



Prospect or Suspect?

Or, How You Can Converge Your Risk and Customer Management Initiatives to Get "Compliance for Free"

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According to a recent survey of US companies, only 38 percent of respondents felt that they had benefited from their compliance with new risk regulations. Almost a quarter said their compliance efforts harmed them and 40 percent saw no impact.

Dismal results for bank executives facing more risk and compliance requirements, plus ongoing obligations to strengthen shareholder value.

But what if you could convert your own bank's obligatory risk management efforts into initiatives that simultaneously improved customer relationships and value?

While one issue is about compliance and the other about value, banks are increasingly discovering that there are striking parallels between their risk-related technology requirements and the ever-increasing demand for improved customer knowledge.

RISK AND COMPLIANCE

Financial institutions are currently facing a litany of risk-related laws. The Patriot Act, Sarbanes-Oxley, and Basel II are driving new spending involving the re-engineering of jobs, processes, and technology.

Basel II 'encourages' banks to develop systems and procedures to improve the measurement, monitoring and reporting of credit, market and operational risks. This is reinforced by regulators' promise to rely on the banks' internal systems and the potential for lower capital requirements.

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But there is another significant benefit embedded in banks' good-faith compliance efforts. The very same systems and procedures for helping banks measure and monitor risk provide significant contributions to the quantity and quality of data about customer behavior.

With AML, it is the systems that offer the convergence benefits. When you are trying to protect your bank from money launderers, you are not just looking for the proverbial needle in the haystack. You are looking for a few specific needles in a stack of needles. The difference between the bad needle and the millions of good needles is often extremely subtle. And the bad needles are confoundingly astute about changing their colors and hiding behind the good.

That is a very different challenge from the old world of fraud detection, which relied on rules-based technology to detect fraudulent transactions. You can't write enough rules to tell a needle from a needle.

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In the complex world of AML, it is important to establish behavioral norms and operate, where possible, on a real-time basis. Ideally, behavior norming should be based on three aspects of a transaction – the 'three Vs':

- **Velocity** – how fast do funds move through the account?
- **Volume** – what number of transactions are occurring?
- **Value** – how big are the transactions?

SALES AND REVENUE

For several years, many in the banking industry have focused on revenue-generation initiatives that are proving to be essentially unsustainable: mergers and acquisitions; aggressive campaigns to win customers with no-fee appeals; the imposition of more fees and larger fees, and so on.

As these approaches have failed to deliver significant growth in value for customers and shareholders, many banks, desperate to find a new

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strategy, have embraced a strategy of "customer intimacy". The better the relationship, the longer customers remain loyal and the more of their business they give you. So far, only a few banks (e.g., Wachovia Bank, Royal Bank of Canada and St. George Bank in Australia) are truly demonstrating an enterprise ability to use technology and learning for converting customer value into shareholder value to anywhere near its real potential.

Many banks espouse a customer focus and score well on surveys that purport to score satisfaction, but because of the way these surveys are constructed, sometimes all a high score indicates is that they have avoided offending the customer recently. This is hardly the same as delighting them. Branding and advertising are another favorite tactic for some. But they are increasingly doomed because of the 'noise' in the marketplace. Consumers can be hit with something like 3,000 messages a day. Consider how unique a bank is when it offers Internet banking, a 1-800 number,

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convenient hours, short queues, and ATM access? The answer is not at all. That can be a galling realization considering the time, effort and capital spent to deliver these proficiently.

CONVERGENCE

So if customers see these efforts as simply the price of entry, how can financial institutions achieve differentiation?

A recent Gartner study indicated: 'To drive higher response rates and close rates, marketing must evolve from direct marketing to relationship optimization. Marketing is moving beyond traditional (push) marketing to more event based (pull) marketing. Growing revenue and wallet share will be about timing and relevance. Event based marketing will become a competitive requirement.'

In other words, the customer is saying 'Get to know me. Not just my obvious attributes that make me part of a group, but pay attention to how I do business. Anticipate my needs'. They are also saying, 'Hurry up. I have less time than I used to, and technology should count for something.'

Our experience is that with the new risk systems and detailed and accurate customer data, financial institutions can identify the behaviors of the good guys as well as the bad guys. Additionally, the behaviors can be recognized in close to real time,

KYC – Bad & Good	Fraud Prevention (ROI)	Compliance AML & FoT	Customer Value Management (ROI)
Detect	Yes		
Assess	Yes		
Investigate	Yes		
Action	Loss Averted	Report Filed	Value Created

which is sales and marketing nirvana.

This figure illustrates the surprising parallels between fraud, risk, and marketing functions. I hope this very brief article gives organizations some idea of how they can benefit from new systems, along with their years of investment in customer information and customer behavior data, to protect against money launderers and other fraudsters and provide improved service and sales opportunities.

Certainly, significant benefits can be derived from integrating fraud prevention technology and AML technology with data mining and sales and service technology. But technology convergence alone is not enough. To realize the value, there is no substitute for an engaged, knowledgeable, committed workforce, adept at using the technology, and skilled in assessing information and engaging customers.

By enhancing the compliance technology business case with a profit line in addition to the loss avoidance line, financial institutions can reverse the drain on shareholder value. And, improved returns can be achieved by using compliance-related information to enhance the success probability of sales efforts.

Compliance for free? How about compliance for added value?

Banks around the world use Carreker Corporation's customer value management, risk management and anti-money laundering solutions. ■