Confronting financial crime with tech-enabled risk assessments

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Ready Assess

A PwC Product

Going beyond a snapshot in time

Regulatory compliance standards for financial institutions are ramping up in the age of digitization to protect consumers, garner trust, and build a culture of accountability. A robust risk assessment is a cornerstone of an effective financial crimes compliance program. Only businesses that truly understand their risks can deploy effective financial crimes compliance programs to help mitigate them.

As the global nature of business expands and risks change, even non-financial businesses are conducting regular risk assessments to help identify potential hazards before they cause major problems.

The proliferation of new technologies also compounds the challenges of mitigating financial crime. Web3, metaverse, digital assets—these emerging technologies require risk executives' attention and may even require new compliance playbooks.

Getting ahead of emerging customer, product and geographic risks is critical to confirming that your firm stays ahead of regulatory risk.

The impacts of a weak risk assessment process

For many firms, the risk assessment process isn't robust enough to confront today's heightened risks across businesses, industries, and markets, primarily for three reasons:

Many firms lack the ability to effectively coordinate risk assessments across the global enterprise.

Units and subsidiaries in different countries and territories can create hurdles to effectively assessing and tracking risks, and confirming these risks are identified in a common and coordinated risk assessment process. Without a formal, effective procedure and tool to coordinate this process, firms are often unable to effectively understand their risks across the enterprise.

Risk assessments can be manually intensive.

A highly manual process with spreadsheets leaves employees slogging through physical data collection and tedious tabulations, all the while creating an increased potential for human error and reducing efficiency.

Risk assessments can drain staff resources.

When staff efforts are focused on data collection and processing—and on the actual analysis of present risks and threats—it can place a heavy burden on resources. Automation and tooling can be effective ways to reduce this burden.

The stakes are high

Conducting insufficient risk assessments can carry a high price tag. This can include penalties at the hand of regulatory agencies, reputational damage, and loss of customers and revenue. Citations have been issued over the years to institutions for failing to design and implement a risk-based compliance program where the risk assessment itself was criticized.

Regulatory agencies can slap a business with fines or sanctions, or in extreme cases, loss of core operating licenses. Reputational damage from a financial crime may lead to a corporate monitorship for an extended period of time, which sucks up resources and focus dollars. Without an accurate view of risk, businesses also stand to lose customers and revenue when their reputation is damaged.

A streamlined and more effective risk assessment process that leverages the right tools can help reduce time spent, costs and the risk to the firm.

Three cornerstones of a strong risk assessment process

A risk assessment focusing on an institution's customers, geographic footprint, products and services offered, and distribution channels can reveal the risks it faces and which control areas need to be bolstered.

The core building blocks of a strong risk assessment program include:

1 | A data-driven, methodological approach

2 | The establishment of a consistent cadence

3 | Implications across the business at large

1 | A data-driven, methodological approach

When it comes to a robust risk assessment process, the overarching goal across all business units should be consistency. Companies should aim to confirm consistent data is collected and is analyzed in a similar way. To serve as the single source of truth across an organization, the risk assessment should gather similar data from all departments and stakeholders across business entities. And a strong assessment program should balance quantitative analytical methods with traditional qualitative methods.

In manual risk assessments, the audit trail is often inconsistent, not easily repeatable and may be fraught with ambiguity around the core methodology. For example, when multiple entities perform data intake manually, one entity is often asking certain questions, while another may be asking a slightly different set of questions. When these disparate answers come together in a single risk assessment form, inconsistency can surface that can make the risks hard to reconcile and understand.

Data should ideally flow in a single stream up through a master risk assessment process in a way that reduces the risk of inconsistency. Automating this process by connecting the data collection system to the risk assessment portal can reduce both the potential for human error and the amount of time employees spend on data collection.

2 | The establishment of a consistent cadence

Most businesses in the financial sector perform annual risk assessments, but a more proactive approach to the risk assessment schedule may be necessary as the business' risk landscape changes and additional risks emerge. Electing to perform risk assessments with more frequency can help pinpoint pertinent takeaways and turn them into actionable controls that can reduce business risk year round.

Conducting risk assessments manually can make it hard to hit that regular cadence and can hinder progress. Companies with more automated processes have an advantage in conducting risk assessments; even if they are conducting more frequent risk assessments, they can expend less resources in doing so.

3 | Implications across the business at large

Risk assessments are multilayered. At the foundational level, they should demonstrate required compliance to regulators, but they should not be check-the-box exercises. A thorough risk assessment will have implications on a wider scale for the future of the institution. An effective risk assessment exercise can help inform and improve downstream processes for the rest of your compliance program. It can reveal where you have unmitigated gaps, what investments may be needed to close those gaps, and where you might need to invest in more technology.

At the end of the day, most compliance officers believe they know their risks, but a good risk assessment can open their eyes — and management's eyes — to the various pockets of risk across the organization. It can become a springboard to developing a plan that helps to close the gaps, improve risks and ultimately round out your compliance program.

When the risk assessment creates a true structure around the implementation of new controls based on its findings, it can suddenly become more than just another binder on the shelf.

All data pulled into a risk assessment, for example, could tell your organization what might happen to its risk profile if the transaction load or customer base changed. Are you looking to make an acquisition or unveil a new product this year? If so, what are the risks that come with that? This type of analytics can prepare the organization for future growth and help create the controls necessary to mitigating the risks involved in hiring more employees, creating new processes or incorporating innovative technology to automate.

Streamline and boost your risk assessment process

Be proactive and incorporate technology to improve your risk assessment. Ready Assess, a PwC product, can boost your financial crime prevention efforts with a formal risk assessment methodology and process.

With Ready Assess, you can retrieve assessments on demand with data already collected and packaged into a consistent format across the entire enterprise. The platform promotes accountability through a searchable audit history of actions taken on any past assessment.

Ready Assess can deliver your end-to-end risk assessment via a visual, interactive, trackable and actionable platform. You can customize it to your organization's needs, whether you're digitizing a mature risk assessment or looking for an out-of-the-box solution.

With data-driven insights, you can take a proactive approach to understanding and managing your risk. Ready Assess' library of metadata has passed regulatory muster and is reviewed and updated to address client feedback and regulatory change. An annual, complete review of all metadata and risk assessment questions for AML and OFAC helps keep content relevant.

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Get a holistic view of evolving business risk to empower better, proactive decision-making across your organization.

Start a conversation with our team today.

Contact us