

FINANCIAL CRIME RISK AND COMPLIANCE

STRATEGIC PLANNING

JULY 2022

WHITE PAPER

THIS WHITE PAPER IS FOR:

Leaders in Financial Crime Risk and Compliance interested in modernizing programs.



OUR UNIQUE LENS:

Our understanding, perspective, and opinions of Financial Crime Risk and Compliance are sharpened from 25 years of experience as buyers, builders, sellers, and the overlap between these roles. Over two decades we built programs, dealt with audits and examinations, and presented to boards of directors. We know firsthand what motivates compliance executives and institutions to buy consulting services and software. We know what it takes to hire and manage hundreds of Financial Crime Risk and Compliance workers. We know the process for securing budget and the time, effort, and cost to implement software. As builders and sellers of consulting firms and RegTech products, we know how to pitch prospects, close deals, and sometimes, lose deals. We know how to build software and break into a crowded, complex, and reluctant buying environment. We know how to start, fund, and sell RegTech companies. We know how to successfully integrate those companies and how post acquisition integration fails. In sum, we see all sides because we've been on all sides.

ABSTRACT

A **Strategic Plan** defines specific outcomes an organization seeks and the work needed to achieve those outcomes. Successful businesses of all types and sizes have clear, simple to understand, and achievable strategic plans. Strategic planning, however, is often missing from Financial Crime Risk and Compliance. This creates a reactive instead of proactive mindset and conveys an absence of strong leadership which diminishes the importance and stature of Financial Crime Risk and Compliance in the eyes of the CEO and board of directors.

Too often, the Financial Crime Risk and Compliance department's operating approach is defensive, reacting to internal audit issues and regulatory findings. The "strategy" is throwing resources, workers, consultants, and new software at problems to pass the next audit or exam. This cycle repeats year after year. Imagine a CEO and board of directors of a bank, fintech, or digital currency exchange asking lending, payments, or trading operations executives for a strategic plan and hearing this response; "Strategic plan? We plan to respond to issues as they come up. And when they do, we will turn our attention to reacting and get everyone focused on solving whatever problem arises." How long would those executives have jobs, and how long would that bank, fintech, or digital currency exchange remain in business?

Over the past decade, the significant and essential role financial crime detection and reporting play in an organization's overall health and success is evident. However, in many cases, Financial Crime Risk and Compliance are detached from an organization's top decision-making leadership. Too often, the department is viewed as more a necessity than a benefit. One way for leaders who want this to change is to build and execute a Financial Crime Risk and Compliance Strategic Plan, both as a subset of the enterprise's overall plan and separately as a plan for the department itself.

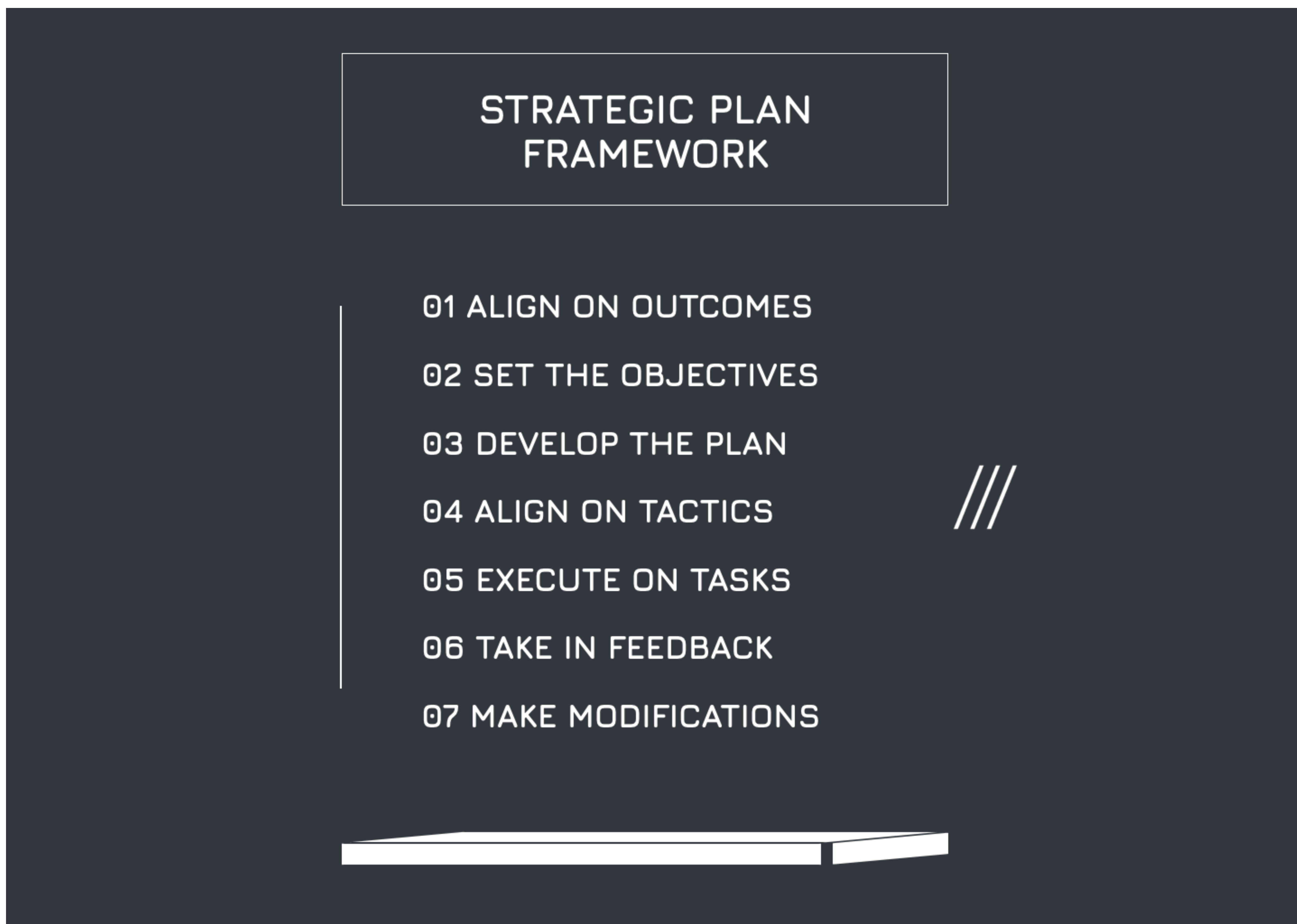


STRATEGY

WHAT IS STRATEGY?

Successful strategies follow a framework. This framework does the following: defines the outcomes an organization wants to achieve; establishes objectives needed to complete the outcomes; writes work plans, determines who will do the work and when (tactics); manages the work tasks once they start; tracks the work, and modifies plans as necessary.

THE COMPONENTS OF A STRATEGIC PLAN



MACRO VIEW

A TOP-DOWN APPROACH

Engaging with the C-Suite and board of directors in enterprise-wide strategic planning is beneficial for many reasons. It integrates the C-suite and board with the mission of the Financial Crime Risk and Compliance team, and in return, the team integrates with the organization's overall business goals. Participation in enterprise strategic planning is an opportunity to solidify support for the Financial Crime Risk and Compliance functions, be a vital contributor to the interests of executives and shareholders, raise the department's stature, and build confidence in compliance management.

Financial Crime Risk and Compliance strategic planning begins with understanding the strategic plan of the larger organization of which it is a part. All businesses, including commercial banks, fintechs, or digital exchanges, have a strategy to grow, achieve, and profit- this is why businesses exist. All functions, including Financial Crime Risk and Compliance, must align their work to support improving profitability.

Of course, as a baseline, every Financial Crime Risk and Compliance team must manage compliance, legal, and reputation risk. But, if this is all the team does, they miss an opportunity to contribute meaningfully to these institutions, which over time diminishes senior leadership's perception of compliance.

How does a Financial Crime Risk and Compliance team join the enterprise strategic planning process? Using the Strategic Plan Framework, here is an example.

The CEO announced the board of directors approved a new plan to expand from the US to Brazil, South America's largest economy. The strategic plan says that within the next two years, the bank will receive regulatory approval and begin a commercial lending and retail funds transfer business with offices in Sao Paulo and Rio de Janeiro. In addition, the enterprise strategic plan calls for specific revenue targets for each of the two businesses. The plan defines the revenue and other operating Outcomes the CEO and board expect, and they expect each business and support function to develop their own strategic plans to support this effort.



MICRO VIEW

For the Financial Crime Risk and Compliance team, there is a lot to do to formulate its strategy to support the new Brazil businesses. This formulation stage requires analysis of Brazil's laws and regulations, understanding additional US regulatory requirements and expectations, identifying new CIP, CDD, EDD, transaction monitoring, investigation, and SAR reporting needs, including if additional software applications are needed. How many additional staff are needed, and what specific qualifications will be required? What new policies and procedures need to be written? What about training new Brazil-based staff on AML, sanctions, fraud, and anti-corruption rules? Each of these items requires specific defined outcomes and objectives, and plans.

Let's take one to use as an example.

OUTCOME: Effective operating model with predictable costs for Brazil focused Financial Crime Risk and Compliance function.

HERE ARE EXAMPLES OF THE OBJECTIVES NEEDED TO ACHIEVE THE OUTCOME

OBJECTIVE 01:	Identify in-country Financial Crime Risk and Compliance expertise.
OBJECTIVE 02:	Create staffing plans to support in-country growth forecasts of customers and transactions.
OBJECTIVE 03:	Purchase data and software needed to support due diligence, monitoring, investigation and reporting processes.
OBJECTIVE 04:	Develop communication and reporting process with US based Financial Crime Risk and Compliance team.
OBJECTIVE 05:	Establish in-country relationships with regulatory and law enforcement authorities.



MICRO VIEW

Now plans must be written for each objective, timelines built, resources assigned, budgets drawn up, approvals obtained, and then commence execution. Inevitably unforeseen issues and obstacles will arise, and robust tracking and progress reporting systems must be in place so, at any moment, management and executives know the plan's status and can make changes as needed.

Strategic planning done correctly takes a lot of thinking, planning, and writing, and this is before executing the plan - doing the work itself - begins. In this example, opening new operations in a foreign country is a significant undertaking. It is not the move an institution, fintech, or digit currency exchange regularly makes. For organizations with a strategic plan focused on growing revenue and profit in their current markets and products and services, here is an example more typical for Financial Crime Risk and Compliance departments.

OUTCOME: Optimized suspicious activity investigation and reporting processes.

HERE ARE EXAMPLES OF THE OBJECTIVES NEEDED TO ACHIEVE THE OUTCOME

OBJECTIVE 01:	Reduce alert analysis time by 10% by eliminating non-essential work steps (solved by updates to policies and procedures).
OBJECTIVE 02:	Reduce case investigation time by 25% by eliminating manual repetitive work steps (solved by RPA adoption).
OBJECTIVE 03:	Reduce quality control error rates by 50% by improving investigator training to limit QC re-works (solved by training initiatives).

After defining objectives, make specific written plans to achieve each. For example, a plan may include assessing, selecting, and implementing software that automates manual tasks of gathering account and transaction records. To reduce non-essential tasks, a plan may assess each work step, asking why it is part of the current process, if it is required by regulation, and if it can be ended. Another plan may create a process where common errors cited by quality control reviewers are fed into regular investigator training that will reduce re-work time.



BENEFITS

REALIZING THE BENEFITS

Strategic planning is a difference-maker for Financial Crime Risk and Compliance. It is a discipline often absent from many departments. Passing audits and examinations is usually the primary goal in compliance. This approach works in the sense that it keeps a department's collective head down and avoids too much attention from the C-suite. For some, this is enough. But for Financial Crime Risk and Compliance leaders that do buy into strategic planning, there are significant benefits for them, their teams, and their institutions, including:



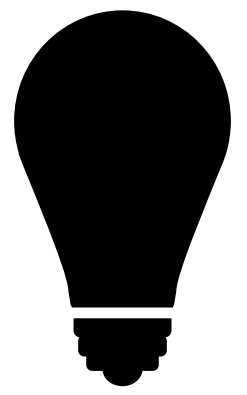
- + Operating with clear direction and a sense of purpose beyond just checking boxes and filing reports.
- + Shifting from reactive to proactive — who wants to spend their time fighting audit and exam issues over and over?
- + More control over your time and attention — focus on what you want to focus on.
- + Slowing down and strengthening decision making — the best decisions take some time, thought, and input from others.
- + Building stronger relationships with auditors and examiners — you change how they operate when they see you focused on a defined plan and working to achieve its goals.
- + Building stronger relationships and stature within your institution — wouldn't it be better if the C-suite, the lines of business, and the board of directors saw you and your operation as serious and supportive of the company's overall revenue goals? And when the C-suite, business heads, and the board have greater respect for you and your team, won't this make those tough risk management decisions easier?
- + Creating more fulfilling opportunities for your team's professional development and career potential.
- + Making the right decisions on new technology investments, avoiding implementation delays, and reducing cost overruns.



TIMING

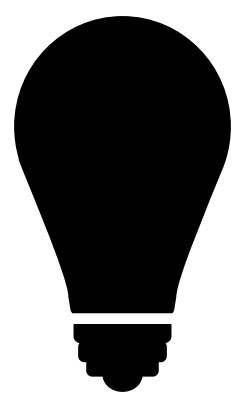
BUILD THE PLAN NOW

As the 2023 budget process begins soon at most institutions, now is the time to start strategic planning. Because strategic planning is a significant undertaking, many institutions turn to outside experts to assist. Engaging an experienced consulting firm helps in many ways.



Outside perspectives bring new ideas to stubborn problems of inefficiency, outdated software, and operating models that need a fresh look.

Experience and understanding of what other Financial Crime Risk and Compliance programs are doing to modernize.

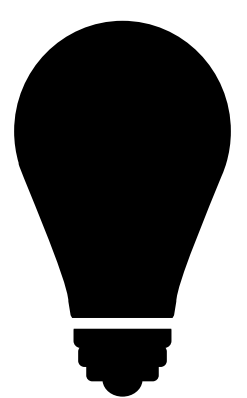


Facilitating open and frank discussions which are sometimes constrained by culture, organizational history, or personalities.

Bringing an established framework and discipline to the strategic planning and execution process, including writing plans and providing experienced resources to supplement in-house teams.



Understanding emerging software and technology solutions for KYC, monitoring, case management, and analytics.



Providing project management, tracking, and reporting support.

Strategic planning and execution is the difference-maker for those Financial Crime Risk and Compliance teams that want to actively contribute to their organization's success, modernize operations, strengthen compliance, and give workers opportunities to grow their careers. To discuss an approach for strategic planning that works best for your organization, call us at 480-253-9360.

ABOUT US

Boutique Strategy Management Consultant

We were founded in 2015 on the core tenets of intelligence, innovation, and integration. Our firm is led by successful founders, operators, and industry executives from the Financial Crime Risk and Compliance space.

We bring unparalleled perspective to a multi-billion dollar market where clarity and expertise matter more than ever.

Our clients include some of the world's largest financial institutions, investors, technology companies, and professional services firms.

Let's Talk

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