

FINANCIAL CRIME RISK AND COMPLIANCE

PEOPLE, A MOST CRITICAL ASSET

SEPTEMBER 2022



WHITE PAPER

THIS WHITE PAPER IS FOR:

Financial institutions and professional services firms that need to solve for sustainable talent pipelines across the Financial Crime Risk and Compliance space.



OUR UNIQUE LENS:

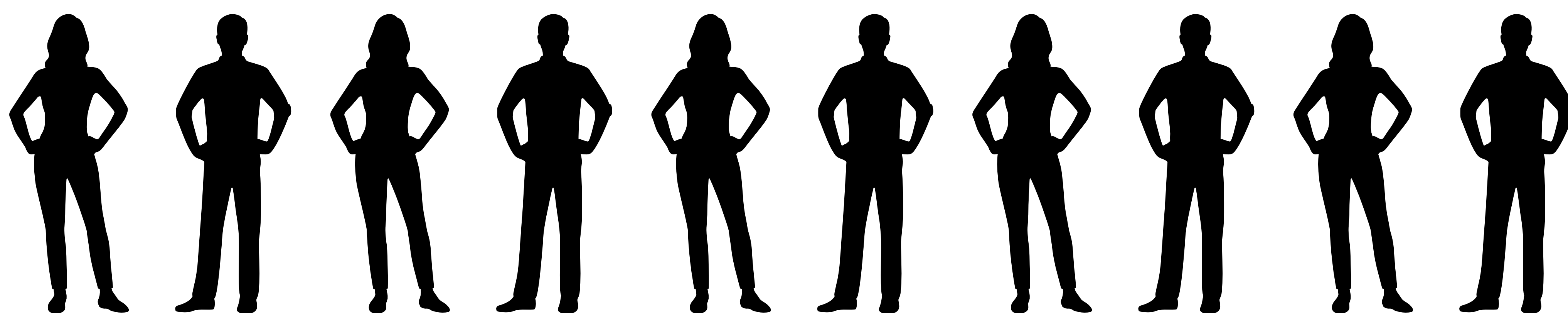
Our understanding, perspective, and opinions of Financial Crime Risk and Compliance are sharpened from 25 years of experience as buyers, builders, sellers, and the overlap between these roles. Over two decades we built programs, dealt with audits and examinations, and presented to boards of directors. 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.

INTRODUCTION

In late June, the OCC published its Semi-Annual Risk Perspective, in which the agency said it was "concerned" financial institutions cannot find and retain enough qualified compliance staff. This problem "presents increased risks" to institutions. The OCC is clear that their examiners and leadership are attentive to what they call this "growing challenge."

Weren't Artificial Intelligence and Machine Learning going to automate Financial Crime Risk and Compliance work and reduce the need for people? This doesn't seem to be the case. Is this need for more workers only temporary, or is this a long-term challenge?

In this paper, we discuss why finding and retaining Financial Crime Risk and Compliance talent will continue to be necessary for many years, the reasons for current worker shortages, and some solutions to address the problem in the short term and fix it for the long term.



THE OCC'S CONCERNS

Today, all industries face never before seen labor issues. Something about the Covid responses upended global labor markets. Financial institutions are not immune to this issue, and the OCC is concerned about the impact on compliance and operations.

01: REMOTE WORK

Remote or work-from-home arrangements make it easier for employees to resign because they are not tied to jobs near home. Many institutions continue to permit remote work even as returning to the office is allowed and encouraged. This option helps retain staff who value working from home, but it also makes it easier for workers to job hop.

02: COMPETITION

Fintechs and digital currency exchanges are grabbing compliance talent from banks. Digital currency business growth may temporarily slow with the recent drop in that market. However, as policymakers in Europe and the US move to impose regulations on digital currency products and operations, long-term competition for compliance talent will likely increase.

Fintechs, crypto issuers, and exchanges need experienced Financial Crime Risk and Compliance workers, but start-ups need to minimize expenses. This makes workers with 3 - 10 years of experience ripe targets for recruiters. And in many cases, for these younger workers, the move to a fintech or crypto exchange may be a bump in pay and a promotion in title and responsibility - opportunities that could be years away if they remain at more traditional commercial banks.

03: HIGHER PAY

Institutions are raising compensation to find, train, and retain enough compliance staff. While good for workers, increasing salary puts pressure on a bank's earnings, another risk the OCC cites in its Semi-Annual Risk Perspective. Worry about recession amplifies this risk. The Financial Crime Risk and Compliance industry is facing a situation where wages are rising, but employer revenue may be falling. At some point soon, employers can no longer afford to pay higher salaries and maintain the same headcount. This economic reality will exacerbate staffing shortages, further driving the regulator's concerns about financial crime compliance failures.



THE OCC'S CONCERNS

04: "BARBELL STAFFING"

The OCC raises an important issue they call the "barbell" staffing problem. By this, they mean compliance departments operating with concentrations of junior staff on one end and senior, more experienced staff on the other, with insufficient staff in between. This suggests that adequately staffing compliance operations, including financial crime compliance, is a long-term challenge and not something ending remote work and raising compensation will solve. We noted that many of these "middle" staff are recruited away to fintechs or digital currency operations.

05: MORE REGULATION

Because of the war in Ukraine, we've seen a substantial increase in the number and complexity of new sanctions. This increased workload appears just as new requirements from the Anti-Money Laundering Act of 2020 (AMLA) begin to roll out. The AMLA also directs regulators to modernize their approach to oversight. So at the same time as staff shortages, increasing numbers of sanctions, digital currency risk, and new regulations, examiners will be testing new approaches to examinations. This makes for an unsettled regulatory compliance situation.

For workers, this current environment creates mixed emotions. They are happy about better pay but also see an economy worsening, leading to worry about job security. Distracted and worried workers increase day-to-day operational risk. The OCC is rightly concerned.



THE CHALLENGES

01: WORK FROM HOME

Like nearly everything else, Covid-19 upended how financial institutions operate. In 2020 banks sent workers home; many liked it and still do. No more commuting costs, more time for family and personal interests, and the realization that much of routine Financial Crime Risk and Compliance work can be done alone in front of the screen and on a video call make working from home appealing. However, while there are some benefits of working from home, there are also significant disadvantages.

For less experienced workers, the best learning environment is often an office where they mingle with their inexperienced peers and their more experienced coworkers and managers. People learn in many different ways. One way is by asking coworkers questions. Tapping into this readily available source of knowledge is vital. Good managers make a point to interact face to face with staff regularly. Sometimes these interactions are brief check-ins or just social visits. From these short interactions come countless small lessons and relationship building that build rapport, trust, and team cohesion, creating an environment where frequent learning is easy.

Remote work robs workers of these benefits. Semi-weekly video check-ins do not replace the benefits of face-to-face human interaction. As a result, workers do not develop skills or gain experience working from home at the same rate they do in offices. The absence of daily in-person interaction also robs employees of opportunities to build social relationships with peers and managers that contribute substantially to career advancement. Social skills are an essential part of career development. Understanding an institution's corporate culture, being seen as easy to work with, demonstrating a willingness to collaborate, carrying on conversations with peers, subordinates, and managers, having a sense of humor, and showing interest in others - are all skills of successful humans. How are these developed, refined, and showcased if a worker sits at home in front of a screen?



CHALLENGES

02: OVER SPECIALIZATION

The Financial Crime Risk and Compliance industry has grown significantly in the past decade. Twenty years ago, if someone said they wanted to work in AML, very few would know what that meant. Today there are hundreds of thousands of workers worldwide, and financial crime issues are in the news daily. This growth creates opportunities for workers, but it also has the effect of creating narrow job specialization. Because of thousands of rules, ever-increasing regulatory expectations, and the high profile nature of financial crime compliance, large, midsize, and even many small institutions have large Financial Crime Risk and Compliance departments, managing AML, sanctions, fraud, and anti-corruption programs. One result of handling so much is that the work requires specific expertise, narrowing the focus on each job and creating specialization.

Specialization is helpful in that it creates workers who are experts on specific matters, something that improves compliance. For some workers having deep expertise in one area is appealing - it keeps them and their skills in demand. However, specialization can also impede career growth and limit future job opportunities. Take someone who specializes in risk assessment analysis. Internal auditors and examiners want to see comprehensive and well-reasoned risk assessments. Every year the head of Financial Crime Risk and Compliance knows internal audit, and the regulators will pour over the assessment. Knowing they have a risk assessment superstar relieves a lot of pressure. Understandably the Financial Crime Risk and Compliance officer does not want to lose this person. However, this worker may feel stuck in their current position and want to move to a new role. Maybe they are interested in investigations, running a training program, or learning more about software and technology. They now may face a reluctant manager who doesn't want to lose this person's expertise. It's good for the manager but not for the employee. This specialized experience impedes their career growth, which is frustrating and likely causes some workers to leap at new opportunities from fintechs and digital currency exchanges, where opportunities for growth and advancement seem more significant.



CHALLENGES

03: THE WORK ITSELF

Every job has mundane, often monotonous, and manual tasks. Even Elon Musk probably has to do things he dislikes, as do professional athletes and CEOs. However, some feeling of success or accomplishment makes the routine and repetition worthwhile. For some, that feeling may be as simple as making a meaningful contribution to a team. For others, it may be promotion, a high salary, or notoriety. Whatever it is, the mundane and monotonous must be rewarded with something better. Unfortunately, some Financial Crimes Risk and Compliance work may not provide many offsetting benefits.

Reviewing transaction monitoring or sanction screening alerts, CIP exceptions, or updating due diligence files, day after day, only rarely exposed to something of significance is, for some (or many), a total drag. They may hear they are part of a profession helping to detect and deter drug trafficking, human slavery, or elder abuse, but they don't see that in their daily work. They may hear someone else has a "great case" and wonder when, if ever, they will be in that position. At some point, the absence of rewarding work drives people away from our field.

04: OUTDATED TECHNOLOGY

Outdated software and technology applications make Financial Crime Risk and Compliance work frustrating. Copying, cutting, and pasting take up too much time. Up to 90% of transaction monitoring alerts are of little to no value, and the number is even higher for sanctions screening. Saddled with slow and clunky systems, workers spend more time searching and gathering information than they do analyzing, investigating, and decision-making. Workers frequently hear that AI and Machine Learning are going to replace their jobs which, of course, makes them nervous. After spending a day in front of three monitors, searching ten different systems, snapping screenshots, and creating PDFs, you must wonder how many of these workers say, "sounds okay to me?"



IMPROVING THE WORKER'S CONDITIONS

Despite the long-term challenges of finding and retaining workers, there is much that Financial Crime Risk and Compliance leaders can do to create an environment where employees feel connected to their work, are eager to contribute, and see a promising future for themselves.

Financial Crime Risk and Compliance work is often reactive. Management finds itself responding to internal audit and regulatory exam findings as an ordinary course of business. This creates a cycle where short-term priorities take preference over long-term planning. Often issues cited by auditors or regulators require hiring more staff or consultants. Management repeatedly finds itself trying to find more people for a "right now" project. Although necessary to address a "right now" problem, this approach worsens the staffing concerns raised by the OCC.

We acknowledge that audit and exam issues will always require management's attention and action. However, to solve the problems caused by too few trained staff and the struggle in finding and retaining them, Financial Crime Risk and Compliance leaders need to create long-term, sustainable solutions. We suggest a few here:

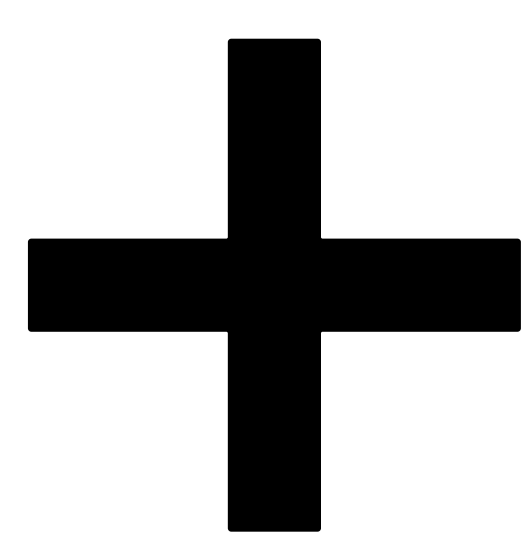


01: DEVELOP AND PUBLISH CAREER TRACKS

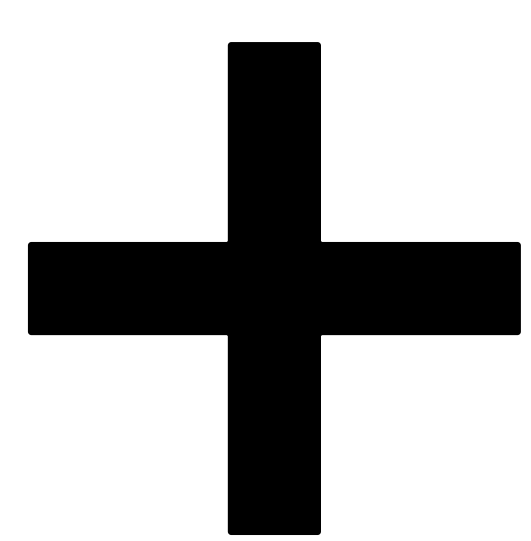
If workers don't understand where they fit into the purpose of a larger organization, they will feel detached and may not think much about their long-term career potential. Or worse, workers who do spend time thinking about their long-term career potential will feel the organization doesn't care much about them. These are the first people to leave for better opportunities elsewhere. Management must help staff understand how every worker's job ties into the organization's larger purpose.

Because of the hyper-growth of Financial Crime Risk and Compliance, many different roles are required to build and operate a functioning program. Defining and sharing each of these roles, job descriptions, and job requirements with every staff member provides an employee with a picture showing where they sit now and where their career could go if they choose.

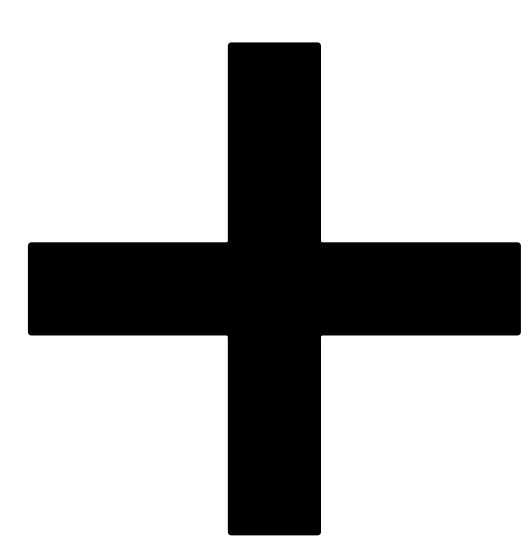
There are different ways to segment career tracks in our field. For this discussion, let's divide career tracks into three segments: The Program Management track, the Operations track, the Data and Technology track, and the Audit track.



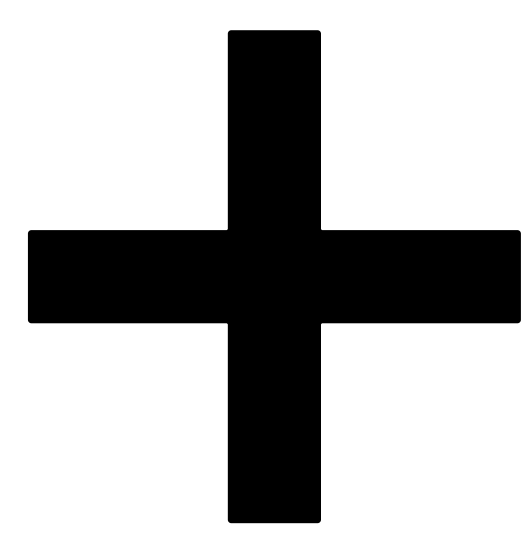
The Program Management Track is where risk assessments, model management, policy, training, regulatory exam management, project management, and board reporting sit.



The Operations Track is where transaction monitoring analysis, due diligence (KYC), investigations, suspicious activity reporting, customer risk rating, adverse media screening, and sanctions screening reside.



The Data and Technology track consists of software application selection and administration, data collection, data integration, data management, model implementation and administration, management information reporting, and data analytics.



The Audit track consists of quality control and testing and internal/external audits.





Each of these tracks has dozens of specific jobs. Each track has room for beginner, intermediate, and advanced skills and experience. An organization committed to hiring, retaining, and promoting workers will define every job and publish job descriptions showing the required skills and experience needed for each. Within each track, "job families" should be defined. For example, within the Program Management Track, the Risk Assessment job family may include data analysts (junior and senior level), internal control specialists, regulatory specialists, and a manager or director.

Even though smaller institutions may not have sizable Financial Crime Risk and Compliance departments, defining job roles, requirements, and career tracks are just as important. After all, smaller institutions are prone to having good employees poached away by larger banks that pay higher salaries. While sometimes the lure of more money is tough to ignore, employees who feel their current employer is committed to their career growth and promotion may be more likely to stay.



02: TRAINING, EDUCATION, AND DEVELOPMENT

Life-long learning is a key to success and fulfillment. The best Financial Crime Risk and Compliance leaders build departments with this principle front and center. Good leaders want to hire people who want to grow and see their work as an opportunity to do so. An organization's commitment to learning and growth should be just as evident to a new worker on the first day as it is to a worker in the 10th or 15th year at the company.

Let's start with the new staff. How many departments have organized, structured, weeks-long new hire training? Or, how many consider sitting with a peer and looking over their shoulder for a day or two to be new hire training? Which conveys a better message of professionalism and commitment to development? New workers should have a formal mentor, and being a mentor should count significantly toward promotion and salary increases. New hire programs should include clearly communicated oversight and quality control measures. New workers want to understand what is expected of them. One of the worst feelings for any worker is to be unsure of what is expected and whether their work is meeting, exceeding, or falling short of standards.

Training, education, and development go beyond just the new hire period. Organizations that want to attract and retain the best employees openly promote continued learning. For Financial Crime Risk and Compliance workers, education should include expanding knowledge of the core subject of financial crime and business and professional skill development. For example, does the department have a shared reading drive on which relevant news articles, industry surveys, and even vendor sales presentations are available to promote continued learning about financial crime? Does the department invite guest speakers from law enforcement, business, or non-profits to discuss their roles in fighting financial crime? Are workers offered courses in business writing and communication, and are speakers from within the bank, fintech, or crypto company invited to share what they do? How much does every Financial Crime Risk and Compliance worker know about what their company does? Do analysts or investigators understand commercial real estate lending, private banking, or payment processing?

Does every worker have a written personal development plan? How does management support independent learning and development? Is time given to learning? Does management demonstrate that they are continually learning?

Learning is never-ending. The best Financial Crime Risk and Compliance leaders know this and provide ample opportunities for their staff to grow.



03: CROSS-DISCIPLINARY ASSIGNMENTS

There are multiple separate financial crime compliance disciplines: Anti-Money Laundering, Sanctions, Fraud, and Anti-Bribery and Corruption. There is no reason why staff cannot move between each domain over their careers. Of course, there are differences between them. That is the point - a good AML suspicious activity investigator who wants to learn and develop has the core skills to investigate fraud and corruption. The same applies to every other job in each of these different disciplines. Risk assessment, model management, policy, training, data analysis, and technology are functions needed by each domain. Cross Training and working for long durations across more than one discipline should be encouraged and built into all Financial Crime Risk and Compliance career tracks.

04: NEW TECHNOLOGY

We are surrounded by modern technology. Everyone in Financial Crime Risk and Compliance has at their fingertips advanced interactive technology. The problem is that they only use it during the day when they take a break from work and check apps on their phones. After a quick check of the news or social media or making a dinner reservation, they are back to the clunky and outdated monitoring, case management, or due diligence systems they use for their jobs.

Financial Crime Risk and Compliance workers don't expect work systems to be as captivating as Instagram, Tik Tok, or Wordle. However, using systems designed when many of them were still in grammar school is sad. These old, slow systems contribute significantly to workers' frustration. At some point, only a very few highly persistent people can continue to show up daily and subject themselves to this.


Employees need software systems that reduce manual and monotonous work. Doing so will create a sense of more meaningful work. And as far as technology eliminating jobs, the entire purpose of this paper is to address the critical risk the OCC and industry are facing because of insufficient staff! If commercial banks reduce some percentage of sanctions screening and transaction monitoring alert analysis jobs, fintechs and digital asset exchanges need people, and so do the growing outsourcing and managed service companies. And as noted prior, for those who now work in financial crime compliance jobs where technology may replace them, there are dozens of other career opportunities in the field.



05: NON-COMPLIANCE OPPORTUNITIES

For some, Financial Crime Risk and Compliance may be a 25-year career. For many others, this may not be of interest. As one option for good workers who no longer want to work in AML or fraud, how about moving to other departments within a financial institution? Residential and commercial real estate lending operations require the same research, process, documentation, and risk evaluation skills needed in compliance. Don't limit opportunities. There are examples at large and small institutions where Financial Crime Risk and Compliance workers moved into front office banking roles, human resources, and technology. Of course, Financial Crime Risk and Compliance management does not want to lose good people. Still, organizations that offer these types of career opportunities will attract a better pool of talent who are intrigued by the prospect of being able to switch careers in the future yet stay within an organization whose culture and goals they share. It may mean that after five or ten years of Financial Crime Risk and Compliance work, you lose a good worker but isn't it better to get those five or ten years in the first place?

FINAL TAKEAWAY



Well-run businesses need great workers. Regardless of how technology changes modern work, hiring and retaining productive employees remains the foundation of successful operations. After 20 years of building programs, better approaches to regulation, examination, and technology are coming. As we enter this modernization phase, the workforce is too small, in many cases demoralized, and uncertain of their future. By following the suggestion in this paper, and hopefully suggestions of many others, Financial Crime Risk and Compliance can create enjoyable and fulfilling careers for existing and new workers and help the OCC relax a bit about staffing.

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

contact@i3strategies.us

480-253-9360

i3strategies.us

