ORACLE
Financial Services

Do more with less

How an end-to-end AML cloud service benefits midsized banks

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A handbook for Chief Compliance Officers

Introduction

"In our marketplace, we have a lot of banks that are under $2 billion. They struggle because they don't have the knowledge, sophistication, or the resources to react quickly. The larger you are, the more reactive you can be because your resources are expanded."

Executive Vice President and Chief Information Officer at a $5 billion bank

Midsized financial institutions are the lifeblood of the global financial system. In the U.S. alone, they represent 97% of the total number of banks.

Yet, they're no less vulnerable to money laundering than larger banks—and face the same fines and reputational risk.

Compliance costs disproportionately burden smaller and midsized financial institutions, which must meet the same regulatory and performance standards as larger institutions, while protecting against the same complex criminal behaviors. They simply have far fewer resources, especially when it comes to budget, technology, and headcount.

In short, they must do **more with less**. This handbook explains how they can do that.

The state of AML today
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Chief compliance officers face a perilous path when navigating anti-money laundering (AML) pressures, and not only because midsized banks have fewer resources than large banks. Many also have a fragmented maze of anti-money laundering systems.

Existing AML applications are often incomplete and don't have the integrated case management and reporting functionality required to streamline processes. They're also often hard to navigate and lack the flexibility that institutions need.

Why do so many midsized banks have fragmented AML systems?

Mergers and acquisitions:
After a merger or acquisition, a bank may decide it's easier to keep the AML systems from the merged companies instead of shifting everything to one system.
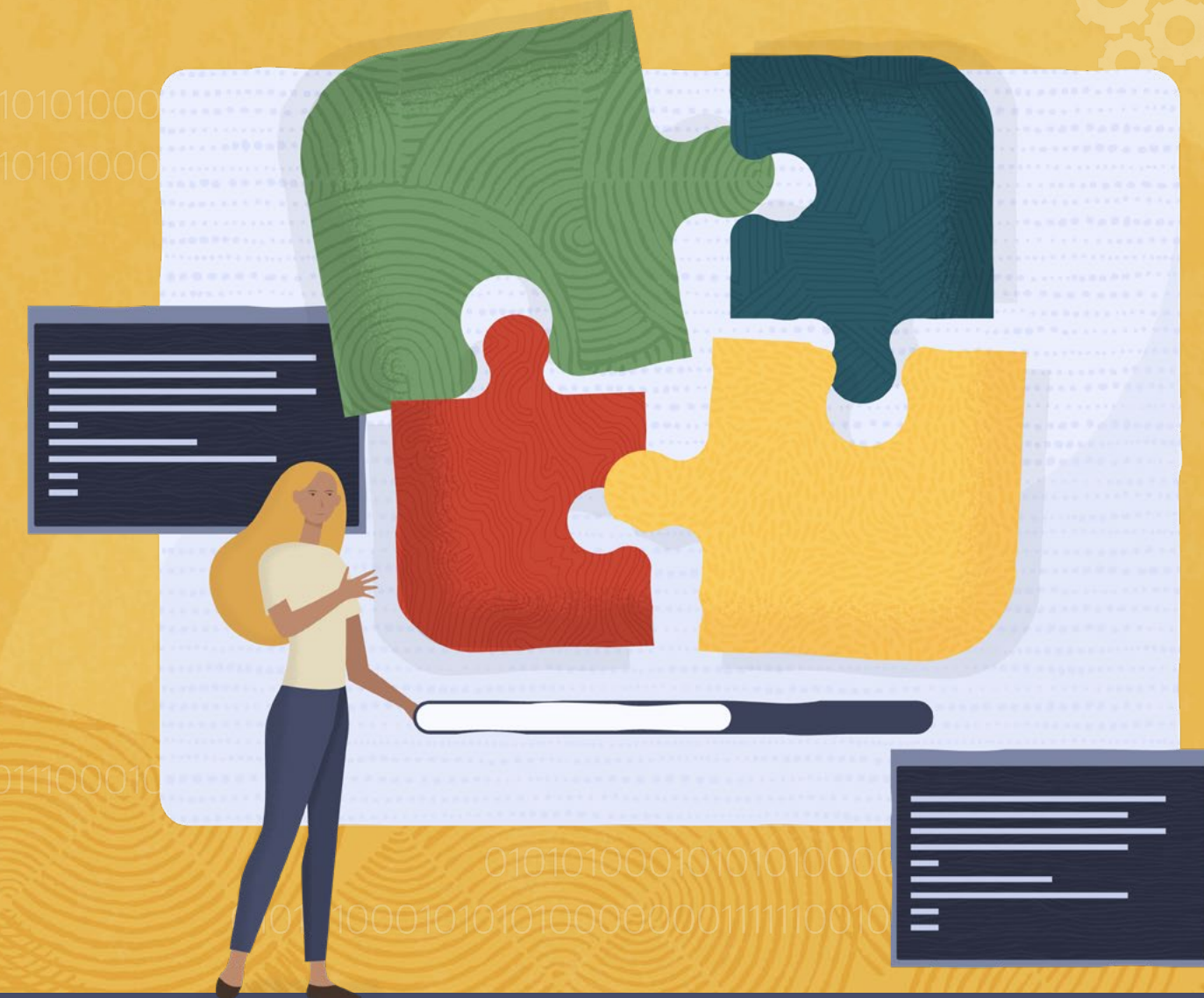
Disconnected business processes:
Fragmented AML systems can arise if the bank requires different AML systems to talk to different parts of its core system.

Point-solution strategy:
Many banks rely on a point-solution approach—adding one-off solutions over time to handle new regulations, products, or high-risk businesses.
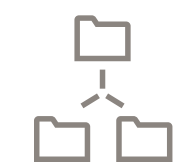
The state of AML today

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The problems with fragmented AML systems

Fragmented data
It's difficult or impossible to achieve a 360-degree customer view when data resides in different systems.

Lack of centralized case management
Investigations are less efficient, and investigators may not see key insights when there's no centralized case management.

Higher costs
Banks must invest significant resources, including model validation and infrastructure upkeep, to meet compliance requirements for multiple systems.

IT issues
Implementation cycles for changes and updates take longer when fragmented systems don't talk to each other.

Innovation roadblocks
Banks may fall behind in innovation as it becomes more challenging to adopt new tools and technologies when so many resources are dedicated to supporting multiple systems.

Why change now?

Switching to an end-to-end AML system is a big decision for any chief compliance officer—as they weigh potential increases in effectiveness and efficiency against time, cost, and risk factors. But, given that 63% of community bankers recently cited regulatory burden as their biggest BSA/AML concern (far outpacing concerns about costs and risky customers), a new system that significantly improves overall AML effectiveness and efficiency may be well worth it.

A series of current trends illustrates the significant challenges facing midsized banks, as well as opportunities for transformation.

Trend: Large banks are changing their AML programs.

Opportunity for better AML:
Capture new customers by separating the good from the bad.

Large banks have reacted to intense regulatory scrutiny and improved their defenses—spurring criminals to move on to smaller institutions that may be easier targets. And, while many large institutions have increased their controls, some have prematurely severed certain business relationships to decrease risk.

This opens a door for midsized banks to onboard good customers that large institutions mistakenly perceived as too risky. Midsized banks can more accurately assess customers' risk by employing a data model that can process and analyze large amounts of structured and unstructured data from both external and internal sources.
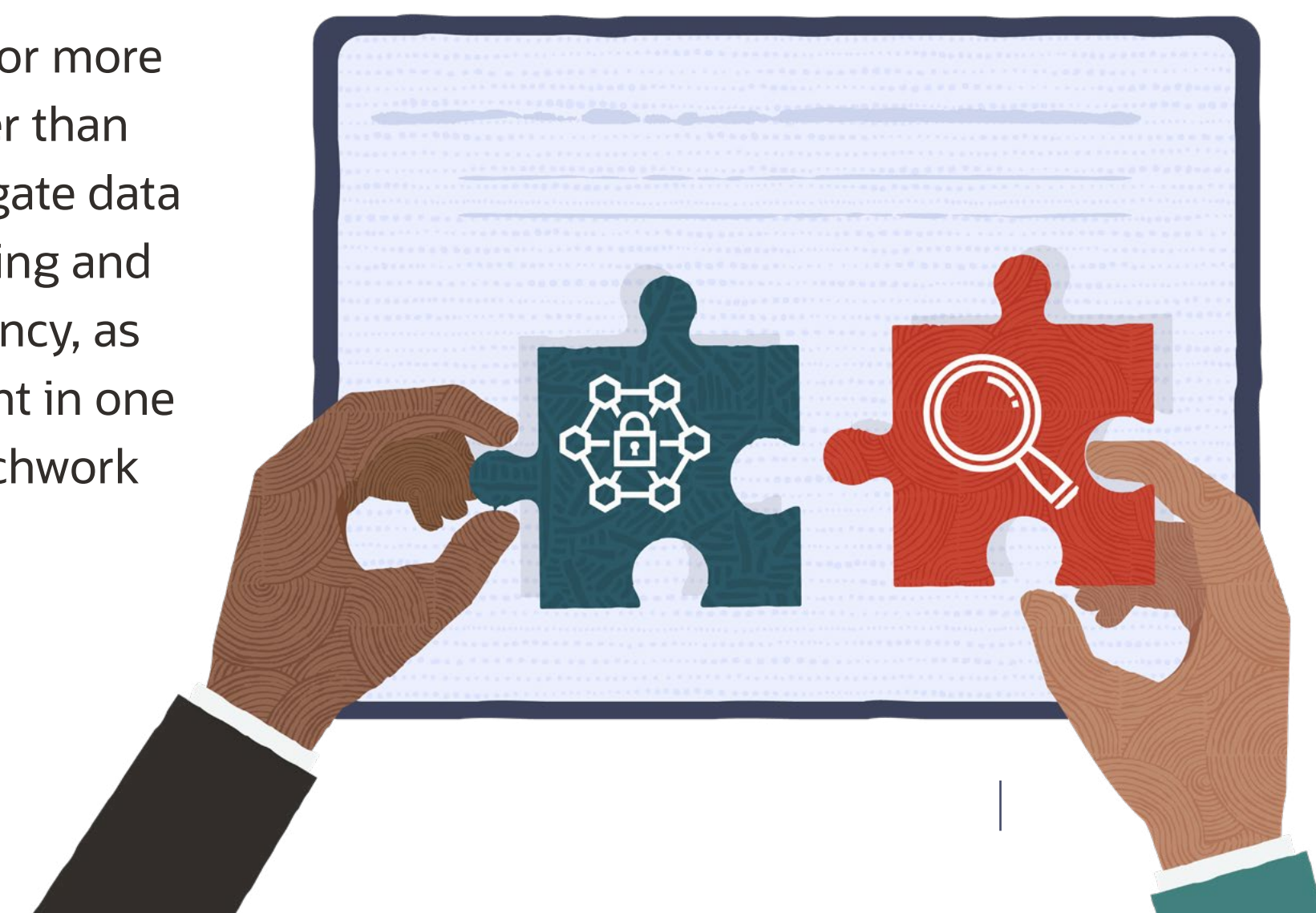
Why change now?

Trend: The banking industry is consolidating.

Opportunity for better AML:
Consolidate systems for better insights.

Over the last two decades, the average number of announced bank [merger and acquisition deals](#) has hovered around 250 to 280 deals per year, and banks with less than $10 billion in assets make up the vast majority.

After a merger or acquisition, a bank will have two or more compliance systems. If it consolidates them—rather than allowing multiple systems to remain—it can aggregate data for better, more comprehensive customer risk scoring and insights. This consolidation also encourages efficiency, as employees and IT teams only need to stay proficient in one system and can avoid the gaps that come with patchwork systems and siloed work.

Why change now?

Trend: Customer experience is becoming even more important.

Opportunity for better AML:
Use AML to enhance customer experience.

As the number of local bank branches continues to decline, midsized banks should seek to gain customer mindshare through digital maturity, share of voice, and customer experience. Many midsized banks are prioritizing just that—77% of bank respondents in the What's Going On In Banking 2020 report said that improving customer experience was a top priority.

While compliance hasn't typically interfaced with customers, that is changing. It can support a great customer experience with seamless onboarding and minimal disruptions due to verifications and holds related to suspected fraud or money laundering. But, midsized banks need the right controls in place to mitigate low detection and high false positives. A comprehensive technology suite should offer out-of-the-box tools to address these issues.

The solution: End-to-end AML-as-a-service

Chief compliance officers at midsized financial institutions who look to streamline their AML systems might wonder where to start. Software-as-a-service (SaaS) offers a cost-effective, comprehensive, and accelerated path forward. Specifically, banks should look for a single, end-to-end, cloud-based SaaS solution that spans all AML compliance functions— Know Your Customer, customer screening, transaction monitoring, and regulatory reporting.

Why switch to a single, complete AML system?

Banks shouldn't move to a single system just for the sake of having one system. It needs to provide better results and do everything you need it to do. The right AML-as-a-service can help chief compliance officers to:

Centralize data to improve risk score accuracy

Centralize scenario management for better design, tuning, and backtesting

Centralize case management for a single customer view and more efficient investigations
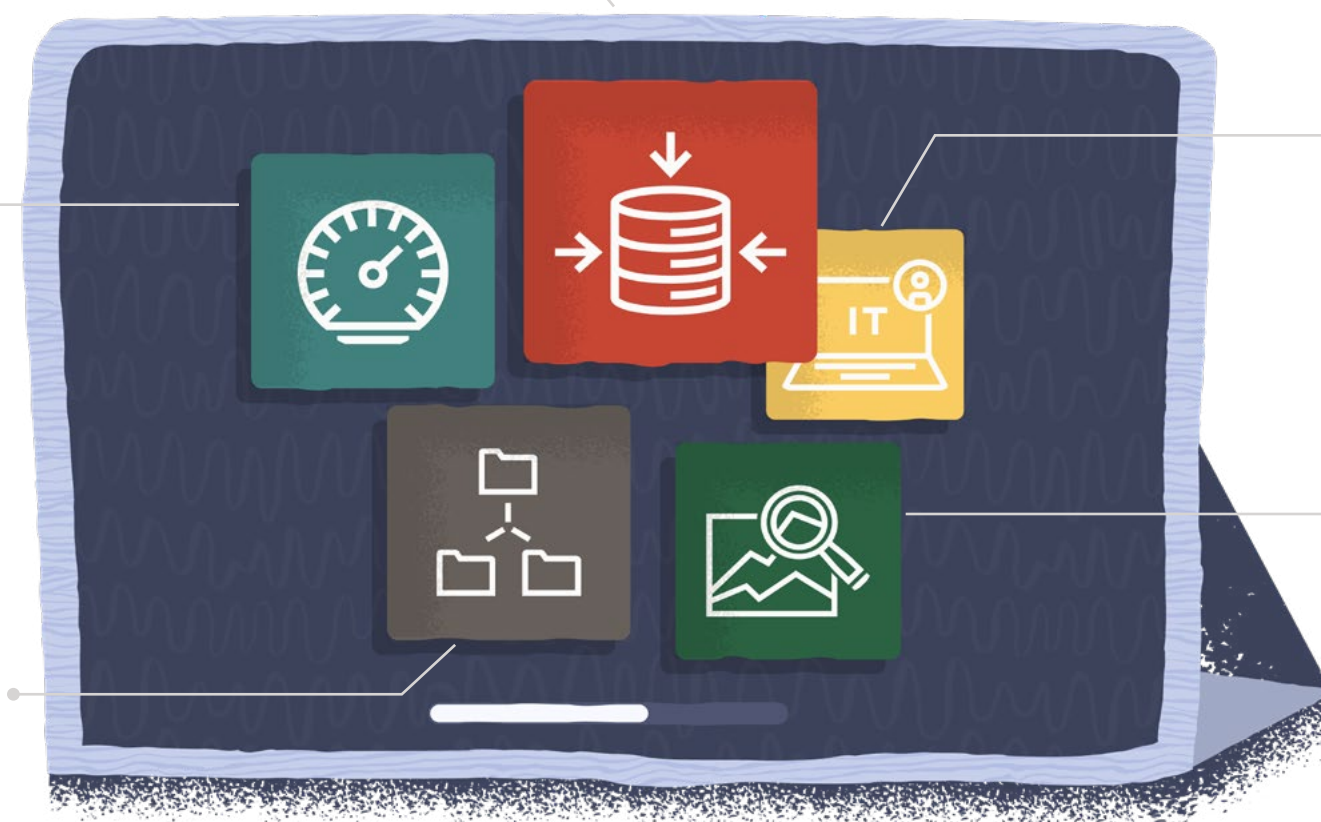
Reduce IT vendor management burden

Centralize process management for faster setup, more automation, and deeper insights

The solution: End-to-end AML-as-a-service

"We are an ambitious bank. We have strong M&A intention, so we are thinking about how to build scalable solutions for the future, and AML is a big part of that. I am looking for specific cloud solutions that allow me to manage costs and grow."

Executive Vice President and Chief Information Officer at a $5 billion bank

Why switch to a software-as-a-service (SaaS) for AML?

Some AML solution providers offer cloud-based "hosted" applications (where a customer purchases software which is installed at a hosting center and then implemented like an on-premises solution in the office). A true SaaS solution is much simpler. It is accessible over the web and requires no installation, providing some important benefits to the compliance department:

- Deployment ease

- Faster time to benefit

- Frictionless scalability

- Frequent updates that provide access to the latest, most advanced features (some of which may otherwise be unaffordable)

- Predictable, subscription-based pricing that includes upgrades and maintenance

What to look for in end-to-end AML-as-a-service

Midsized banks need systems that can support their ambitious plans to grow through innovation and acquisition, and solutions that will protect them as the risk of money laundering increases. They need the same world-class technology that big banks use, but tailored for them in an easy-to-manage, cost-effective package.

Must-have #1:

**A single, easy-to-use browswer user interface means fewer clicks for everyone.**

Crucial capabilities include:

Ability to quickly set up the data pipeline

A centralized view of integration points into different data sources

IT operational insights for system administrators and the ability to manage upgrades with ease

Flexibility to easily configure user roles and workflows, automate processes, design custom scenarios, access a catalog of pre-built scenarios, and perform threshold simulation, tuning, and backtesting

A highly configurable solution that allows users to make changes quickly—without recoding—as policies, best practices, and regulations evolve
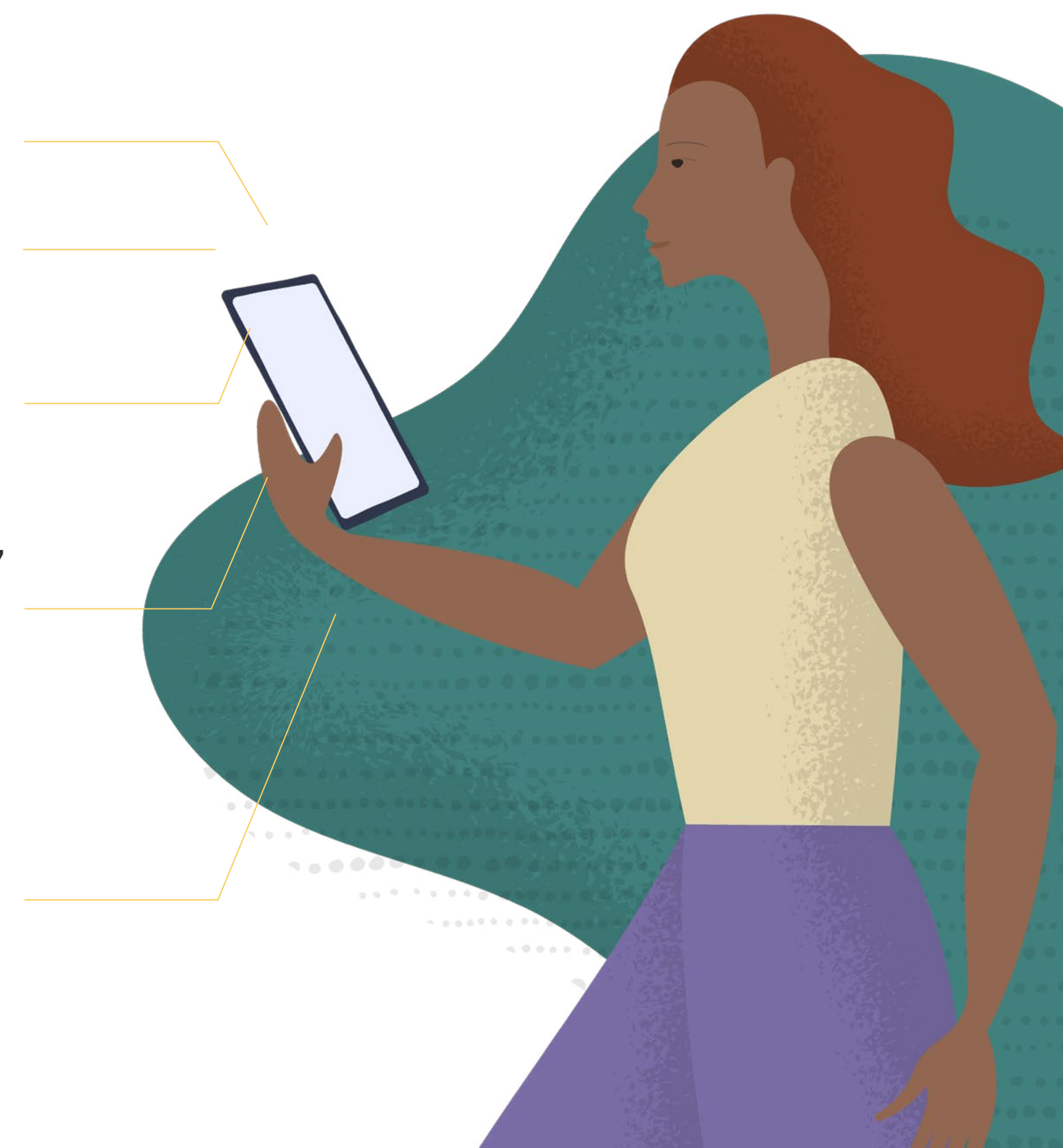
What to look for in end-to-end AML-as-a-service

"If we could get large bank technology at a smaller bank, that would be great. That would be total game changer. I would be so excited."

**VP-AML Operations Manager
at a $20 billion bank**

Must have #2:

Centralized case management and a common data model.

An AML cloud service with these capabilities can provide a holistic view of each customer or counterparty and a 360-degree view of their risk. The benefits of centralized case management extend beyond risk assessment and include extended collaboration for faster investigations and decision-making and greater overall efficiency.

Must-have #3:

Extensive use case coverage.

AML-as-a-service will allow fewer customizations than an on-premises solution. Therefore, a SaaS-based AML system must be feature-complete and frequently updated to minimize customization constraints.
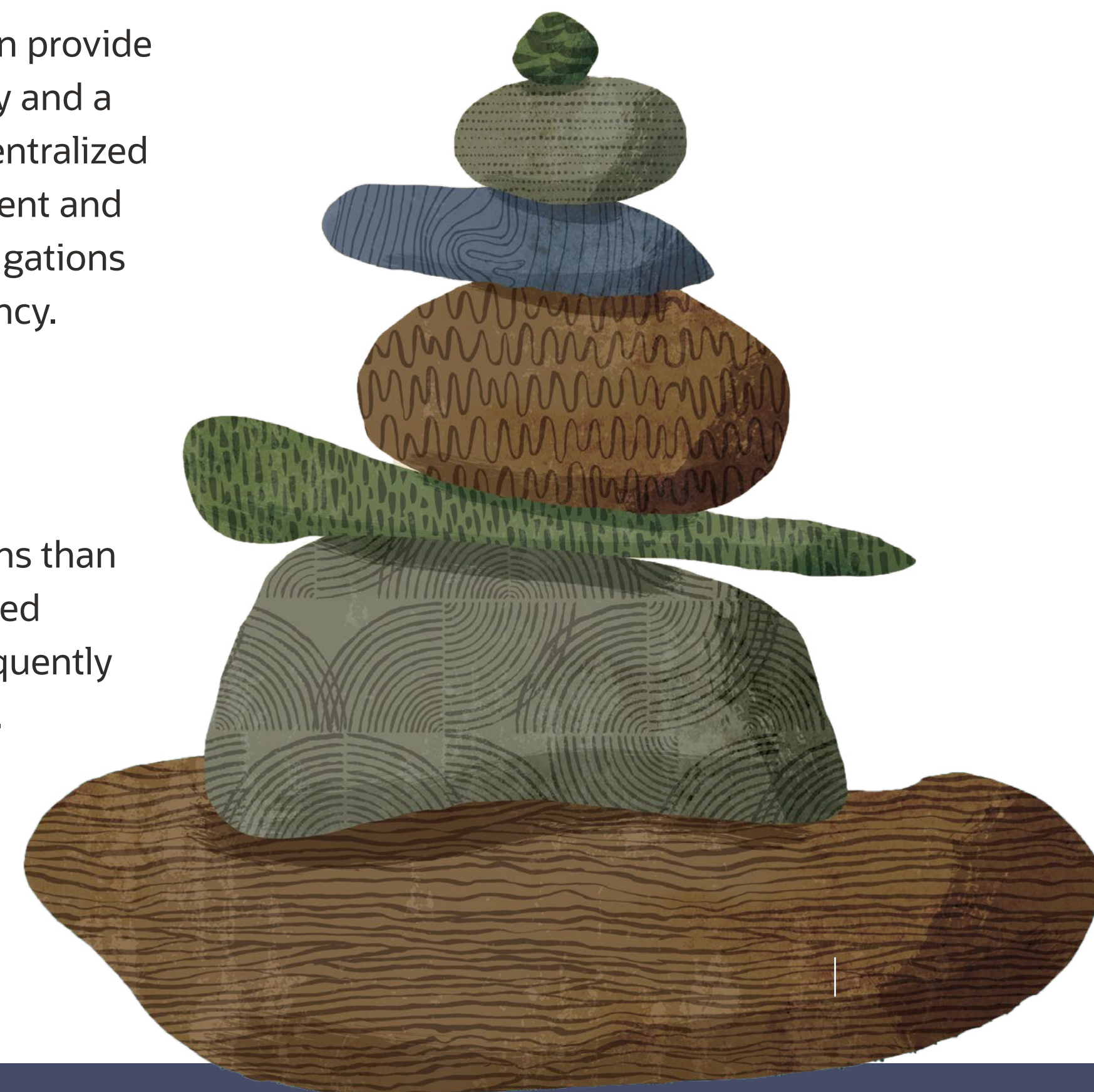
What to look for in end-to-end AML-as-a-service

A note on SaaS

In 2019, Celent reported that "data recently compiled… on more than 3,000 AML transaction monitoring systems in production in the US show that more than half are deployed off-premise. Some two-thirds of the off-premise systems are on the cloud (the other third are traditional ASP-hosted systems)." This means that 34% of total AML transaction monitoring systems in production in 2019 were SaaS. We expect this number to grow.

At Oracle, we are currently seeing an openness like never before among chief compliance officers at midsized banks to employ SaaS solutions. This is in part because the pandemic has significantly impacted the compliance community. They are challenged to support government relief programs, continue to meet regulatory expectations, and allow much of their staff to work from home. These changes make flexibility and scalability—key features of SaaS solutions for anti-money laundering—critical. In fact, some compliance people see a transition to the cloud as preparation for the next great crisis.

Fortunately, transitioning from an on-premises solution to a SaaS solution for anti-money laundering has become much easier in recent years. Chief compliance officers are finding that other business lines have already adopted SaaS solutions and addressed the related questions about information security, infrastructure, and data residency.

Getting started

Initiating and managing the transition

Implementing a new end-to-end AML-as-a-service requires careful planning. Fortunately, implementation of a SaaS solution is quite easy. But, to minimize time to value, chief compliance officers

Evaluate business priorities and requirements.
Evaluate your company's product roadmap and expectations for business growth. To avoid a moving target, create a thorough business requirements document (BRD).

Review current systems.
Decide which current systems to keep and which to sunset. Evaluate interoperability of core systems with SaaS systems.

Take stock of data.
Identify where all your required data resides. Assess your ability extract data in real time. Evaluate data security issues.

Assess current processes.
Consider whether it makes sense during the transition to update them as needed.

Create a transition plan.
Align all stakeholders and create a plan for a successful transition. Decide whether to move everything all at once or take a phased approach.

Getting started

"When it comes to the standards applied to AML compliance, it makes no distinction of the organization's size and complexity. Large or small – you have to comply."

Head of Advisory at a $6 billion bank

Measuring success and ROI

Defining and tracking goals is an important part of implementing a new system. Here are some metrics that chief compliance officers can use to measure the success of a new AML-as-a-service:

Expense

- Lower annual technology costs (implementation, upgrades)
- Shift from capital expenditure to operating expenditure model
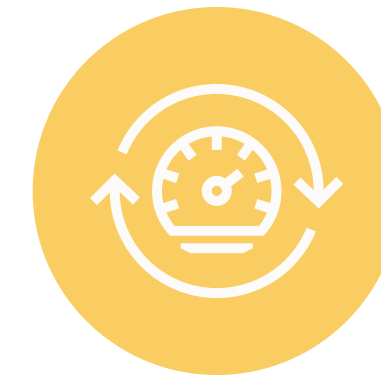
System efficiency

- Faster cycles for deploying new features, functionality, and scenarios; more frequent updates
- Less time spent gathering data
- Fewer manual and paper processes
- Decrease in system load time; increase in system availability

Investigation efficiency and effectiveness

- Reduction in investigation time
- Faster time to resolution of case
- Reduction in number of investigations
- Increased investigation accuracy

Conclusion

As midsized banks navigate the challenges of more money launderers, growing regulatory requirements, industry consolidation, and demanding customers, they need an AML system that can turn these challenges into opportunities. AML-as-a-service can help banks deliver on all these requirements and more. This model empowers midsized banks to access the world-class AML technology that big banks use (and smaller banks increasingly need), but tailored for them in an easy-to-manage, cost-effective package. Each institution has different needs, so it's important to seek an end-to-end solution that, as a foundation, includes a common data model to support centralized case management, an easy-to-use interface that promotes efficiency, extensive use case coverage and most importantly, the flexibility to continue to evolve agilely and thrive.

More resources

Learn about Oracle Financial Crime and Compliance Management Cloud Service.
oracle.com/aml-cloud-service

Get in touch with Oracle's anti-financial crime experts.
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