



# Risk and Compliance

The New Imperative to Balance Cost, Efficiency, and Effectiveness

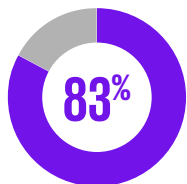
## KPMG Financial Services Risk, Regulatory and Compliance solutions for growth and profitability

Across the financial services sector, organizations face increasing pressure to grow, enter new markets, and innovate while working against the need to do more with less. This dynamic is not unique to the financial services industry. What is unique, however, is the highly complex nature of the risk, regulatory and compliance landscape that firms must navigate. First and second line executives have labored successfully to balance the cost associated with effectively managing risk with the commercial realities of the business—no small matter. However, economic headwinds before us, the high price of labor, heightened regulatory expectations<sup>1</sup> and the increased commercial needs that come with growth all conspire to dislocate a carefully aligned cost-to-value ratio and to permanently alter the cost-growth curve. This has led to an increased focus on optimizing spends, impacting the risk and compliance function in material ways. In fact, 83% of global financial services firms that responded to a recent KPMG survey<sup>2</sup> stated that they are refocusing their cost optimization efforts and 85% are accelerating them.

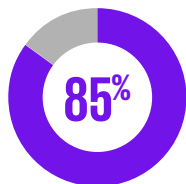
KPMG understands that the risk and compliance functions are not immune to these cost optimization pressures and will be asked to contribute to the periodic rebalancing of spend to align with both the commercial needs of the business and the regulatory requirements associated with its size. Further, we appreciate the challenges associated with cost optimization efforts in this function when many of their efforts are targeted at resolving substantial matters brought to the organization by one or more of their regulatory partners. The reality is that risk and compliance functions across the first and second line will need to reset the baseline of what it will take to meet their various obligations today, while altering the slope of the cost curve associated with new requirements sure to come.

To that end, KPMG has devised a series of offerings focused on addressing this challenge. In principle, these offerings drive progression across a set of targeted benefits that ultimately enable such functions to operate more leanly with a firmer foundation to scale with the business in a manner that adds cost slowly over time. In essence, this is achieved by endeavoring to simplify, modernize, and optimize.

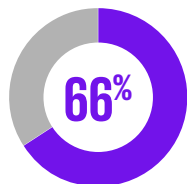
## The Market is Focused on Reducing Cost



Firms refocusing their cost optimization efforts



Firms accelerating their cost optimization efforts



Firms looking to reduce their cost basis by more than 10% in 3 years

<sup>1</sup> KPMG “Top 10 Regulatory Challenges of 2023” reiterate how Financial Services regulators continue to raise the bar on expectations of covered entities and institutions. <https://advisory.kpmg.us/articles/2022/ten-key-financial-services-regulatory-challenges-2023.html>

<sup>2</sup> KPMG “New Cost Imperatives in Banking”, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/04/new-cost-imperatives-in-banking.pdf>, 2021

# Three value drivers of risk and compliance functions

In our experience, risk and compliance functions can harness three key levers to drive risk and compliance efficiency.



## Simplify

- Rationalize the disparate risk, compliance, and control assurance frameworks, roles, and responsibilities, and converge functions, data, tools, processes, methods, governance, and reporting within and across the first and second lines
- Normalize, reengineer, and automate stable, repeated processes



## Modernize

- Migrate risk and compliance controls into core platforms and digital-business environments and adjust first and second line accountabilities
- Integrate advanced technology, data and analytic techniques and retire legacy approaches and implement more cost-effective methods
- Migrate environments to the cloud



## Optimize

- Utilize quantitative and empirically proven methods to improve the quality of alerts and reduce the volume requiring resolution
- Migrate workforce to more efficient and lower cost execution models, including "As-a-Service" execution
- Source "Staff-to-Expected" / "Surge-to-peak" resourcing

Firms can leverage these solutions to help them balance cost, efficiency, and effectiveness and ultimately achieve sustainable scalability across the organization:

- Control Assurance Convergence
- Regulatory Obligation Management
- Fraud
- Model Risk As-a-Service
- Risk and Compliance Convergence
- Credit Reimagined
- Surveillance Strategy
- Supervision Strategy and Optimization



# Solutions to balance cost and efficiency

KPMG has developed the following solution suite to deliver against cost and efficiency needs our clients are addressing today.

Solution	Benefits Delivered	Scale of Opportunity	Value Drivers		
			Simplify	Modernize	Optimize
Control Assurance Convergence	A control assurance framework that will: <ul style="list-style-type: none"> <li>• Leverage a “Test Once/Use Many” framework (net reduction in test execution)</li> <li>• Balance execution vs reliance framework to reduce redundancy across the lines of defense</li> <li>• Drive organizational consolidation and rationalization efforts through automation and standardization</li> </ul>	High	✓	✓	✓
Regulatory Obligation Management	Technology-enabled global regulatory change identification and management framework to: <ul style="list-style-type: none"> <li>• Reduce legal and compliance spend and to identify, rationalize and onboard new regulations globally</li> <li>• Facilitate the mapping of ownership, policies, controls and testing to said obligations</li> </ul>	High	✓	✓	
Fraud	Advanced approach to fraud analytics and technology to: <ul style="list-style-type: none"> <li>• Improve detection rates, enable real-time detection, and reduce losses</li> <li>• Reduce “falsely blocked” transactions requiring costly resolution</li> <li>• Reduce time to resolve detected transactions and improve customer experience</li> <li>• Identify detection gaps and strengthen proactive controls</li> <li>• Convert advanced fraud algorithms to engineered features to reduce time spend on tracking, reporting and regulatory scrutiny/review</li> </ul>	High	✓	✓	✓
Model Risk As-a-Service	A technology enabled “As-a-Service” offering to: <ul style="list-style-type: none"> <li>• Host model risk automated processes and data in a cloud solution</li> <li>• Deliver pre-defined documentation for key model components</li> <li>• Execute model risk activities in credentialed, but lower cost locations</li> <li>• Manage quality to meet commercial and regulatory requirements</li> </ul>	High	✓	✓	✓
Risk and Compliance Convergence	A comprehensive method to simplify all first and second line risk and compliance frameworks and functions to principally: <ul style="list-style-type: none"> <li>• Rationalize and collapse disparate risk and compliance frameworks globally into a single consistent and integrated framework including taxonomies, critical data feeds, assessment methodologies and approaches, etc.</li> <li>• Assess risks and controls once—for multiple purposes</li> <li>• Reverse governance venue proliferation</li> <li>• Eliminate organizational overlap and redundancy in first and second line risk and compliance functions</li> <li>• Converge second line functions</li> </ul>	High	✓	✓	✓
Credit Reimagined	Front-to-back reengineering of credit processes and methods to: <ul style="list-style-type: none"> <li>• Digitize credit underwriting of loans from origination through servicing</li> <li>• Converge disparate underwriting and credit policies, rating and analytic methods, and processes</li> <li>• Consolidate different supporting technologies from customer acquisition through loan disposition</li> <li>• Automate resource intensive processes through low-code, cloud migration, and other technologies and strategies</li> </ul>	Med-High	✓		✓
Surveillance Strategy	Employ data, advanced analytics, machine learning, and “As-a-Service” skilled resourcing to: <ul style="list-style-type: none"> <li>• Reduce false positives and increase the efficacy of high risk/high alert volume surveillance patterns, freeing up FTE to pursue more value-added activities</li> <li>• Strengthen the underlying surveillance ecosystem with monitoring controls to proactivity identify anomalies that indicate potential gaps or weaknesses</li> <li>• Decrease the per alert cost of remediation efforts through automation, standardization, and data augmentation for both BAU and surge support</li> </ul>	Medium	✓	✓	✓
Supervision Strategy and Optimization	Deploy methods developed in Risk Simplification to reengineer Supervisory functions in markets businesses to: <ul style="list-style-type: none"> <li>• Reduce the volume of, and increase quality of supervisory alerts requiring resolution by supervisors</li> <li>• Provide a clearer connection between supervisory activity and requisite supervisory objectives</li> <li>• Improve and streamline supervisory reporting and activity to rationalize first vs second line activity and responsibility</li> </ul>	Medium	✓	✓	✓

# Turn challenges into opportunities

KPMG has evolved its service offerings to deliver against the spectrum of needs our clients have as they navigate the complex business and operating environment of the global marketplace. Each of our offerings were designed to deliver against the value our clients seek across their growth, cost and efficiency, regulatory, and market stewardship needs. As your organization's needs evolve, KPMG can work with you to migrate your firm and its capabilities to a state where you are better prepared for the challenges that lie ahead.



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## Contact our team

If you have questions or are interested in KPMG services related to cost efficiencies in risk and compliance, please contact:

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