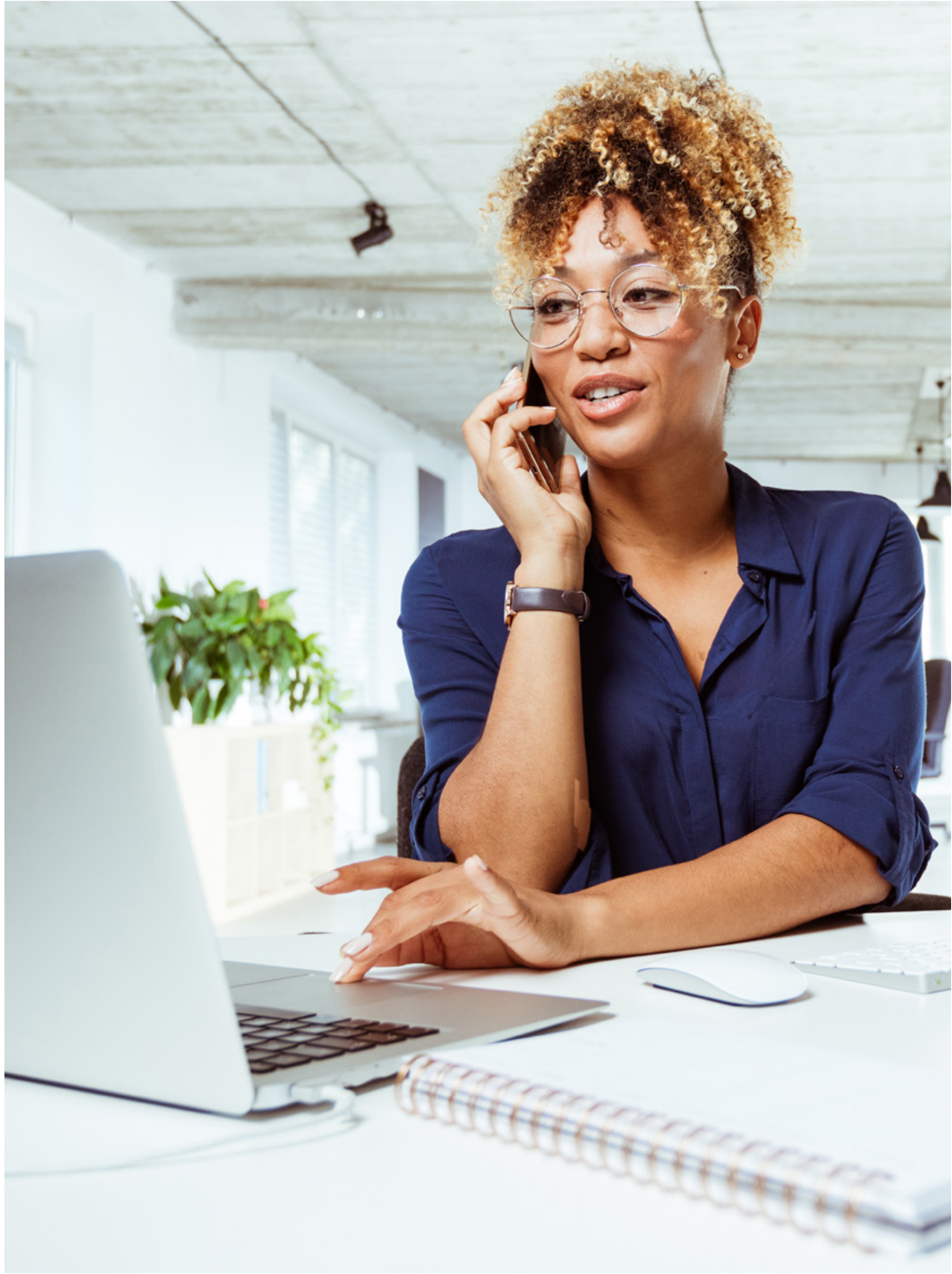
Installing the digital gatekeepers

Financial risk protection for today and tomorrow

The modern risk landscape for financial institutions is daunting. Mitigating fraud, money laundering, bribery and corruption have always been top of mind for financial institutions. But digitization, multinational regulatory requirements, asset management obligations—as well as crypto and fiat currencies—can further complicate risk management considerations. Tech-savvy criminals and increasing regulatory scrutiny need to be on leadership's radar. The potential monetary and reputational impacts are too great to ignore.

Businesses must stay ahead of the regulatory curve as even small issues can become systemic. Regulatory bodies can also hamper an organization's ability to move forward, stymying growth. As a result, financial service firms, which have an obligation to keep assets, private information and other data safe, can't afford to take a whack-a-mole approach to risk, compliance and regulation.

Financial service firms must be proactive and leverage leading edge tech—to be compliant, maintain positive stakeholder relationships—and stave off bad actors.

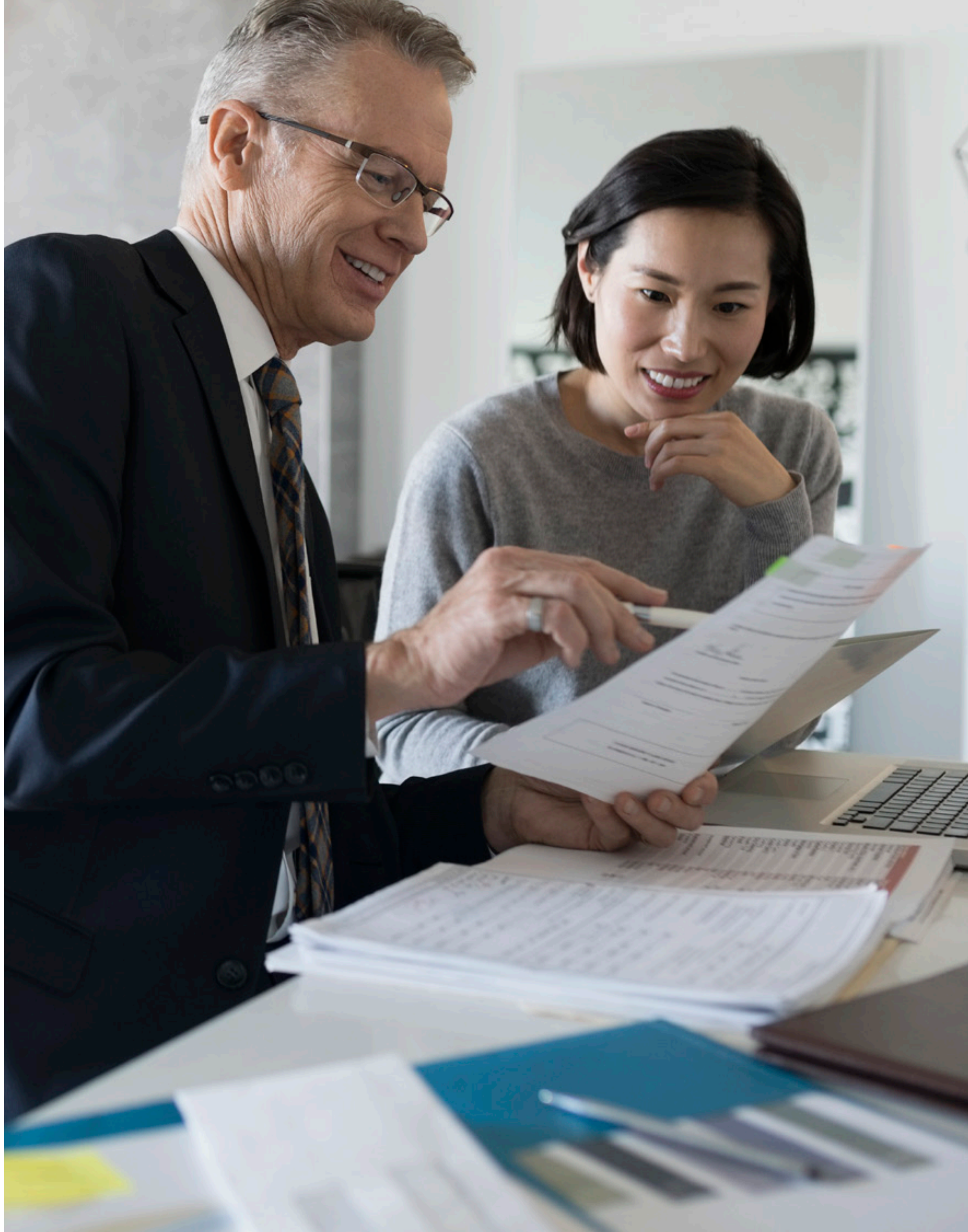


Expanding ethical obligations

Financial services groups have a host of ethical obligations, from duties of care and loyalty to implied fiduciary responsibilities. Investors, customers, regulators and liability mitigation teams all want to know where investment capital is coming from.

Although 2021 saw companies raise outside capital with relative ease, choosing the right investors is more complicated than ever. The Securities and Exchange Commission recently added **Rule 206**, which regulates crowdfunding. The NYSE has also **increased scrutiny of special purpose acquisition companies (SPACs)** that bring IPOs to market.

Whether you're a new digital company, investment bank, private equity firm, portfolio company or seeking a new issuance, accurate, accessible and secure data is needed for transparency reporting and other regulatory and compliance requirements. Clean data also helps regulators and interested parties quickly assess risks, which opens pathways to value creation and gaining investor and stakeholder confidence.



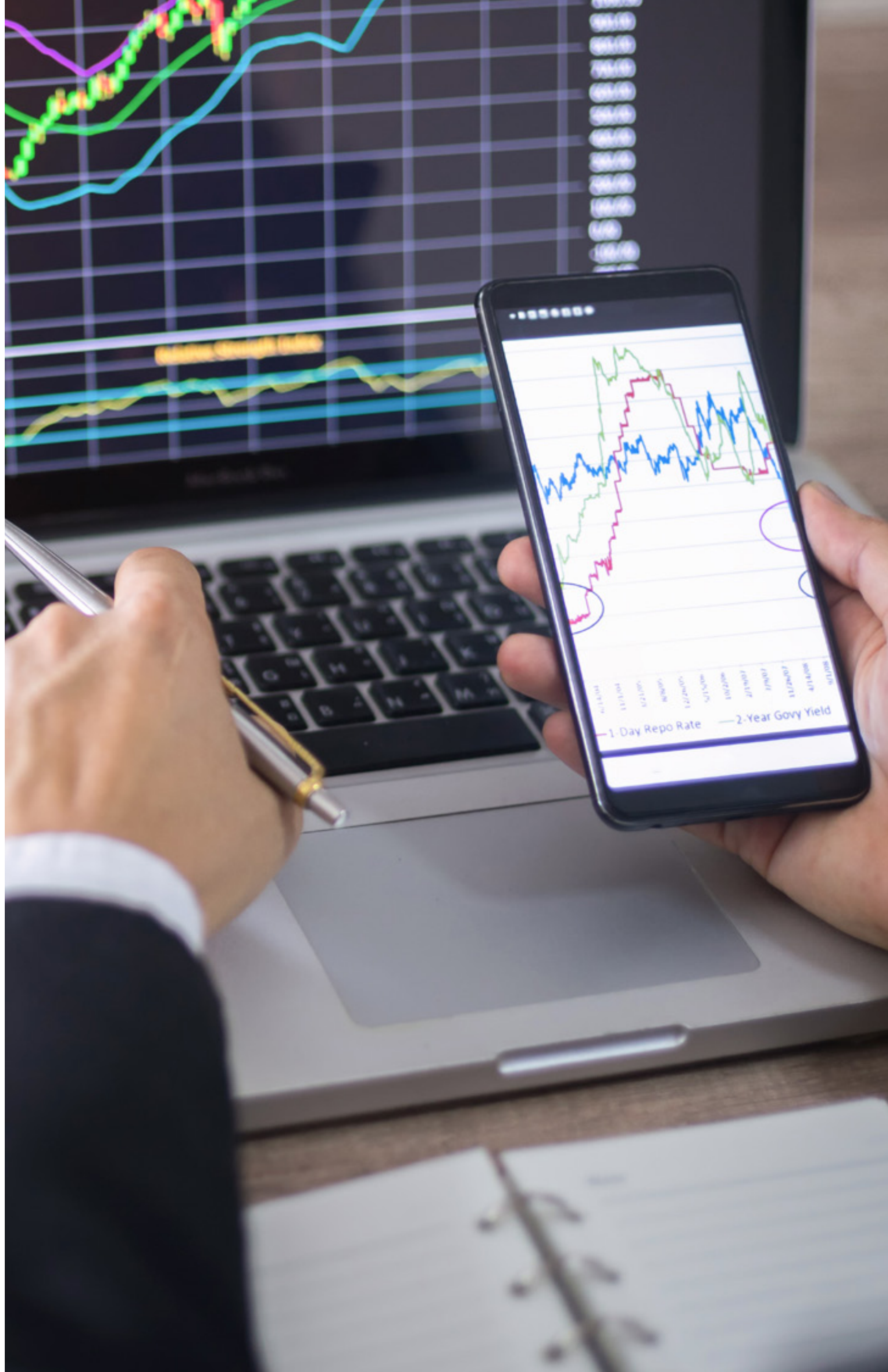
Assessing your digitization risks

Nearly half of CEOs globally rank cyber risks as the top threat to growth. Many worry that cyber risks could inhibit innovation and revenue. The pandemic, which necessitated a nearly complete transition to **online transactions and remote work**, often with inadequate cybersecurity, created fertile ground for fraud, corruption and data breaches. This compounded the already entrenched issue of opaque and hard-to-understand digital investments requiring heightened oversight. Additionally, the end of 2021 was marked by supply chain constraints and revealed vulnerabilities that caught many multinational firms off guard.

Whether your financial firm acts as fiduciary, agency, payment system or **all of the above**, many facets of digitized financial services will be affected by **enhanced risk, regulatory and compliance oversight**. This includes:

- Wired payments
- Peer-to-peer payments
- Crypto payments and exchanges
- Checking and savings products

Expanding trust and security for your organization will be determined by how proactive you are in managing your cybersecurity risks and taking advantage of the efficiencies that digitization can bring.

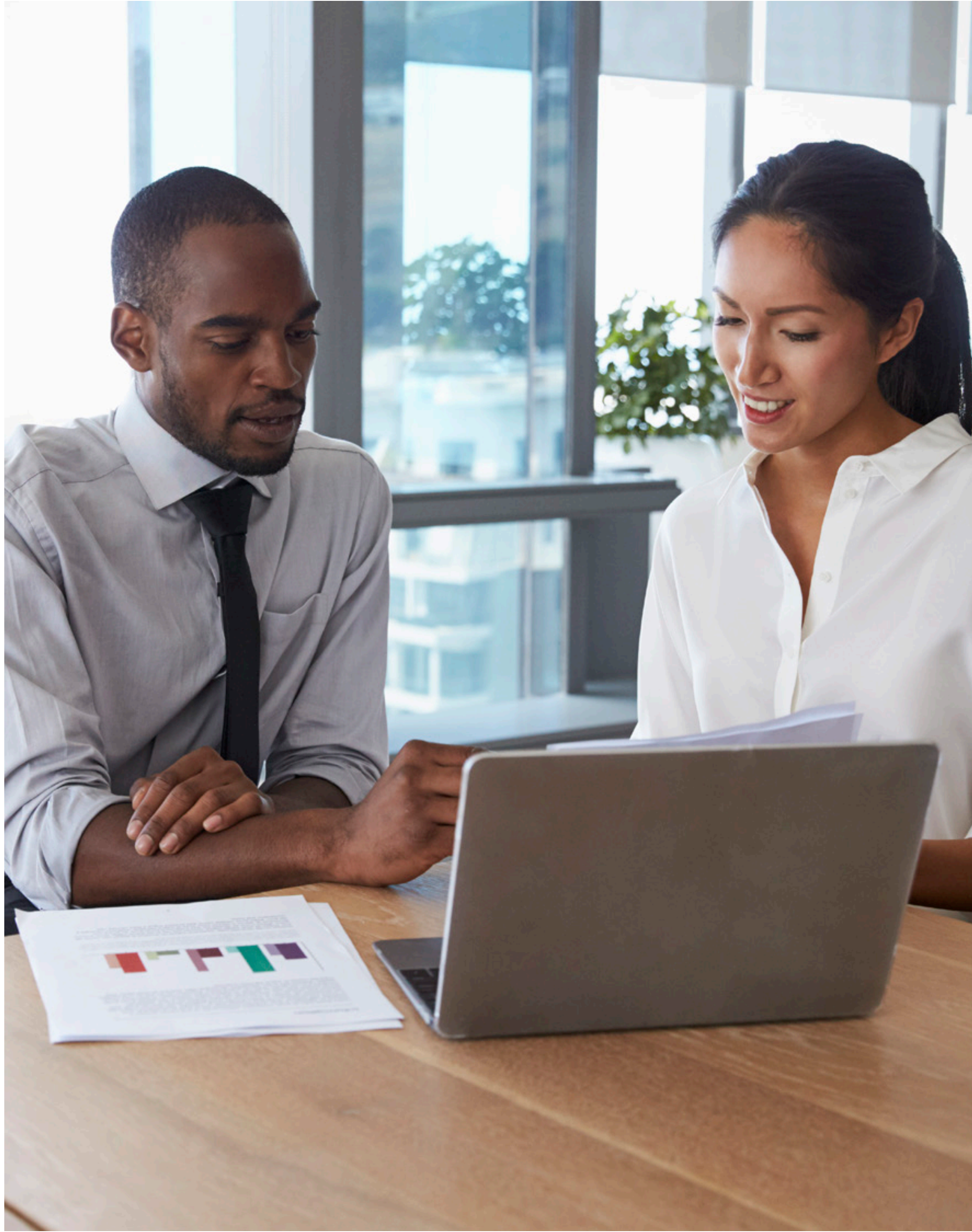


Get better at risk management

For **large and mid-sized enterprise** organizations, digital transformation and risk transformation go hand in hand. Typically, risk, regulatory and compliance oversight activities for tax and assurance are performed by in-person auditors. This can include cross-border payments, point of origin, money trail for anti-money laundering, audit monitoring and security oversight. When you add in shifting offshore tax obligations and supply chain violations that can nullify purchasing agreements or endorsements, it can be daunting—especially for multinational companies.

With regulators pushing to re-address and scale-up risk mitigation and compliance, it's time to take stock of your people, processes and technology. Older standards aren't going to cut it anymore. There's also been an immediate impact on compliance and **DOJ guidance**, with the current administration taking a tougher stance on enforcement, regulation, anti-bribery and corruption.

Consolidation in the finance sector has increased corporate and personal liability, too. Coming regulatory obligations for global banks, like **Basel IV**, are also changing the compliance landscape. Third-party actions—like those of your supply chain vendors—can directly affect your investment managers, broker-dealers and payment systems.



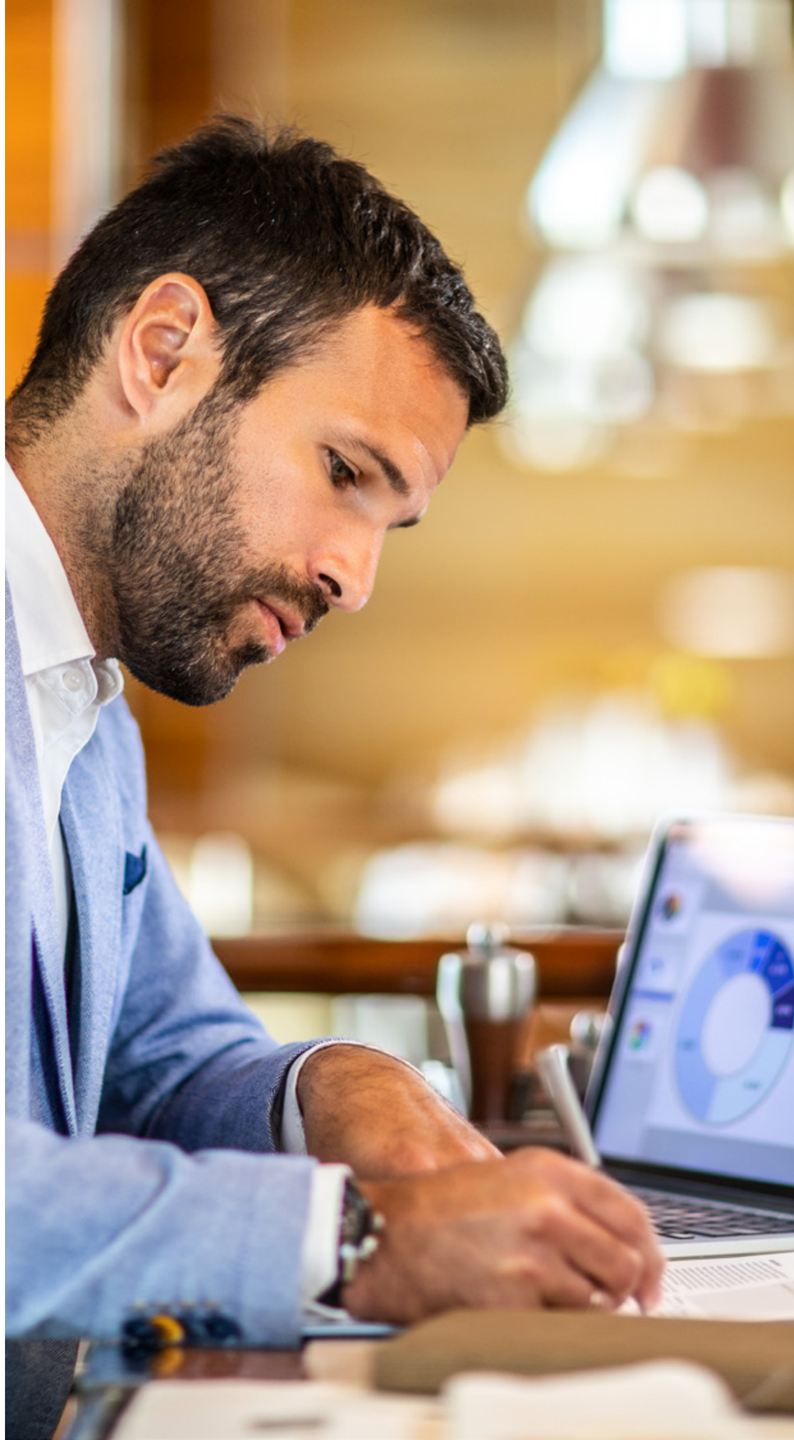
So what will it take to drive better risk management for large organizations?

To start, your organization should understand and govern models that are ever-evolving and becoming more complex. That's no easy task: the speed and availability of alternative investments, digital currencies and payment systems has surpassed the public's knowledge of how they work. Consider preparing a technological safety net that protects both consumers and principals.

Digital native firms such as alternative lenders, fintechs and payment systems, have unique challenges and should think about compliance in a robust fashion. These companies are key beneficiaries of proactive risk management platforms. Since they're starting from scratch, digitally nimble firms can interface easily with risk prevention tech for immediate benefit.

For firms looking to expand through M&A, consider the cautionary tales of other organizations that have undergone multiple mergers and acquisitions—eager to leverage their brand and grow the organization as a single unit. This can be especially problematic if the firms involved are at different stages of digitization—with some undergoing transformation and some fully digitized. Mismatched capabilities can make it challenging to be aware of emerging conflicts in real-time. A regulatory audit could force the entire newly formed organization to cease operations and endure a tedious and time-consuming manual examination of their business. The fallout in revenue—and reputation—could cost them dearly.

Don't wait until a regulatory body informs your organization of a problem. Instead, know how to assess, strategize and resolve potential compliance issues. Be proactive.



Mitigate risks with trust, culture and ESG

With growing existential concerns like the climate crisis, environment, social and governance (ESG) matters are top of mind. Aligning focus on trust, culture and ESG can help pinpoint existing and potential issues. For financial institutions, and the financial system as a whole, **climate-related stress testing** with scenario analysis will become a tool to avoid systemic risk. Underlying macro risk from global polluters, questionable point of origin investment and terrorist regimes—whether in crypto or fiat currency—is ever-present.

Corporate initiatives that amplify trust, culture and ESG have resulted in advances in diversity, equity and inclusion (DEI). All areas of human resources (HR) management—from diversity reporting to projecting productivity loss and labor negotiations—can benefit from transparency. Advanced technology platforms can give financial firms' HR a leg-up as labor shortages continue.

Unfortunately, widespread use of algorithmic-based AI models can magnify unintentional biases, leading to litigation. But with the proper guardrails in place, and the right metrics, **AI and data analytics can be a game changer in managing risk compliance**.

Implementing the right tech saves time, builds trust and allows people to move from mechanical functions to higher cognitive analyses and can enable better judgment calls. Your people can reinvest in deeper industry knowledge, innovation and problem solving.

Tech-enabled risk management helps businesses:

- Lower cost basis
- Become more efficient and price competitive
- Increase revenue
- Drive growth
- Allow their workforce to concentrate on higher-level cognitive functions

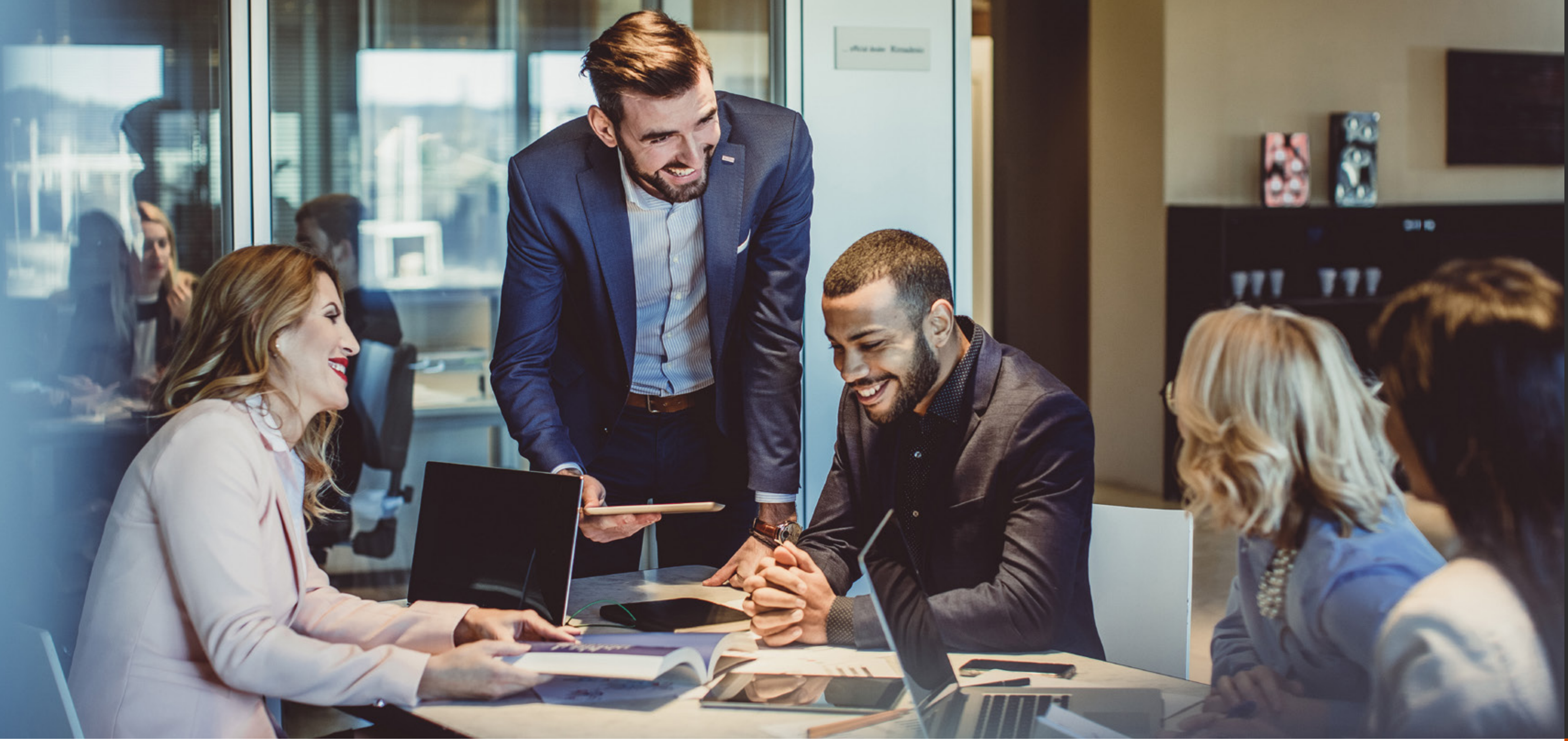
Install the gatekeepers

The time for digital risk transformation is now. Risk **solutions** that help bring increased accuracy and can pinpoint problem areas faster—like digital forensic services for **anti-bribery, corruption** **and compliance oversight**—are mission critical. Digital platforms that automate aspects of risk management and give you an audit trail of your activities and make data-driven decisions.

AI and machine modeling provide transparency for regulators and stakeholders—this includes helping you stay on top of the increasing scrutiny around ESG and DEI issues. It can also help identify human rights violations in manufacturing supply chains or spot climate destructive suppliers. Risk intelligence helps evaluate your third parties to determine **if their actions put your organization at risk**. An obligation to protect vulnerable populations means finding financial scams and unintentional, algorithmic biases in lending or hiring.

Preemptive risk and **financial crime management technology** can help organizations deal with the bad actors who find ways to subvert tech and exploit people and businesses.

PwC is at the forefront of accelerating the digitization of risk assessment, controls and compliance activities for our financial services clients. Our **Model Edge** and **Ready Assess** products are designed to work in concert to address risk, regulatory and compliance issues and are fully able to interface with existing order management systems, trading platforms and enterprise systems. We're committed to helping you preserve brand integrity, build trust and protect your customers.



Learn more about how **PwC's Risk Management Portfolio** can help you successfully navigate compliance and risk for financial services.

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