

TOWARDS RISK DILIGENCE CONVERGENCE

Financial services firms must be ready to move beyond the component-based mentality of years past and look for comprehensive information processing solutions, says THOMAS OBERMAIER.

The practice of regulatory, financial and reputational diligence has long suffered from a fragmented and costly 'siloed' approach. Traditionally, most firms have had too many systems and people performing the same functions across the credit, fraud, AML and transaction processing risk space. As each discipline expanded over time, seven-figure budgets quickly became nine. Worse yet, much of the expense related to the processing of information leading to a risk decision point often revolved around similar, non-core processing functions. The practice begged for the efficiencies to be realized through convergence.

The need was recognized, but progress was slow. Component providers quickly assembled vast arrays of applications designed to cover most conceivable uses. Other firms endeavored to build generic aggregation marketplaces, affording multiple sets of information to be assembled for single point distribution.

These efforts, however, didn't fully address industry pain. Something beyond common processing or reporting applications was needed. Key data integration and mash-up opportunities were missed. Few dared to consider all possible applications of singular data sources to assure that what worked in one area was exploited across the board. Also, while aggregated dashboards across the client universe were an improvement, nearly no one bothered to look beyond the trends to uniform risk categorization and predictive capabilities. Most striking, however, was the general unwillingness by vendors to share in the pain – to drive true efficiencies for their financial institution clients by outsourcing non-core processing.

Over time, the game changed. Leading risk specialist information services firms became the more logical fit. Today, progressive risk and compliance information services providers are leading the move toward risk diligence convergence. Their risk-sensitive eye, multidisciplinary approach, and flexible technologies uniquely position these firms to readily identify common processing needs, data uses, and categorization opportunities across the credit, fraud, AML and transaction processing risk spectrums. By applying their risk management heritage, sharable infrastructure and a requisite degree of industry know-how and sensitivity, these service providers can tailor innovative solutions to drive efficient results across all risk disciplines for financial institutions.

The benefits that specialist service providers can bring are manifold. Information and how it's processed

is the core competency of risk diligence firms. They have built the united data-analytics-technology-resources ecosystems increasingly in demand today. With a trained risk management eye, they garner comprehensive, multi-disciplinary relevant data and link its delivery, management and processing through flexible technological platforms. Additionally, many stand behind their work by providing expert processing systems and resources to assist firms in their risk diligence handling.

Furthermore, information services firms are built for mashed-up analytics. Their multi-disciplinary domain expertise has catalogued different risk information in a similar manner, assuring that similar data be treated in a similar fashion. This treatment assures consistent mash-up capability on day one – the cornerstone of any risk diligence convergence.

Another key benefit is technological strength. Information services technology platforms are built around flexibility and configurability. Their DNA supports multiple information handling and analytical needs, all designed to assure easy integration and use.

Information services firms also already have extensive information processing capabilities. Built through partnerships, these technological solutions are more cutting edge (and, certainly, more expensive) than most of the cafeteria-style component applications found today. Leveraging this strength clearly provides a stronger and more efficient solution than purchasing a generic, off-the-shelf processing capability.

Finally, leading risk diligence firms have been providing outsourced solutions for years, usually through extensive portfolio monitoring. They have learned to strike that delicate balance between processing and risk decisions, and have perfected the art of customizable operations to provide the decision-ready diligence their clients require.

Convergence plays well in the hands of progressive risk diligence firms. Financial services firms must be ready to move beyond the component-based mentality of years past and look for comprehensive information processing solutions from vendors ready to share the expense and pain. ■



As CEO of RDC, Thomas Obermaier has developed comprehensive, decision-ready intelligence solutions that drive significant ROI for RDC's clients. Prior to RDC, Obermaier was the Chief Risk Officer for Citigroup's Global Transaction Services. He is an internationally recognized expert on regulatory risk and Anti-Money Laundering.