



Risk & Compliance
LEADERS SUMMIT

CREATING AN AUTOMATED FUTURE



**AN EXCEPTIONAL OPPORTUNITY
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WITH THE 'WHO'S WHO' IN
RISK AND COMPLIANCE FROM
EUROPE'S LEADING BUY-SIDE
FIRMS – ALL OPENLY SHARING
THEIR FIRST-HAND EXPERIENCE
ON THE DO'S AND DON'TS OF
BUILDING A WORLD CLASS
DIVISION**

– Christian Dahmen,
Chief Risk Officer & Member of the
Board of Management,
NewRe (Munich Re Group)

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INTRODUCTION

In Q2 of 2018 WBR Insights and Verint surveyed 100 Chief Risk and Compliance Officers from across Europe to find out more about the challenges they're facing and the innovative solutions being brought to the table.

The survey was conducted by appointment over the telephone. The results were compiled and anonymised by WBR Insights and are presented here with analysis and commentary by the Risk and Compliance community.

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Philip Fry,
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Verint





Creating an Automated Future

By Philip Fry, VP Product Strategy, Verint

This survey reveals a growing imperative to exploit the power of automation. At Verint, we see that as businesses strive to ensure compliance with an avalanche of regulations, they must pursue new ways to drive effectiveness, sustainability and proactivity across the compliance function.

This has been Verint's focus – to reinvent how financial services address the fundamentals of their compliance infrastructure: communications capture, records retention, data governance and analysis, trade surveillance, infrastructure monitoring, and compliance automation, amongst others. Verint looks for ways of simplifying, modernising and automating these essential elements to offer practical, robust and holistic solutions that help to ensure compliance and reduce risk.

Monitoring and verifying the successful capture of voice and other interaction data can consume significant manpower and resources. It is not surprising that this is an area of interest for those considering outsourcing.

But it is also worth noting that modern, automated software solutions offer advantages to those looking to retain these functions in-house. Automated solutions can carry out comprehensive testing of communications and recording systems, as well as managing eComms-surveillance and data management. Automation can cut labour costs and human error when it comes to policy enforcement and checking that 100% of required interaction data has been captured across multiple communication channels. If based on open standards, such tools will work with existing

communication, protecting investment in systems and data.

Proactive compliance capabilities can monitor interactions and automatically enforce communication and content policies, and prevent regulatory breaches from occurring in the first place. They effectively remove the need for 'after-the-fact' compliance.

As part of the three lines of defence approach, such automated 'ethical walls' and communications monitoring also provide useful returns by reducing the resources needed to respond to regulatory enquiries, and the risk of suffering reputational damage.

In fact, these innovations speak directly to the top three risk and compliance priorities addressed in the survey.

- ▶ Adopting open standards for these data capture and operational systems can make sourcing, **aggregating and analysing data** much easier – even across multiple, diverse systems.
- ▶ The burden of **complying with multiple, complex regulations**, can be eased by technologies that recognise and proactively act upon the requirements of those regulations – preventing compliance issues and smoothing the flow of business.
- ▶ Overcoming **the challenges of internal structures** can also be addressed with so-called Unified Communications (UC) - such as Microsoft's Skype for Business and Cisco's Jabber.

All of which points towards prioritising investment in new technologies, which could have a major beneficial effect on the ability to address these issues.

PART 1

STRATEGY OVERVIEW

More than half of CCOs outsource parts of their process whereas very few CROs outsource theirs

In your role, do you outsource any of your processes?

I see the most potential for outsourcing in standardised tasks such as: manufacturing and approving fact sheets, reviewing marketing campaigns for compliance, ensuring cost effective and punctual daily NAV pricing, and producing monthly and quarterly regulatory and investor reports.

Use of finance-focused contractors is a good way to meet peak demands in resources for processes such as ORSA and computing regulatory stress tests.

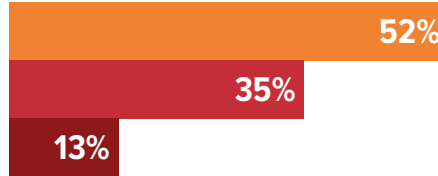
Software development and implementation such as risk and trading systems and actuarial software is best outsourced through strategic RFI/RFP aligned with the target operating model for the business and the risk and compliance functions.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

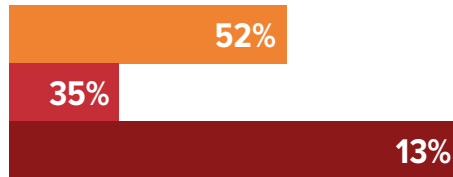
Compliance monitoring tends to be more ruled based on established regulations than risk monitoring, so it is no surprise to see more outsourcing in this area. As the regulatory landscape stabilises, I would expect this to continue. Risk monitoring for board reporting is likely to be outsourced too, but I expect risk management to continue in-house to some extent.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus
Henderson Investors

For Chief Compliance Officers



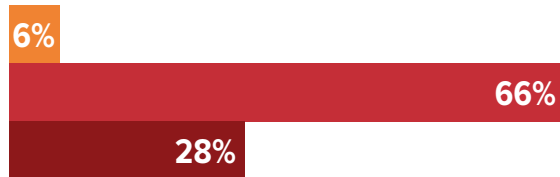
For other job roles



For Chief Risk Officers



For Chief Risk and Compliance Officers



- Yes, we outsource
- No, we don't outsource
- We don't currently outsource but we are looking into this

Fewer than half of CROs surveyed feel they are implementing the conventional 'three lines of defence' structure very effectively

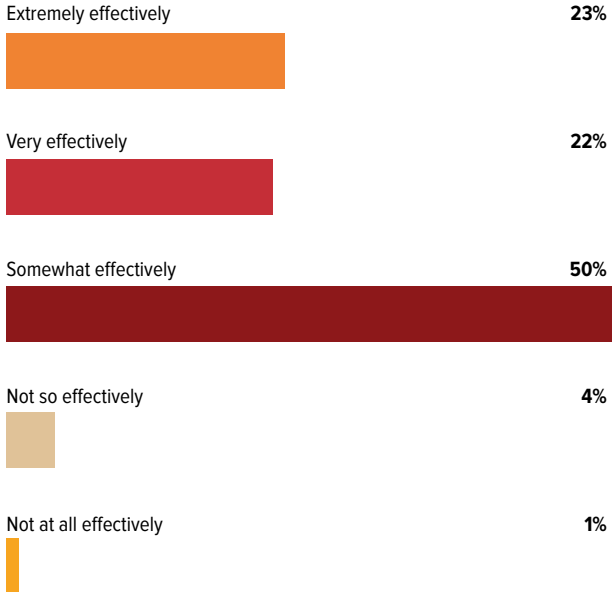
How effectively are you implementing the conventional 'three lines of defence' structure?

I find the third line of defence (internal audit) to be extremely ineffective in practice. Not much is learned from it; it is mostly used retroactively when something has gone wrong (by which time we are aware of it and it is too late to do anything).

In smaller organisations, the second line occasionally takes on first line tasks; but I find this does not necessarily create problems, as long as the second line staff are quality professionals and are aware that they are in such instance doing another task than their second line responsibility. They should themselves seek risk and compliance support and review of occasional first line activity.

In rogue organisations (which surprisingly are still around in the industry), the first line – the operational teams – continues to operate with a neglect of risk and compliance, and continues to work with a 'catch me if you can' attitude towards regulated activities. These organisations run a severe risk of regulatory setbacks, including being shut down.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC



The three lines of defence model is well established as a concept, but the actual application of it is still subject to debate among the buy-side firms. This leads to the current response rates showing a majority choosing somewhat effectively.

Taking market risk as an example, do you want the market risk people to sit on the second line and be independent from the front office? Or do you want them to be close to the front office in terms of skills and relationship? One option gives you independence of reporting line and escalation but may hamper its effectiveness. The second option gives you potential credibility from the fund managers and more open discussions on portfolio exposures – but reduces the apparent independence and may be seen as too close to the front office for investors / boards / regulators. In the end, it is a question of leadership and bringing in the right people.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus Henderson
Investors

More than two-thirds of respondents are looking beyond traditional profiles to hire new talent

Are you hiring non-traditional profiles?

When hiring risk and compliance staff with non-traditional profiles, HR should look out for people with personal qualities like integrity, independence of mind, social and team-working skills and people with an awareness and pro-active interest in society and business.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

AT RISK AND COMPLIANCE THIS YEAR...

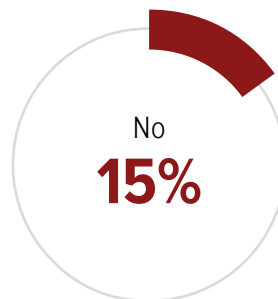
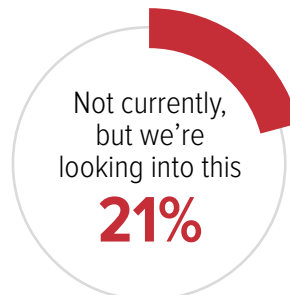
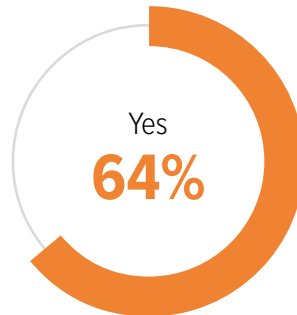
CASE STUDY

Building the next generation risk and compliance division: What are the critical success factors for hiring, training and retaining the best talent in your organisation

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The level of skill and experience required from Risk and Compliance profiles hired has definitely increased in the last five years. This is due to an increased visibility of these teams to clients and regulators, but also due to the realisation that these teams can add value and help support the growth of the business.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus
Henderson Investors



PART 2

**TECHNOLOGICAL
INNOVATION**

More than half of CROs surveyed have plans to automate model risk management, market risk tasks and regulatory reporting tasks within the next year

Are you automating any tasks in your risk and compliance process?

A lot of risk management rests on quantitative, modelling and reporting software. A good CRO will purchase and assemble a best-in-class arrangement of vendor software. To get the best results in outsourcing, it's critical to insource IT and process architectural skills which closely fit the business and risk operational models.

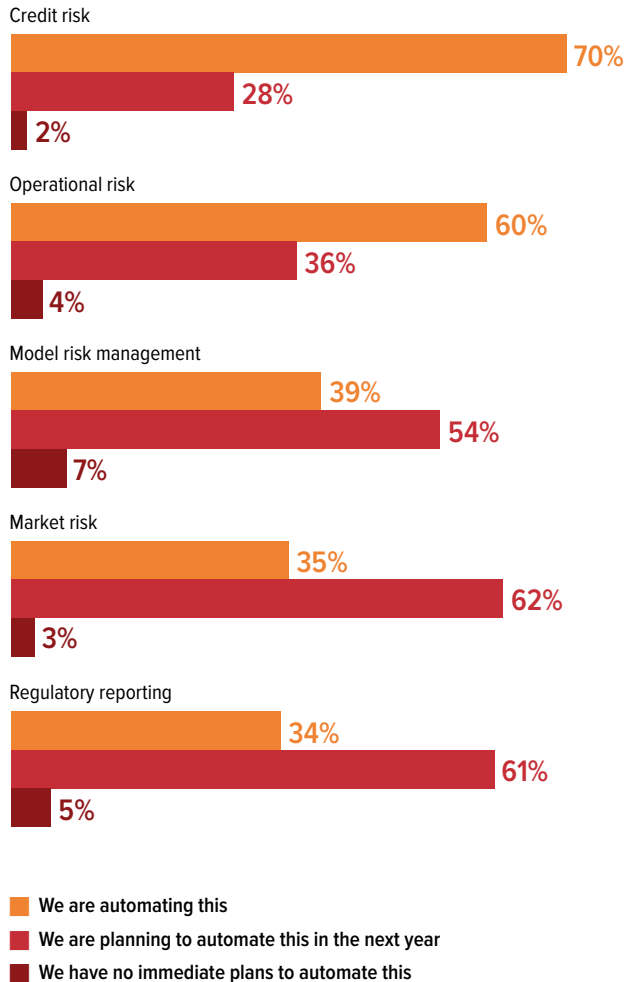
However, some CRO and CCO responsibilities cannot and should not be automated.

Examples of these essential functions are: designing the risk operational model, defining and enforcing the risk culture, and championing the ongoing need to train the first line for risk awareness and to include risk as an explicit criterion in decision-making.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

The rule based monitoring part of the job will increasingly be automated and outsourced, but the advisory portion will be likely stay in-house. Automation only brings efficiency if the service provider or the machine automating the work is manageable – this requires an entirely new skillset which is not easily available. Automation also often comes at a cost to flexibility, which again needs to be taken into account when considering the upfront cost required.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus
Henderson Investors



When it comes to strategically managing capital and liquidity, three quarters rely upon technical compliance capabilities

How are you strategically managing capital and liquidity?

I think the industry needs to dramatically gear up its planning and contingency skills in liquidity modelling and management. The evaporation of liquidity is in many businesses a hidden risk of massive dimension. There is as yet no understanding that liquidity management is a critical success factor and its use should be priced internally.

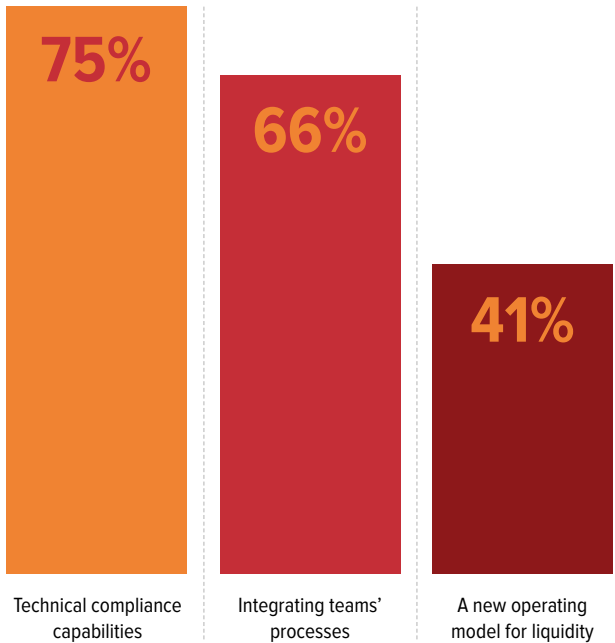
Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

AT RISK AND COMPLIANCE THIS YEAR...

PANEL

Responding to scarce market liquidity: How to measure, manage, and monitor liquidity risk and its close correlation with market, credit and P&L risk?

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Respondents were asked to choose all that apply

43% agree that FinTech is one of the external market dynamics set to have the most impact upon their division

Which external market dynamics do you expect to have the most impact on your division?

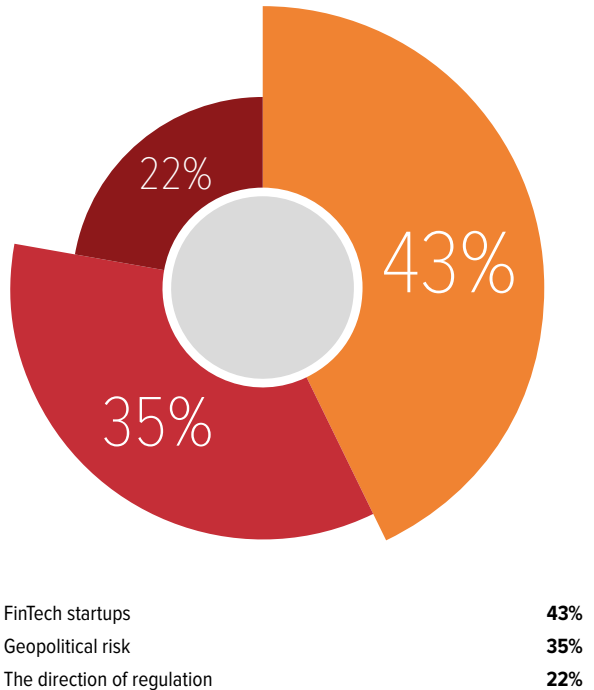
The most immediately visible risk currently is the risk of a trade war triggering a reversal of the globalisation of the last 20 years. This may shave a percentage off overall economic growth and potentially trigger recession and productivity bottlenecks.

But for many organisations, the longer term risk is one of irrelevance of their business model, getting stuck in old ways, missing the technological boat and failing to on-board new products and services. This risk may be slower in revealing itself but in the long term is the only risk that really matters.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

FinTech is mostly seen as potential source of services rather than direct competitor to our business at this stage, although we are aware of wealth management Fintech companies which have started disrupting the business of distribution of our product, and therefore could disrupt the way our funds are sold.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus
Henderson Investors



PART 3

ADAPTING FOR THE FUTURE

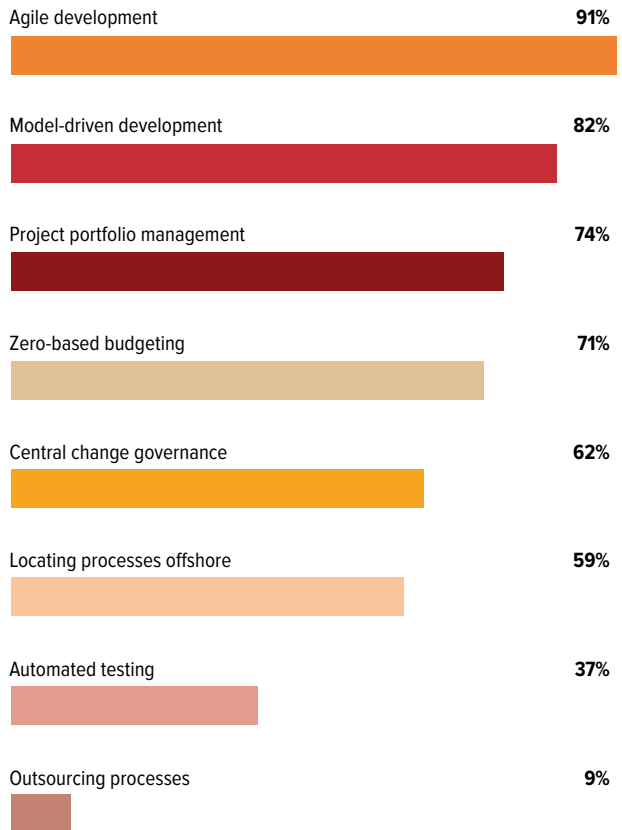
CROs are reducing the cost of risk and compliance management by taking an agile approach to development

How are you reducing the cost of risk and compliance management without impairing its effectiveness?

CROs can take an agile approach by outsourcing and contracting tasks. This will include strategic vendor management for risk, performance, reporting and compliance systems; ensuring effective RFPs and competitive searches for making such software and services purchases; and making use of the Cloud, giving the entire company access to the right data in the right spot.

Combine this with refining the job descriptions in your department to make sure you're hiring the best talent for the role.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC



Respondents were asked to choose all that apply

The top priority for respondents is sourcing and aggregating data

What are your top risk and compliance priorities?

A truly effective strategy for sourcing and aggregating data prioritises the architecture of the data structure. Just downloading data without thinking through source, cleaning, use, access and descriptive tags is going to prove a waste of time.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

AT RISK AND COMPLIANCE THIS YEAR...

PANEL REVOLUTION

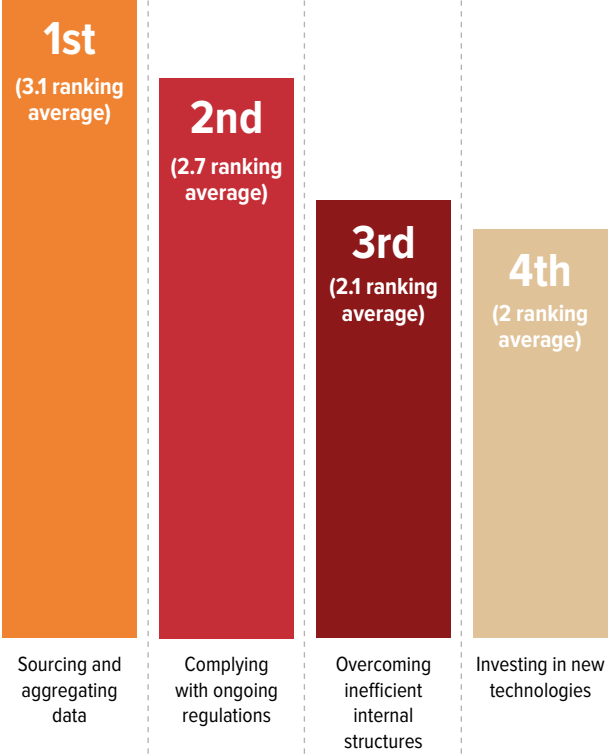
Gaining a single view of your risk data: How can you overcome challenges around data quality and aggregation to support an enterprise-wide risk management approach?

Leontien Van Den Oever,
Expert Risk Manager,
PGGM

Chrystelle Charles-Barral,
Head of EMEA Portfolio Analysis and Risk,
Neuberger Berman

Alain Robert-Dautun,
Head of Risk Management,
Sycomore

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Respondents were asked to rank from 1-4, with 4 being the most important and 1 being the least

Most of Risk and Compliance work is about data and how to structure data so that work can be done effectively. Our current priority is to look at our combined data infrastructure across the two merged entities and see how it can support the fund managers to deliver superior risk adjusted performance while meeting regulations. Too much time is still spent by highly skilled professionals sourcing accurate and reliable data.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus Henderson Investors

Respondents ranked the impact of the low yield macro-environment a 4.5/10 on average

How much is the new low yield macro-environment affecting your division?

Low rates have led to many outcomes. Capital gains in fixed income and equity have now resulted in stretched market valuations, and we've seen mountains of debt being financed and refinanced. Liability-driven institutions which entered the credit crisis with a duration gap have been hammered economically and have seen their capital much depleted.

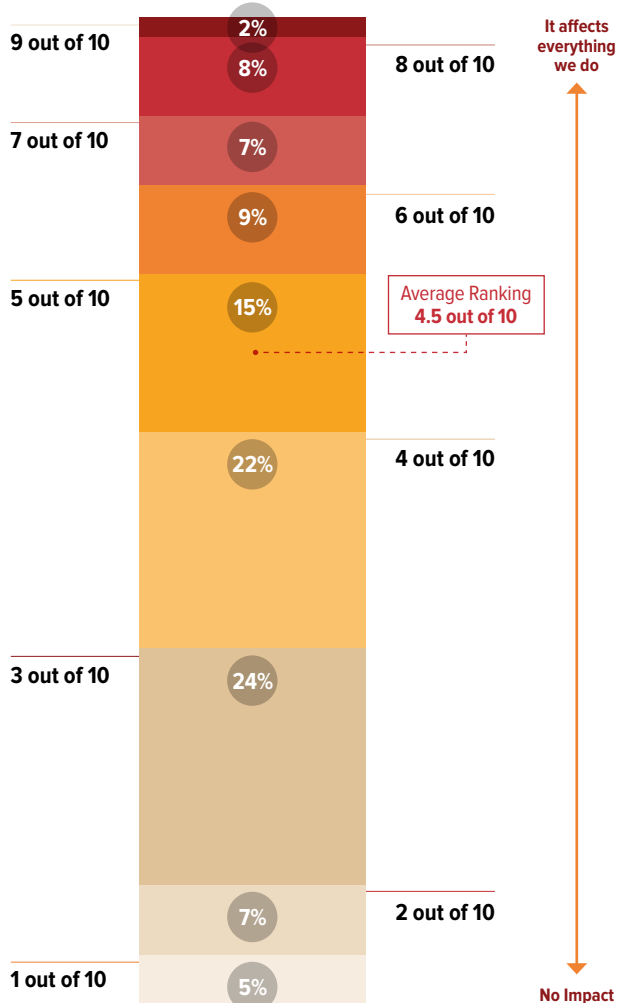
Most importantly, there has also been a push for yield, and this has led to illiquid assets being bid up. CROs need to retool to understand the risk, and to be able to monitor the requirements of these new asset classes. CCOs need to think through the merits and consumer impacts of the new products developed in this environment.

Even more, a forward-looking approach is needed to identify how firms can position themselves for a rising yield market – the next major macro-event in the capital markets.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

Assuming the low yield environment is there to stay, and this is a big if, this will have an impact on expected returns on various asset classes. This in turn may impact expected returns from our products. This fact would have far reaching consequences on the price we can reasonably charge investors for our services. In time, the efficiency requirement from Risk and Compliance team will only increase.

Julien Cuisiner,
Head of Portfolio Risk & Analytics, EMEA, Janus
Henderson Investors



On average, CROs spend 19% of their time focusing on regulatory risk, and 15% looking into new technologies and automation

What percentage of your time do you spend on the following in your role?

The credit crunch triggered an avalanche of EU directives and regulations which are only now abating with – maybe the last large initiatives – MiFID II and STS securitisation standards. CROs and CCOs have been tied down implementing and complying with these regulations over the past decade.

Only now do businesses get the time to move beyond compliance with the new regulations and can they start to develop commercially effective businesses in this new post-credit crunch environment.

Erik Vynckier,
Chief Investment Officer, Europe,
Eli Global LLC

Time spent focusing on regulatory risk **19%**

15% Time spent looking into new technologies and automating processes

AT RISK AND COMPLIANCE THIS YEAR...

KEYNOTE C-LEVEL INTERVIEW

Responding to external market dynamics:
What are the top 3 priorities CROs and CCOs are focusing their time, money and energy on?

Guy Coughlan, Chief Risk Officer, USS
Jean-Charles Delcroix, Chief Compliance Officer UK, Amundi Asset Management?

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About Risk and Compliance



In a low yield macro environment with heightened new risks and a future of regulatory uncertainty, it is now more important than ever for you as buy-side risk and compliance leaders to position your division as a strategic capability that helps your firm remain competitive.

As the only buy-side focused risk and compliance event, only here will you have the chance to benchmark your people, processes & technology with 100+ risk and compliance leaders from Europe's largest money managers.

At Risk and Compliance this year, you'll have access to...

200 + Risk & Compliance Leaders From The Full Value Chain Joining Us	100 + Buy-side C-Level & Heads of Risk & Compliance	50 + Thought Leading Speakers Sharing Their Practical Insights	15 + Hours Invaluable Networking Time
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Don't miss this valuable opportunity to network with the best in the business and benchmark against your peers.



About WBR Insights



At WBR Insights we conduct professional research amongst high-level decision makers in key industry verticals. We use this research to create content-powered marketing campaigns designed to kick-start dialogue, share insights, and deliver results.

From whitepapers focused on your priorities, to benchmarking reports, infographics and webinars, we can help you to inform and educate your readers and reach your marketing goals at the same time.

Contact us to find out how your business could benefit from:

- Year-round access to our network of decision-makers and industry leaders
- Lead generation campaigns that fit your priorities
- In-depth research on current fast-moving issues and future trends
- Promoting your organisation as an authority in your industry

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