Industry Playbook

Highly-Regulated Businesses

CUBE

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AI-driven

compliance strategy for highly-regulated businesses

EXECUTIVE SUMMARY

A series of great economic shocks have given way to regulation as the biggest business headache for compliance executives.

The legacy of Covid-19, global conflict, extreme supply chain disruption, and rampant inflation is a groundswell of regulatory initiatives designed to protect consumers and improve the ability of businesses to withstand disruption.

Climate law is reshaping the global energy sector, whilst US regulators are launching legal challenges in the technology and healthcare verticals on a scale not matched since the 1990s.

A race is on around the world to apply some form of regulatory framework to Artificial Intelligence (AI), which has implications for any company intent on developing or using the technology in products or services.

EXECUTIVE SUMMARY

On Wall Street, new laws are entering force at a pace and volume not seen since the aftermath of the 2008 global financial crisis, and the UK is still unveiling its post-Brexit approach to regulation of finance and other sectors.

The knock-on effect of keeping up with the fast-changing regulatory landscape is the increased cost of doing so. Compliance spend in large corporates has soared in recent years, with Deloitte[1] estimating a 60% rise for some sectors in the last decade.

There is an expectation for firms with large regulatory obligations to go beyond the box-ticking approach to compliance and build functions that can anticipate and react to future risks.

Emerging technologies like AI, machine learning (ML) and automation, offer significant efficiencies and enhancements of regulatory requirements, but many organisations are struggling to leverage them most efficiently.

This playbook aims to provide compliance officers (COs) in highly regulated businesses actionable strategy, guidance, and best practices in AI and automation to meet the daunting regulatory and risk management challenges that lie ahead.

The insights contained within have been shaped by users, practitioners, and leading thinkers in regulatory change, and are designed to show how the strategic use of Automated Regulatory Intelligence (ARI) can significantly enhance compliance operations.

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[1] https://www2.deloitte.com/us/en/pages/regulatory/articles/cost-of-compliance-regulatory-productivity.html

ACTION

1 Get ahead of change

Corporate compliance programmes have come to occupy a prominent place in business given the intense scrutiny of conduct by governments, regulators, investors, employees, customers, and the public.

An intelligently designed and implemented compliance programme provides crucial assurance to all stakeholders that an organisation's personnel comply with all the applicable regulations, internal ethical principles, codes of conduct, and other guidelines governing their actions.

The ability to pre-empt challenges and adapt quickly means the business is always compliant, rather than reacting to events.

Embracing a regulatory change strategy allows businesses to head off risks long before they present a serious threat to the organisation.

A proactive mindset means staying ahead of legal and regulatory obligations, managing risks on the horizon, and strengthening internal culture by moving towards a 'continuous monitoring and learning' system.

COs must have their finger on the pulse of policy and regulatory trends to understand how they could affect their business and find methods of systematically monitoring developments in government, parliament, regulators, and the areas of the public sector that are relevant to their business.

There is an important balance to be struck between ensuring the monitoring coverage is broad enough to not miss relevant developments, whilst not so sweeping that it drowns compliance teams in noise and irrelevant information.

"The blistering pace of regulatory change right now is threatening to overwhelm some legal and compliance teams. As the main drivers of regulatory change appear ongoing, legal and compliance leaders will need to find a sustainable way to keep on top of the requirements this will place on their organisations." Nick Sworek, Director, Advisory in the Gartner Legal, Risk & Compliance practice.

MAPPING THE TRIGGERS OF CHANGE

Intelligent regulatory change management can reduce costs, mitigate risks, and be framed as a justifiable investment for compliance functions seeking better tools.

However, many compliance teams feel ill-equipped to take on implementation because their risk analysis and management are not as robust, data-driven, action-oriented, or far-reaching as they would wish.

Horizon scanning practices can help COs understand how and where change is occurring, where emerging risks are sprouting, and identify key areas of regulatory focus for their organisation to prioritise resources. Below are some examples of where corporates are experiencing a shift in regulatory expectations.

1: Contagion risks

Financial and macroeconomic interconnectivity makes economies and corporations more vulnerable to financial contagion.

In financial services for example, negative market moves can spread across a bank, into other markets and drag other parties down. The more intertwined the markets, the faster volatility spreads.

Although central banks are the primary entities that worry about contagion risk, law firms and large technology firms are finding themselves subject to regulatory attention regarding their ability to mitigate or avoid such risks. Corporations can expect greater regulatory scrutiny and an increased expectation to demonstrate how they are protecting their stakeholders.

2: Safeguarding failures

Technology is propelling change within organisations, their products, and services, to the extent which they deliver, reach, and engage, across more channels than ever. The challenges for large businesses are to remain compliant and reliable and maintain acceptable levels of risk despite the constant pressure to move faster.

The febrile environment is leading regulators to investigate how organisations identify key risks, what safeguards are built in to mitigate against those risks, and how systems and controls are designed and tested. An example can be seen in the emerging approaches to the regulation of AI and machine learning algorithms.

UK and US regulators appear content in the short term to regulate AI through existing data privacy laws. European Union regulators, however, are categorising the identifiable risks associated with the use of AI into separate brackets, ranging from outright illegal use cases to ones that will require no supervision.

3: Resilience

Resilience, the ability of an organisation to withstand shocks, is growing in importance to regulators.

How a business adapts and remains competitive, keeps up with market changes or even blazes a trail with innovative technology is becoming a matter of regulatory focus. Resilience also covers change management, single points of failure and outsourcing, given the potential for affecting consumers.

4: Accelerating technological change

The advancing pace of technological change is the major thread running through regulatory risk priorities. Of particular concern is the issues that consumers face, which may not be as obvious to them as to the businesses they encounter, such as in the cryptoasset world. The level of protection required is only going to increase over time as more regulators push this mandate, inevitably overlapping with each other and creating challenges for compliance teams.

5: Regulatory viewpoints

Regulators are also taking advantage of modern technologies, which will play out in further change as regulatory relationships alter.

As regulators tap into greater sources of information and insight from around an organisation's ecosystem, they can build the kind of picture of an industry which an organisation itself may struggle to replicate. This poses challenges for organisations who must understand how that information is informing regulatory opinion.

6: Environmental, social, and governance

Environmental, social, and governance (ESG) risks are a significant part of regulatory thinking and can represent a significant trigger of change. Supervisory scrutiny is also likely to result in real implications, whether through tighter rules and regulatory standards, or from consumers who believe a business no longer represents their values.

ARI tools can automatically track and notify users of regulatory changes without the need for COs to spend time trawling sites manually. When implemented correctly, ARI can mine regulatory issuances such as speeches, consultations, proposals, and enforcement notices for insights, further reducing the need for COs to pick through volumes of data to understand the impact of change on their organisation.

"These tools are cost-effective for many organisations and offer a long-term solution to staying on top of regulatory volatility, while reducing the burden on in-house staff. They can also open opportunities to delegate parts of the regulatory intelligence programme to business risk owners. However, such tools still require a human to manage them, and the staff responsible will still face a potentially burgeoning workload as they integrate these tools into their workflows." Nick Sworek, Director, Advisory in the Gartner Legal, Risk & Compliance practice.

Regulatory compliance challenges and risk

Complexity:

The sheer volume and complexity of regulations pose significant challenges for businesses. Keeping pace with the evolving laws and ensuring compliance can be overwhelming, especially for startups and smaller enterprises with limited resources.

Cross-border operations:

Corporations often operate across borders, which adds another layer of complexity to compliance efforts. They must navigate different regulatory frameworks, cultural nuances, and varying enforcement practices in each territory they operate in.

Rapid technological advancements:

Innovations always outpace the development of legislation, creating regulatory gaps and uncertainties. Companies must anticipate and adapt to regulatory changes while continuing to innovate and offer new products and services.

Data privacy and security:

With the increasing amount of personal data collected and processed, ensuring compliance with data privacy and security regulations is of paramount importance. Companies must adopt robust data protection measures, implement privacy-by-design principles, and establish transparent data handling practices.

THE RISK-BASED APPROACH

Since policy and regulation can have a major impact on a business's operations and growth prospects, it is in the best interest of the business to spot potential threats or opportunities early on.

The concept of a robust risk-based compliance framework is therefore one COs should become familiar with in the face of further intrusion from governments and regulators.
It consists of a structure and guidelines within the compliance department that enable the department to craft policies which the organisation must follow, and processes to successfully implement legislation.

Understanding the regulatory environment is a vital part of creating the risk-based framework and, in an era of heightened risk and scrutiny, staying up to date with the latest regulations and wider supervisory thinking is imperative.

Traditionally, compliance frameworks inside corporations were rules-based, but the tide is shifting to a risk-based approach favoured by supervisors.

"Rules-based functions focus solely on the letter of the law and have broad but shallow programs to track relevant rules, laws, and regulations and test and train for compliance within them. The goal of a risk-based compliance program is to reduce the overall compliance risk by focusing greater effort on managing the most material risks." Elena Belov, financial services, and organisational effectiveness partner at Oliver Wyman.

BUILDING A RISK-BASED COMPLIANCE FRAMEWORK

1: Risk assessment and identification

The organisation's operations and activities are evaluated to identify potential compliance risks, which are ranked and prioritised.

2: Regulatory mapping and analysis

Identified risks are mapped to relevant regulatory requirements and industry standards. Gaps between current practices and regulatory expectations are identified.

3: Risk measurement and evaluation

Quantitative and qualitative metrics are developed to measure the level of each identified risk. The potential financial, operational, legal, and reputational consequences of non-compliance are assessed.

4: Control and mitigation strategies

Control measures and mitigation strategies are developed and implemented for high-priority risks. Specific policies, procedures and guidelines are defined to address compliance gaps.

5: Monitoring and reporting

A systematic monitoring process is established to track compliance with established controls. Risk assessments are regularly reviewed, while compliance reports are generated for management and relevant stakeholders, highlighting areas of potential concern.

6: Continuous improvement

Periodic reviews of the compliance framework are carried out while regulatory changes are incorporated into the framework.

7: Audit and assurance

Internal audits are performed to assess the effectiveness of the compliance framework. Results help refine and improve the framework, enhancing overall compliance.

"Forward-thinking teams use AI to assess regulatory risks on the horizon rather than looking backwards or applying changes as they appear. Heavily regulated firms are starting to embrace automated regulatory change management, policy management, training, controls operation and testing, but there is still some way to go." Ben Richmond, CUBE CEO and founder.

Enhanced data analytics capabilities exist today that can help compliance functions better prepare for shifts in regulatory thinking.

Intelligent risk assessment methodologies scan the horizon for emerging threats and can incorporate a blend of both reactive and proactive inputs.

Advanced machine learning tools can give COs foresight and context into emerging regulatory risks, fully automating the process from one end of the distribution channel to the other. Built-in compliance and ARI tools can significantly reduce uncertainty and are becoming integral to threat-reduction strategies inside firms of all sizes.

Key takeaway

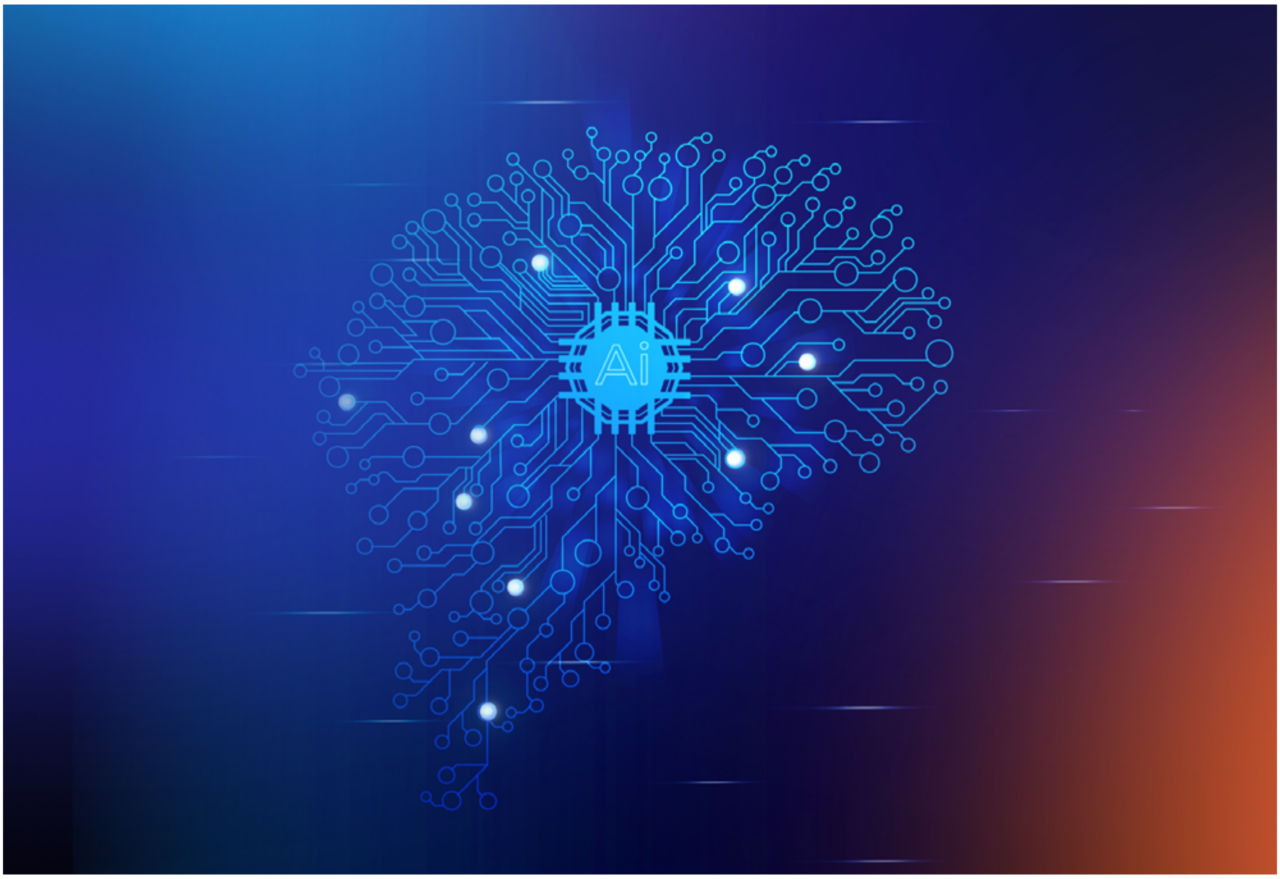
Embracing a regulatory change strategy allows businesses to head off risks long before they present a serious threat to the organisation.

ACTION 2 Integrate AI into the compliance function

Harnessing the power of AI can help corporates bring systems into compliance with government and industry standards across multiple regions.

Sectors with labour-intensive compliance documentation such as financial services, insurance, healthcare, law, and asset management, require substantial amounts of manual oversight. This can drive up costs, eat into resource time, and is more likely to result in error.

No industry is immune; however, oil, gas, and renewables companies are facing particular pressure to modernise and rationalise their regulatory, legal, and compliance functions and practices. The regulatory focus on climate risks, emissions and mineral mining will be felt across the entire chain and knock on into other sectors reliant on commodity services.



"Energy companies need to establish robust data governance practices that span the entire organization rather than specific segments and systems. These practices drive consistent reporting and enable informed decision-making. As energy companies enhance their data governance function, assessing and understanding their underlying data quality and availability is critical to supporting a data-driven organization." Bryan Benoit, global head of energy at Grant Thornton.

The difficulty of this struggle is exemplified by the ongoing compliance headaches many large businesses report regarding global data privacy rules.

The General Data Protection Regulation (GDPR) and California Consumer Privacy Act (CCPA) paved the way for more than 2,500 laws governing data privacy to become enacted around the world, according to research by PwC.

Compliance programmes have taken a piece-meal approach to dealing with separate data privacy regulations, and today approximately 88% of global companies say that GDPR compliance alone costs their organisation more than $1m annually, while 40% spend more than $10m.

In the context of globally interconnected trade and the severe consequences of a breach, it is inconceivable that so many compliance requirements can be dealt with manually when machine learning tools can play a defining role.

If reducing compliance overheads without diluting the impact of controls is a critical strategic imperative, there is little hope of gaining real operational efficiencies or avoiding huge punishments without integrating machine learning and AI tools into the function.

Meta, owner of Facebook, was hit with a €1.2bn fine for GDPR violations, but the actual cost to the company would end up being substantially higher.

The final costs for non-compliance are always much greater than the headline figures, given that civil damages and litigation, class actions, penalties and other costs can soon mount up in the event of a violation.

In addition to direct costs there are risks that further conditions may be imposed by regulators, leading to additional sums to be spent on:

- Revamped compliance systems.
- Changes to internal policies and procedures, including the appointment of monitors or the need to hire external consultants.
- Orders to restructure the balance sheet.

In the case of a data privacy violation, there is also an elevated risk of reputational damage and a shift in perception by customers, regulators, lawmakers, and the market. This can threaten profitability, and even the viability of the business.

An AI-powered compliance programme offers a solid foundation for integrity when this matters and is visible to key stakeholders. It can help the business build and repair its credibility, which in turns leads to a virtuous cycle of trust from customers and regulators. In turn, the business can use this to create a sustainable competitive advantage, by leveraging stakeholder trust into sustained growth.

"Businesses that have successfully implemented ARI applications have reported a reduction in compliance spend of more than 40% in some cases." CUBE Head of Regulatory Services, Krzysztof Tokarski.

How AI enhances the monitoring and reporting of regulatory changes

AI-powered regulatory monitoring:

Machine learning tools can continuously monitor in near real-time a wide range of regulatory sources including government and supervisor websites, updating COs with business-critical information.

Automated Regulatory Intelligence:

ARI tools can automate the process of extracting relevant information from regulatory documents and generate compliance reports, reducing manual effort and the risk of human error.

Horizon scanning and early warning:

AI can assist in identifying regulatory risks and give early warning signals. Predictive analytics and natural language processing (NLP) can be used to assess the impact of regulatory changes on the corporation.

Customised alerts and notifications:

AI systems can send customised alerts and notifications to compliance teams when relevant regulatory changes occur. When calibrated to the organisation's exact requirements, intelligent tools can be trained to prioritise certain alerts.

Once deployed and COs are comfortable training the machines, AI is significantly faster, much more accurate and cost effective than human reviewers.

ARI can also serve as foundation for applications that support multiple aspects of governance and compliance, including the mapping of incoming legislative updates to internal controls and policies, leaving COs free to focus on value-add tasks.

Key takeaway

In the context of globally interconnected trade and regulatory burdens it is inefficient to rely on manual compliance processes when machine learning tools can play a defining role.

ACTION 3

Transform regulatory issuances into valuable insights

Beyond the clear rules, regulators also issue other materials to add colour to the regulated ecosystem, giving businesses examples and insights into thinking.

Tapping into this added context can help COs read between the lines and get a sense of future focus.

Policy updates, white papers, speeches, enforcement notices and research can give a solid understanding of where a regulator may move on a given subject.

CUBE's research has tracked more than 40 million documents issued by regulators around the world since the 2008 financial crisis. This shows the scale of the task compliance has in making sense of the rules and how arduous the task of comprehending where regulators may move in future is.

A flood of insights from regulators has given organisations a chance to be more dynamic and proactive in their approach to compliance. Businesses can tune into these signals, add context to regulatory issuances and adjust their compliance strategy accordingly.

In recent years, executives have reported that during exams and discussions with supervisors, questions are often asked about the broader ecosystem of the corporation.

Horizon scanning is viewed as a positive practice, and important for bolstering the relationship between business and supervisor, as organisations can keep the regulator informed of what they consider the major risks and challenges appearing in the market.

Machine learning tools applied to global regulatory datasets can give COs a 24-hour holistic window through which they can peer to anticipate regulatory directions.

The ability to anticipate and act on changing priorities is a major efficiency driver for compliance functions otherwise drowning in a flood of information.

READING BETWEEN THE LINES

Deep-learning algorithms and machine-learning tools can simplify the complexities of monitoring for multi-jurisdictional and multi-product operations along with regulatory insights. Algorithms can automate policy and control mapping – meaning no regulatory issuance slips through the net regardless of the language.

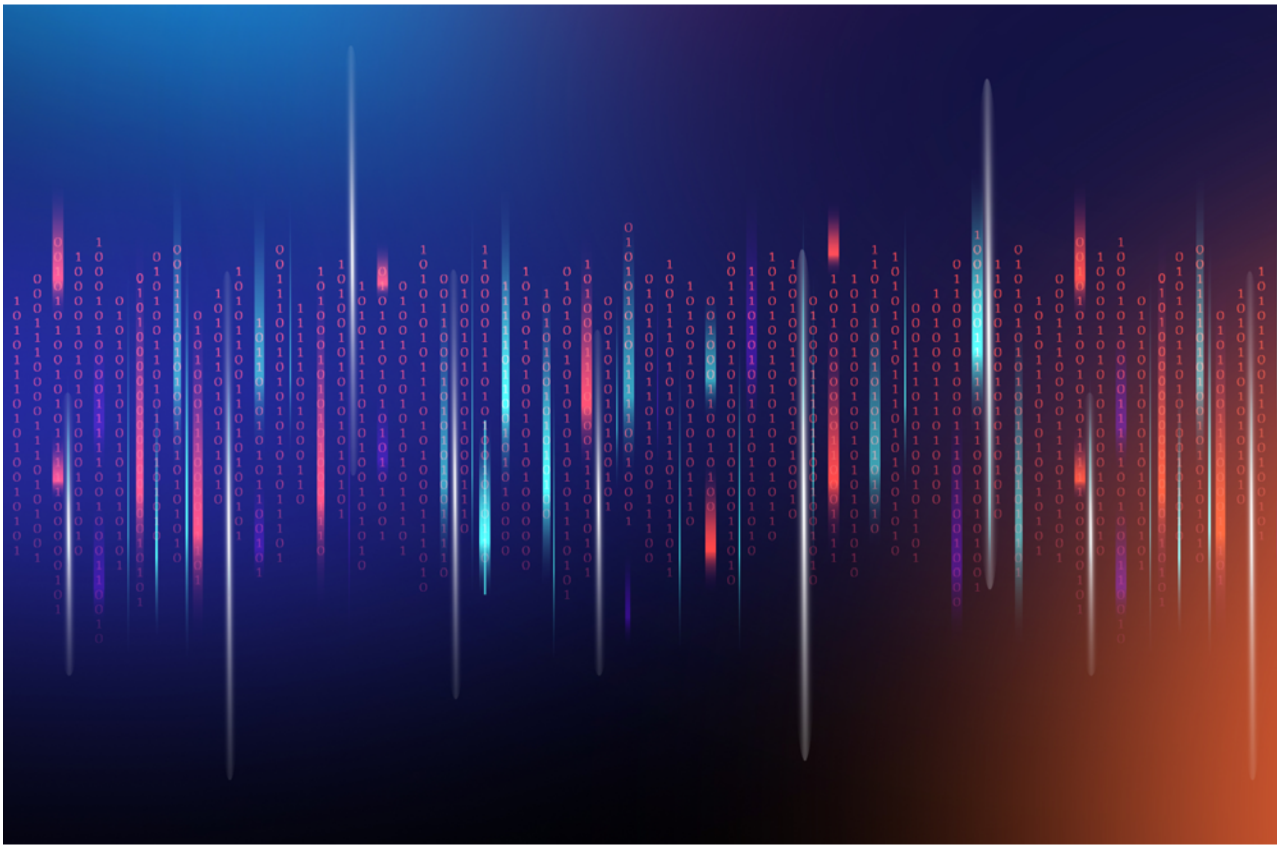
Funnelling and sorting regulatory data into a single place allows for a more complete view of regulatory change. From here, artificial intelligence and NLP algorithms can identify shifts in regulatory thinking, policy, and rulebook updates.

Where ARI truly enhances compliance operations is in the tailoring of regulatory alerts to the organisation's unique regulatory profile.

Deploying AI models to vast content databanks in search of relevant proposed and pending regulations, legislative updates, blogs, and speeches can give COs the earliest possible warning that change is or will be required.

Scanning for real-time developments, enforcement activity, fines, blogs, consultations, notices, bulletins, and deadlines will bring vast volumes of constantly updated information, which can be uniquely tagged and classified.

Next-generation ARI solutions can filter the data that matters to the business and ensure compliance and the wider organisation is ahead of change long enough to implement the desired actions.



Recent advances in contextual analysis and natural language processing pioneered by CUBE can provide a connection between insights and other relevant regulatory materials that a narrower scan would miss.

The results are prioritised for the closest matches meaning COs who must also consider data protection, cybersecurity, or ESG updates would have the results at their fingers in minutes instead of having to take time to scour several other sources.

This is a significant step towards bolstering compliance coverage given the increasing barrage of international and domestic regulations multinational corporations are facing.

Intelligent tools give COs control over what to analyse and where, allowing them to prioritise risks and identify the meaningful regulatory change their business needs to respond to.

"Eliminating the need to pore over regulator websites to find changes and then calculate their relevance to the organisation is a significant efficiency gain for COs who can instead move to tasks of higher value such as interpreting regulatory trends or dedicating time to strategy." Tim Ward, Head of Product – Digital Experience and Strategy, CUBE.

Key takeaway

Deploying AI to tune into regulatory signals, understand key themes and insights, and add context to regulatory thinking can be transformational for COs inside large corporations.

ACTION

4 Make the case for Automated Regulatory Intelligence

Compliance programmes encounter numerous roadblocks in their design and implementation that make it challenging to achieve their intended goal. One of the major problems COs have is winning over sceptics both up and down the chain.

Environments of trust, business integrity, and accountability are cultivated through senior management support, setting an example to the rest of the business that a culture of ethics is the key to success.

To gain buy-in from key stakeholders, COs must transcend rhetoric and demonstrate how automation of key compliance processes can deliver operational change.

The most senior figures have a powerful influence on the business and set an example to those employees in the lower levels with the decisions they make and the actions they carry out.

If the 'ground floor' employees feel they cannot voice concerns to the compliance function, or if compliance does not have the support of senior managers and the board, the entire company will find it incredibly difficult, if not impossible to identify and promptly address compliance gaps or cultural failings.

SPEAK THE LANGUAGE OF FINANCE

The case for implementing ARI solutions can be as simple as understanding that CEOs, CFOs, and boards respond to numbers.

Major corporate fraud and conduct scandals over the last decade, and the billions of dollars in fines that have resulted, means stopping problems before they escalate is the most effective method of delivering cost-effective compliance.

The solution must make financial sense, and for senior leaders this comes in terms of a return on investment (ROI).

Where many COs struggle is quantifying the risks inherent to the business and the costs of lost productivity in a compelling manner.

It may also be possible to present revenue-generating activities that can come because of change; repositioning the compliance function as a key asset to senior management as opposed to a drag on budget.

Emphasising the potential outcomes and other cost-saving measures that can be generated when automation is deployed across the function is a powerful way to get the message across.

"Winning the 'hearts and minds' battle often means overcoming internal mindsets that compliance is at best a nuisance and at worst a roadblock to be circumvented. Demonstrating the value of automated regulatory change management in ways the C-suite can understand goes a long way to winning support and budget for technological change."
Rob Fulcher, Chief Sales Officer, CUBE.

Cost-saving benefits of moving to ARI systems include reduced risks related to breaches and litigation, and other business threats. Regulators tend to be more lenient of one-off lapses if they witness a strong compliance programme in place. Conversely, the penalty may be significantly higher than the proportionality to the aspect of non-compliance if the organisational attitude is lacking.

Other damaging outcomes from weak compliance programmes include:

- Negative media image hitting share prices and market cap.
- Reputational damage repelling customers and impacting both top and bottom line.
- Opportunity costs with resources diverted to deal with investigations, amongst many other possible costs.

One of the most harmful costs to businesses, and one which boards are acutely aware of, is the price paid to remedy any damaging situation.

Recruiting costly consultants and specialists or putting the latest technology in as a quick fix may do more harm than good.

Choosing the right technology partner is a vital step in the process and can mean the difference between success or failure in compliance, which has broad implications for the rest of the business.

It is CUBE's assertion that the most effective deployment of AI is a synergy of human excellence and machine capabilities. Combined with a cohesive, proactive regulatory capture strategy, compliance teams can cover more ground, better protect the business, and add value as trusted partners to boards and the C-suite.

Key takeaway

Highlighting the value of AI tools and their importance and value to the wider business can help COs win over key stakeholders and generate support for efficiency boosting automation. A top-down compliance approach sends a strong message through the business that the compliance function is an integral part of the organisation's operations and its future strategy.

CONCLUSION

- The damage regulatory breaches can cost to large enterprises in revenue and reputation makes non-compliance the number one business risk.
- Getting ahead of problems before they escalate is both cost effective and strategically advantageous.
- Intelligent regulatory change management centres around the mitigation of a wide number of business risks, and can be framed as a justifiable investment for compliance functions inside large corporations.
- Multinational compliance frameworks are strengthened by machine learning tools that provide real-time horizon scanning of regulatory sources and map updates to internal policies.
- Automated Regulatory Intelligence can ease the pressure on overburdened compliance functions, and improve trust, business integrity, and accountability across large, complex organisations.
- Dynamic regulatory landscapes present regulated businesses with a sea of constantly evolving laws and compliance trends. The task can quickly overwhelm even the most diligent of COs tasked with manually tracking and interpreting complex regulatory changes.
- Failure to comply can result in large fines, legal fees, long-lasting reputational damage, and the added expenditure of fixing the issue.
- Innovative businesses understand the most effective compliance strategy is to adopt a proactive approach which harnesses AI in ways that will help the organisation adapt as new regulations and guidance appear.
- Intelligent technology is playing a critical role in enabling corporations to build robust and active compliance programmes that can anticipate and react to risks without leaving senior management exposed.
- Augmenting human excellence with machine capabilities allows compliance teams to cover more ground, better protect the business, and add value as trusted partners to boards and the C-suite.

CUBE has been the market leader in RegTech since the business was formed in 2011. Our unrivalled regulatory change management solutions help Fortune 500, FTSE companies and leading names in other highly regulated industries solve complex regulatory challenges.

WHERE CUBE STANDS OUT

- Increased agility and capability to manage regulatory change – make better-informed compliance decisions.
- Reduce time and costs – save up to 30-40% of compliance costs by freeing up highly qualified individuals from manual tasks to work on valuable operations, analysis, and critical thinking.
- Horizon scanning for compliance – gain oversight over upcoming regulations and plan when it comes to regulatory policies and controls.
- Implement effective, auditable compliance – provide evidence to regulators and internal audit teams across the entire regulatory change process.
- Easy integration into compliance systems and processes – integrate CUBE into your other GRC (Governance, Risk, and Compliance) and risk systems.
- Avoid non-compliance enforcement actions – preserve company reputation and avoid regulatory fines.

ABOUT THIS PLAYBOOK

This compliance strategy playbook is aimed at compliance and risk professionals responsible for maintaining the integrity inside regulated businesses.

Working with our partners, CUBE has developed this guide to support teams considering a move to ARI technology solutions, which we would be happy to facilitate.

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If you would like to discuss this report in more detail or learn more about how we can help you, email hello@cube.global today.