moved on to explain how the process can be enhanced through the customisable ITMF solution. "The modular approach," he concluded, "is all about building blocks; we identify the pain points the FIs have, then we start addressing a pain point with one of the modules, and then we can expand down the line. In short, we offer a platform that, step-by-step, achieves the outcomes you expect for the problems and pain points you like all the other FIs undoubtedly face today."

"Efficiency, ease of use, improved customer journeys, enhanced compliance, decreased risk, higher employee satisfaction and reduced costs are the benefits FIs can expect with our solutions," he said on closing.