NAVIGATING THE TRADEOFF BETWEEN AI AND HUMAN ADVISORY CAPABILITIES FOR REGULATORY CHANGE MANAGEMENT

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PANEL EXPERTS

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Sitaram Karanam is the head of market development and drives the regulatory compliance product strategy at Wolters Kluwer. He oversees the Go To Market (GTM) operations for the firm's compliance and RegTech product portfolio. He has held senior GTM and customer success roles in the governance, risk and compliance industry for the past 16 years and understands how technology and smart regulatory content can transform a regulatory compliance programme from being reactive to proactive.

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Elaine F. Duffus is a senior specialised consultant on the financial services compliance programme management solutions team at Wolters Kluwer. She brings more than 20 years of professional expertise, including positions as chief compliance officer in the insurance, securities and banking industries to engagements relating to regulatory insight, regulatory change management, compliance and ethics governance, risk and controls assessments, compliance testing, complaint management and exam and inquiry management. Her work includes helping clients assess, understand and manage their regulatory content needs.

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Kris Stewart is a senior director of regulatory compliance analysis at Wolters Kluwer. She brings more than 26 years of experience as an attorney and leader, where she uses her industry knowledge and legal expertise to help develop strategies and solutions that meet the risk management and business needs of financial institutions. For over 17 years, she has worked directly with financial institutions to implement automated compliance solutions, while developing and delivering complementary services to assist the organisations with compliance programme management.

R&C: Could you explain the value of artificial intelligence (AI) in enterprise governance, risk and compliance (GRC) operations?

Duffus: Most traditional compliance functions are designed to keep an organisation above water but fail to offer much value beyond that. Following a year where coronavirus (COVID-19)-related developments significantly disrupted all business functions, it became abundantly apparent that further automation was required. RegTech solutions which offer artificial intelligence (AI), natural language processing, robotic process automation and machine learning (ML) are critical components of a modernised compliance department. These advanced technologies can dramatically reduce the cost and time required to review applicable rule changes while delivering extremely high output accuracy.

R&C: In your opinion, what is the state of AI in obligation management today? To what extent is greater value aligned to both rule recognition and application?

Stewart: Every organisation has one thing in common: the need to look across their enterprise and tie regulatory compliance-related activities

back to their regulatory library, which is kept up-to-date by their regulatory change management process. Automation keeps everyone on the same page regarding regulatory changes coming through the pipeline, which ones apply to your organisation and how material the change is. The catch is that although AI alone may be fast and intelligent, it still requires the nuanced eyes of human compliance

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experts to refine the models and distil them into something meaningful and actionable for your organisation. The real benefit of AI comes from its ability to augment staff and free them up to spend time on higher-value endeavours, such as interpreting guidance for a regulatory obligation, creating action plans, strategising and reporting. So, when AI is coupled with human expert enrichment, the results are potentially game changing.

R&C: With those limitations in mind, how are financial institutions (FIs) currently looking at AI-based RegTech solutions today?

Karanam: RegTech is an amalgamation of two words: regulations and technology. RegTech is an example of how another industry is changing rapidly with technology. If we look at it a little more closely, different types of technology and software solutions have been helping customers manage regulatory compliance for over 20 years. But none of these solutions focused on addressing the big data problem financial institutions (FIs) are dealing with today – both from an increased regulatory volume perspective and increased institutional data perspective. To quote noted biologist Edward Wilson: "We are drowning in information, while starving for wisdom."

R&C: Could you outline the benefits of human advisory expertise? How is it best deployed in the regulatory change management process?

Stewart: It is important to remember that AI is an enhancement, not a replacement. The real value of AI lies in combining the efficiency of targeted AI applications with the expertise of compliance professionals. AI and human expertise can enhance each other's skill sets, enabling organisations to benefit from both capabilities. With both machine

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and human review, organisations can confidently navigate the many changes they have come to expect from regulators and help establish a more sustainable, scalable and defensible compliance programme.

R&C: What is the best approach to building and deploying a bench of expert advisers?

Duffus: One of the failures we hear and read about with RegTech companies is that they lack specific industry knowledge and often have to reach out to other companies. I know there is one company that does 'crowdsourcing' for some of its

enterprise regulatory change management – but this creates the problem of a lack of consistency coming from subject matter experts. This can happen to governance, risk and compliance (GRC) professionals when they use different law firms as well. What a single-source advisory solution offers is long-term, robust consistency and a connection between data science and compliance teams.

R&C: What advice would you offer to compliance practitioners seeking to be best-in-class?

Karanam: First, it is important to understand that RegTech does not alter the guiding principles of a compliance organisation. Core strategies for managing regulatory exposure and pressures do not need to change. No matter the degree to which RegTech tools are incorporated into an FI's processes, banks can, and indeed must, continue to focus on their customers and align their regulatory compliance strategies with their key business goals. Second, think about the regulatory change management process at your organisation today. Is it properly connected to the rest of your compliance programme processes so that when a new law, rule or regulation is released, you can readily see its potential impact on your regulatory library, policies, risks, controls and testing? While AI and ML help you cut through the massive volume

of regulatory developments to zero in on what is meaningful to your organisation, it is the expert validation that gives an organisation compliance confidence and security. There are far too many nuances in regulatory compliance change events to leave it entirely to automation. But together, they provide a best-in-class GRC system that combines

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the best of both worlds. Ultimately, the purpose of RegTech solutions is to support the overall strategy rather than redirect it, by enabling FIs to manage their regulatory compliance obligations in the most efficient and practical way. R&C