



Innovating compliance through automation



Introduction

Technological innovation and generational shifts in behavior are putting pressure on organizations to become more nimble in order to avoid business disruption or demise. Compliance leaders often speak of the need to “do more with less.” Never has that been more true than today.



While there are certain challenges and limitations in automating, many organizations are already on their way. Industry leaders are identifying targeted compliance activities and obligations to prioritize while establishing the specific return on investment (ROI) they expect. The most effective model for building out a compliance automation approach—and harvesting the benefits—can be summarized in three key phases:

Strategize: Key stakeholders within the organization collaborate to identify compliance automation opportunities and engineer solutions to deploy when those challenges arise.

Prioritize: Opportunities for automation are identified and prioritized based upon an assessment of risks and obligations.

Realize: A framework for gathering and monitoring automation performance metrics is established, which helps ensure the organization is reaping the entire benefit of its new automation investment.

For each organization, the path to compliance automation contains unique challenges based on a variety of factors. However, the potential rewards are compelling. The enhanced efficiency and agility that compliance automation brings are critical to maintaining a competitive advantage in today's market.

About the report:

All statistics included in this report are findings identified in KPMG's Compliance Automation Survey, which was conducted in 2018 (unpublished). The survey captured insights from key stakeholders about their organization's compliance efforts, with a focus on current and future interest in automating compliance activities. Results are based on responses provided by 206 senior executives from leading U.S.-based companies, across several industries. Feedback was gathered from an equal proportion of CIOs (Chief Information Officers) and CCOs (Chief Compliance Officers).

Key points

The automation journey: Call to action

More than

50%



of CIOs and CCOs surveyed are not yet automating their compliance activities.

90%



plan to increase automation funding in the next several years.

Only

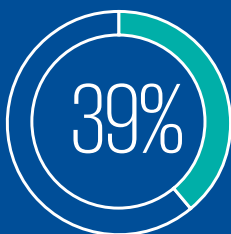
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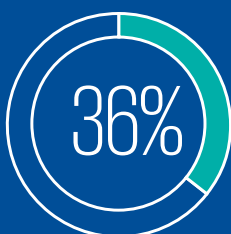
has a well-defined enterprise-wide strategy to automate compliance.

Leveraging a simple but effective step-by-step plan is a great way to enhance the success and impact of a compliance automation effort.

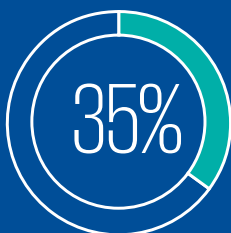
CIOs and CCOs have identified top challenges to implementing compliance automation to include:



Dependencies were misunderstood and/or insufficiently managed



Attention from leadership and/or stakeholders



Metrics for measuring progress were insufficient



Resources to support the automation were unavailable



Data was unavailable or did not have the anticipated integrity

Strategize: Overcoming common barriers to compliance automation

Although significant challenges can exist, organizations can help to minimize them by investing time in the planning and strategy design phase. Specifically, consideration of key factors upfront and incorporation of any decisions into a final strategy will prepare your organization to execute more seamlessly. For example:

- **Identify and assess dependencies.** An understanding of the dependencies that exist in each step of the automation initiative is essential to creating a budget, timeline to implement, and expectations that are reasonable for your stakeholders. When dependencies are hidden or undervalued, this can risk the chances of success and/or impact credibility and future funding ability.
- **Collaborate with relevant stakeholders.** Stakeholders typically include senior members of compliance, legal and business or operational employees who own the compliance processes being targeted for potential automation. However, it is also important to involve other interested parties who can influence the automation journey, such as resources in risk, internal audit, technology, and others. This can help to avoid potential derailment and delays during implementation.
- **Establish metrics to evaluate progress.** Metrics should be designed to clearly reflect where in the automation initiative the organization is, what tasks have been completed, and what remains. Metrics typically denote the percentage of completion for each task, budgetary spend, and indicators of what remains to be done. By having stakeholders align on the specific metrics in advance and agreeing on how each will be measured, subjectivity in the process is removed and greater clarity and consistency in interpretation can exist.
- **Identify personnel with the appropriate skills, knowledge, and availability to undertake the automation.** This may include onshore and offshore personnel. Ideal resources will have a contemporary skillset—one that blends a solid understanding of business operations, compliance issues, and risk management with cutting-edge technological proficiency.

- Confirm all requisite data sources are available, and the data has integrity.

This step is foundational. In order to target compliance processes where automation can most easily be incorporated, the underlying data must have integrity and also be available and acquirable. Investigating this fully in the initial planning stage may reveal instances where certain data remediation exercises or normalization efforts are needed first, before a process can be automated. This may redirect you to other compliance processes or activities to automate first. Since many processes are not owned by the compliance function only, it is important to collaborate with the process owners and users to better evaluate needed data.

Careful consideration during the planning stages will ensure that automation efforts are deployed in areas where they will be able to integrate organically and have the most impact. Building an inventory of critical processes that exist to comply with regulatory obligations is an important early step that will assist with prioritization later on. In order to build out a meaningful compliance automation strategy, it is imperative that the compliance automation team possesses a thorough end-to-end understanding of the processes that are most vital to the organization. The overarching goal is to engineer an automation environment that supports business strategy, ongoing objectives, and goals for the future.

Organizations are prioritizing automation opportunities based upon their regulatory obligations:

1. Product safety	42%
2. Industry-specific regulations	41%
3. Cyber security/Information protection	36%
4. Privacy	29%
5. Fraud	27%
6. Consumer protection	22%
7. Licenses and permits	17%
8. Labor and employment	13%
9. Environment	12%

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We have recruited talent, within our compliance function, with data analytics skills to assist in our ability to better understand complex market trends and unique compliance risks impacting our business. I often refer to these individuals as compliance data scientists, who I look to in helping to further enhance the compliance function in an ever-changing business environment. In addition, we continue to explore the use of automation and technology to help create more efficiency within our compliance framework, while contributing to the organization's profitability, margins, and overall growth.

— Michael Blackshear,
Senior Vice President,
North America Chief
Compliance Officer,
Chubb Insurance Group

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Prioritize: Identifying optimal compliance automation opportunities

When determining which compliance processes to target for automation, organizations often start by inventorying their regulatory and compliance obligations and evaluating which process steps or activities are most labor-intensive and which are repeatable and consistently actioned.

Many organizations also consider if there are specific compliance processes that need improvement from prior examination reports and identify where pilots are already being implemented across their enterprise, if any. This exercise helps the organization to strategically invest in compliance automation and realize the greatest benefits. While CIOs and CCOs have identified a number of different compliance activities and obligations as ripe for automation, there are likely many more that should be part of the discussion and evaluated.

Opportunities to automate: A deeper dive

1 Compliance risk assessments: Organizations can use automation to assign ratings to inherent or mitigating controls and in the quantitative analysis process. Automation can also be used to analyze structured and unstructured data contained in documentation and prepopulating the information into risk assessment templates and for overall document retention. Automation of risk assessments can be quite useful for organizations that are seeking a single view of risks across their enterprise.

2 Policy management: As policies and procedures have proliferated, it has become increasingly difficult to identify the changes and to develop a clear understanding of what policies and procedures are current. Automation can be used to track policies, procedures, communications, and changes to protocols and provide a workflow for approval and certification processes as well as provide an audit trail.



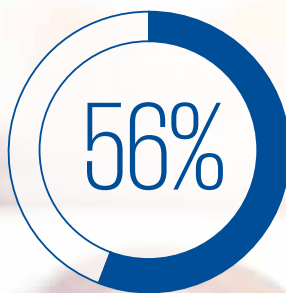
3 Regulatory change processes: Automation can accelerate the inventorying of regulations, laws, and obligations from global regulatory sources; provide real-time notification of new rules, proposed rule changes, and guidance; track regulation life cycles; and enable a quicker impact analysis when such obligations change (through a mapping of the regulations to applicable controls).

5 Monitoring and testing: Automation can be used to extract textual information from non-machine-readable documents to review transaction activity; analyze source documentation; aggregate test results for a more holistic view of risks; and assist with proactive identification and escalation of compliance failures. Automation can provide greater risk coverage and consistency and help identify more meaningful patterns in transactional data, ultimately providing stakeholders with improved insight into the organization's compliance practices.

4 Due diligence: Automation is driving down the costs of completing due diligence, particularly on third-party vendors, suppliers, contractors, and customers, which often must be updated, or refreshed, on a recurring basis, potentially in real time. For example, automation can slim down due diligence results, limiting duplication of similar records or topical matters and applying a rating of relevancy to the records to enable quicker identification of negative information that is impactful to the organization.

6 Data and analytics: Automation can be used to develop a dashboard of risks across an organization; aggregate critical data elements for analytics into a single source; assess underlying data for completeness, accuracy, quality, and integrity via a data quality rules engine; and automate test or validation data feeds, data lineages, and report submissions. Ultimately, automation can be used to build more predictive analytics.

In the shift toward automation, organizations are focused on automating the following top compliance activities:



Compliance risk assessments



Regulatory change processes



Monitoring and testing



Policy management



Due diligence



Data and analytics

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In automating process, one should understand that automation is only as good as the underlying processes one chooses to automate. If you automate a bad process then you end up with the old adage—garbage in, garbage out.

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— Katherine L. Nee,
Chief Ethics and Compliance Officer,
W.W. Grainger, Inc.

The top five reasons cited for pursuing automation are:

Better risk
management

Enhance customer
experience

Remove friction from
compliance processes/
address current pain points

Enhance
quality

Better support for new
products or services
with greater agility

Realize: The return on investment

Automation benefits can be measured in a variety of ways. Typically, organizations look at benefits in terms of a specific reduction in cost, improved resource allocation, reduction in duplication, fewer numerical controls, and expansion of testing and monitoring coverage.

They also seek benefit from compliance effectiveness, efficiency, sustainability and/or overall resiliency. In addition, automation can also enable organizations to aggregate reporting from across the organization, allowing for greater visibility of compliance risks, and thus, more effective compliance risk management through an integrated approach.

To the extent possible, having quantitative data to support the benefits can help demonstrate the ROI to stakeholders and leadership. This is not always easy but quite important as organizations seek funding for future automation pilots and initiatives.



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With a continuous improvement mindset on compliance automation, we took a risk-assessed approach on prioritizing pilot programs that delivered benefits before implementing global-wide solutions.

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— Kurt Drake,
Chief Ethics and
Compliance Officer,
Kimberly-Clark Corporation

Bringing it all together: The compliance roadmap

The compliance automation steps outlined earlier, along with additional steps set forth in KPMG's compliance roadmap below, provide a useful framework to use when automating compliance processes and activities.

01 Establish a plan

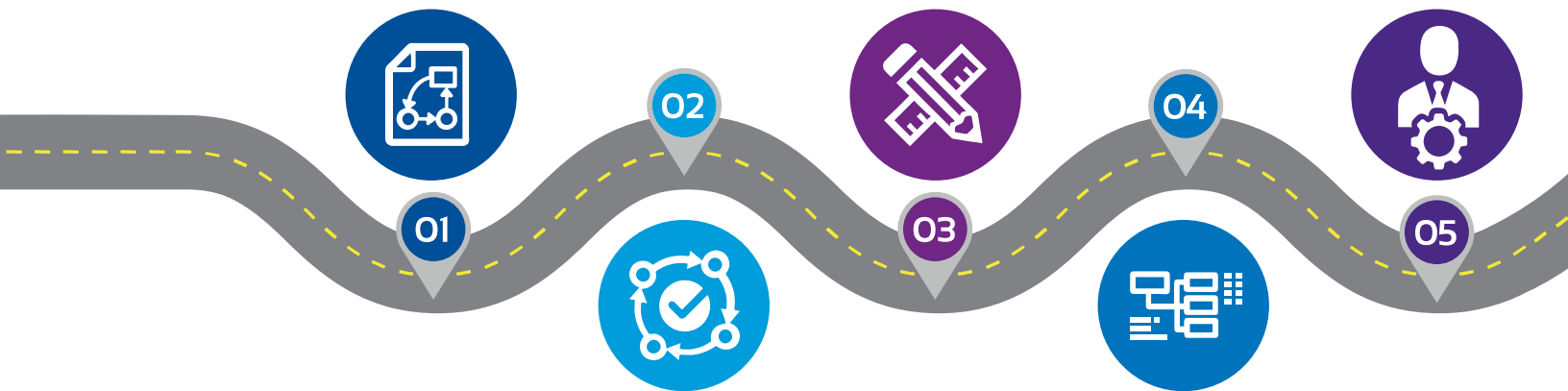
- Engage cross-functional stakeholders
- Evaluate goals and objectives (including level of automation)
- Integrate business needs and strategy
- Inventory any existing automation pilots and opportunities

03 Set priorities by measuring benefits and limitations

- Assess anticipated benefits of automation for the population of processes; consider business needs and functions
- Determine and prioritize pilots
- Secure budget, resources for pilots; establish timelines

05 Establish a change management approach

- Develop communication strategy and plan
- Conduct staff assessments
- Establish training and hiring plans



02 Identify compliance processes that can be automated

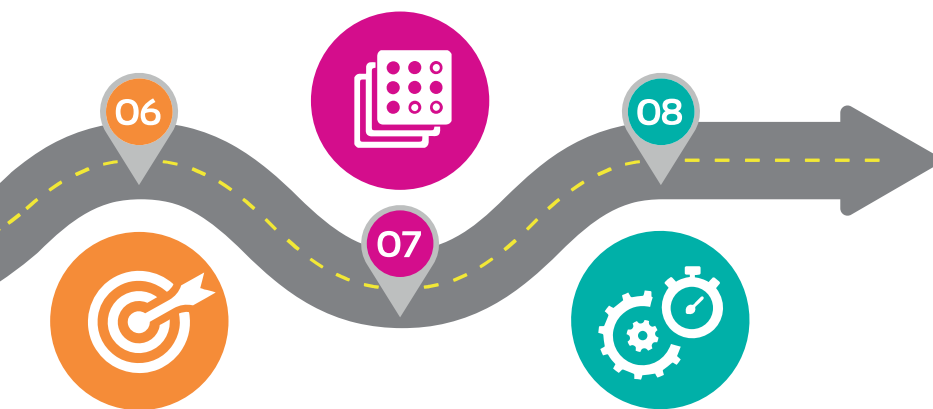
- Create inventory of compliance processes across your regulatory obligations
- Evaluate data availability and integrity for each process
- Identify needed human resources, budget, and timelines to automate each process

04 Define a governance structure

- Establish governance committee
- Set a framework to define automation parameters and testing requirements

07 Integrate data and technology

- Design detailed implementation plan (addresses team optimization, timelines, and budget and detailed steps)
- Develop a data model
- Evaluate existing technology to be integrated
- Identify data sources that contain needed data and existing data feeds
- Conduct data normalization, as needed



06 Select a solution

- Assess functionality and capabilities
- Evaluate demos, use cases, and referrals
- Contract with the right solution provider (if external)

08 Execute and continuously improve

- Maintain target state process documentation
- Launch routines and governance for new business as usual
- Implement pilots
- Conduct user testing to evaluate design and operational effectiveness

Key questions

- 1 Is our compliance automation strategy and plan comprehensive and directionally sound?
- 2 Are we collaborating with all key stakeholders, influencers, and process owners?
- 3 Does our strategy align to our business goals, needs, and risk tolerance?
- 4 Are our dependencies appropriately accounted for?
- 5 Have we staffed our implementation team properly with the right subject matter experts and availability?
- 6 How will we manage and mitigate our risks?
- 7 How are we measuring the anticipated benefits from automation, and over what time period?

Contact us



Charles Thresh

Managing Director,
Advisory

T: 1 441 294 2616

E: charlesthresh@kpmg.bm



Stephanie Roos

Senior Manager,
Advisory

T: 1 441 294 2630

E: stephanieroos@kpmg.bm



Maria Lingham

Senior Manager,
Advisory

T: 1 441 533 0126

E: marialingham@kpmg.bm

home.kpmg/bm/advisory

Acknowledgments: authored by Amy Matsuo, Nicole Stryker, Chad Polen, and Stephen Honeycutt, with contributions from Todd Semanco, Mike Lamberth, Lisa Rawls, Brandon Thompson, Karen Staines and Phil MacFarlane.

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