



COMPLIANCE AND RISK MANAGEMENT AS A CATALYST FOR CHANGE

There is sufficient evidence to prove the organizational importance of treating compliance and risk management as a top priority in the coming years. To quote a few examples – Nordea Bank Abp, a Nordic financial services group operating in Northern Europe, announced executive management changes to tighten risk compliance. Also in December 2018, Gateway Mortgage Group, one of the largest privately held mortgage companies in the United States, announced a new Chief Risk Officer to oversee enterprise risk management, compliance, and quantitative analytics. In addition to appointment of key teams to manage regulatory projects, firms are also treating regulatory needs as strategic and are conducting firm-wide assessments to move away from business-specific and region-specific view of compliance.

Banks, insurance companies, and trading and brokerage firms or MSBs (money services businesses) are formulating plans and undertaking a long list of changes to adopt the best practices in compliance and risk management and better still, reduce overall risk. However, this is no easy task, and a recent research report by Greyhound Research, a leading global analyst firm, illustrates this well. Titled 'Compliance and Financial Crime Outlook 2018', the research shows that 73% organizations that are deemed to comply with statutory requirements are struggling with high costs and low operational efficiencies, given the need to constantly integrate, maintain, and support a wide array of disconnected homegrown and third-party applications. This is worsened by the need to replace existing systems to comply with revised statutory requirements. Of course, this throws a spanner in the works for these financial services organizations who often struggle with duplication of effort and hence higher cost of operation and business risks.

A COMPLEX REGULATORY CHANGE

A **leading European asset and wealth manager**, an Infosys client, had to implement the **European Securities and Markets Authority's MiFID II regulations**, the biggest and most comprehensive regulatory change in Europe in the last one decade. The regulations were a comprehensive revision of the rules related to investment companies and venues, and aimed at strengthening investor protection and injecting more transparency into financial markets. MiFID II would have a deep impact on a firm's business lines, their front and back-office support functions and systems, thereby making it a complex regulation to be implemented. Most importantly, the client had to comply with the new regulations by January 2018.

Financial services firms serious about re-hauling their approach to compliance and risk management functions must consider using an integrated approach to bring efficiency to their workflows and processes. They need to tightly integrate risk, performance, and compliance data elements to create a **"single version of the truth,"** which is necessary for growth and complying with the best practices of internal and external policies and regulations.

At Infosys, we offer clients **integrated and comprehensive risk and compliance solutions** covering business, technology, and operations leveraging our product, technology, and domain knowhow. We offer:

1. Deep understanding of the risk and compliance space
2. Methodologies and past experiences to deliver solutions
3. Experience and track record - bringing deeper knowhow
4. Best practices that help accelerate go to market and save implementation cost

BUILDING THE SOLUTION

The MiFID II regulations impacted Market Infrastructure, Transaction Reporting, Product Governance, Investor Protection, and Inducements. We implemented on multiple requirements in these areas, and were involved in all phases of the implementation, right from requirements gathering to remediation activities post going live.

We undertook sourcing, validation, and enrichment of data, cost and charges calculation, and reporting, and developed solutions in the following areas:

Transaction Reporting: Key components of our transaction reporting solution included sourcing securities transaction data from Order Management Systems (OMS), determining reporting eligibility, enriching transactions with reference data, and reporting transaction data to the regulator/NCA (National Competent Authority) through an ARM (Approved Reporting Mechanism).

Inducements and Research Unbundling: This involved developing a multi-application solution to segregate research commission from execution commission (where needed), which needed changes in the order management systems (to split research from execution), portfolio accounting systems (to record such split), trade matching systems (to support commission matching), and client reporting systems (for report management).

Investor Protection (Cost and Charges Calculations): Under the new regulations, the client had to report/disclose costs to investors concerning their investments and activities in a more detailed and pre-defined manner. We enhanced the existing system to calculate both Ex-Ante (before an investment event) and Ex-Post (ongoing and those done in the last 3 years) costs by leveraging accounting, risk, and performance data and supply that to client reporting applications or external report distributors.

Order Keeping: We helped the client keep records of their customer orders (both pre-trade and post-trade) by sourcing order level data from the OMS, enriching it in the ETL (extract, transform, and load) layer that we built, and then sending the summary order report to the legal archival systems. The latter helped the client keep an audit trail of transactions, archive them in immutable form, and respond to regulator enquiries.

In addition to helping the client **meet the regulatory deadline** of January 1, 2018 for compliance, we also helped the client **minimize the cost of implementation** through re-use of components, leveraging accelerators and experience, as well as **improve efficiency** of systems through the simplification of existing architecture for onboarding new requirements.



COMPLIANCE AND RISK MANAGEMENT AS A CATALYST FOR CHANGE: THE FIVE KEY TAKEAWAYS

- 1 **Comprehend** changes in regulations, and their applicability to different geographies, businesses units, and product lines to formulate risk and compliance best practices
- 2 **Strategize** to improve risk assessment and due diligence by way of mining both existing and new data available on the back of digitization
- 3 **Divide** implementation into phases for better strategizing and measuring results
- 4 **Combine** database functions by building ETL layer for data extraction and improving data quality and consistency for multiple use
- 5 **Simplify** system architectures to improve performance, productivity, and utilization

BIG LEARNING:

Tighter privacy and security compliance laws on one hand and increasingly sophisticated cyber-attacks on the other are making it imperative for financial services organizations to review their existing strategies and take a net-new approach to compliance and risk management, find the best practices therein, and formulate a plan to implement them. The already stretched costs of operations and reduced profitability mean that they need partners with experience and expertise in implementing complicated compliance-related changes and can provide solutions which are sustainable and adaptive.

WE DID THIS FOR THEM. WE CAN DO IT FOR YOU.

To learn more about our regulatory and compliance solutions, reach out to us at askus@infosys.com

For more information, contact askus@infosys.com

Infosys[®]
Navigate your next

© 2019 Infosys Limited, Bengaluru, India. All Rights Reserved. Infosys believes the information in this document is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of other companies to the trademarks, product names and such other intellectual property rights mentioned in this document. Except as expressly permitted, neither this documentation nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, printing, photocopying, recording or otherwise, without the prior permission of Infosys Limited and/or any named intellectual property rights holders under this document.

Infosys.com | NYSE: INFY

Stay Connected     