Chartis

INDUSTRY SNAPSHOT

Automation and AI in GRC

Regulatory Inventory Solutions for Financial Services

Developed with input from CUBE and surestep

Navigating Surging Regulatory Change

Financial firms face overwhelming regulatory complexity. New provisions continuously emerge from multiple oversight bodies at both national and local levels. New business activities also create further regulatory requirements.

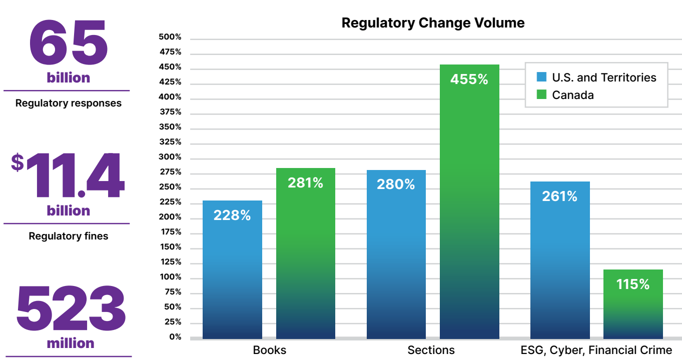
Nevertheless, many companies still track changes through fragmented, manual methods across siloed business units. They find it virtually impossible to achieve a unified view of evolving regulatory obligations. Thus, they cannot smoothly generate compliance insights and integrate them into enterprise Governance, Risk and Compliance (GRC) activities.

Regulators, however, show no signs of slowing down regulatory change or easing regulatory pressure. They expect financial services institutions to take effective and proactive GRC stances. They also can impose substantial penalties for non-compliance.

Financial regulatory bodies levied over $11 billion in fines in 2023, according to data collated by the regulators. (SEC, FinCEN, CFPB, NCUA, OCC, CTFC, and the Federal Reserve).

Overall enforcement actions increased by almost 3x in the U.S. and 2.25x in Canada per CUBE Global data.

Financial regulations result in enormous cost and complexity



Scoped to CTTC, CFBP, FDIC, Fed, FinCEN, NCUA, OCC and SEC

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The scope and complexity of financial service regulations have exploded over the last decade. The types of regulations have also grown more intricate as new risks emerge. While regulations preventing securities fraud and money laundering are long-standing, emerging areas such as data privacy, consumer financial protection, cryptocurrency, environment, social and governance (ESG), and artificial intelligence continue to add disruption.

> **"GRC has evolved into an important discipline demanding implementations across business lines, accelerated by technology innovations. Treating GRC as a single area is no longer feasible. Instead,solutions must integrate risks across the organization with the necessary functionality to meet market and regulatory demands. We believe the GRC solutions market will focus on comprehensive controls, process and analytical automation, and quantification methods. Interconnected risks require integration, while complexity mandates automation for data collection, measurement, and analytics."**
>
> **— Sidhartha Dash, Chartis**

Beyond direct fines, failures inflict damages like reputational harm, customer losses, and lost market opportunities. Inefficient duplicative regulatory workloads also consume high employee effort and cost.

However, regulatory inventory offers a critical opportunity for transformation. Technologies like AI and automation open a window of opportunity for replacing reactive approaches with sustainable, data-driven regulatory management capable of thriving amidst complexity with consistent, enterprise-wide GRC approaches.

Emerging automated solutions can help classify obligations and extract actionable regulatory information for legal and compliance evaluation. They can alleviate repetitive manual reviews, enabling professionals to focus on interpretive work and advisory.

While adoption is still emerging, today's intricate risk environment positions automation and AI for regulatory change as high-potential capabilities for GRC maturation.

Without a profound transformation in their compliance operations and systems, financial institutions will remain stuck helplessly chasing yesterday's regulatory landscape while tomorrow's continues to evolve.

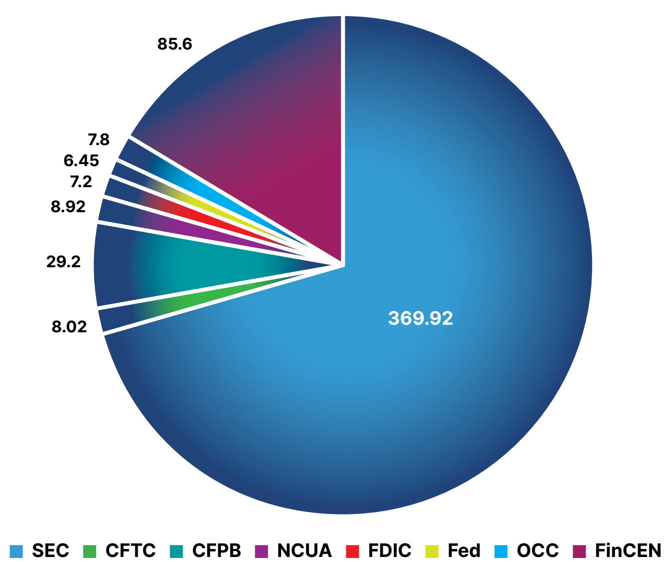
The Strategic Shift to Enterprise Solutions

RegTech and Regulatory Inventory

Automation, machine learning, and AI are crucial for transforming regulatory compliance into a proactive, strategic function. These technologies enable the extraction and aggregation of obligations so that firms have the necessary data for assessing impact and propagating requirements. They also help classify regulatory information so that firms can make use of it.

Such sophistication is necessary for efficiently coordinating regulatory responses at scale, sufficiently mitigating risk and ensuring compliance with an ever-changing regulatory environment. Nevertheless, it remains at an early stage of adoption.

Compliance requirements generate significant annual activity (hours per year)



> **A key gap firms face is seamlessly incorporating regulatory obligations identified from inventories into their broader GRC ecosystems. Automation can structure unstructured regulatory information and map it to required controls. But the real win comes from smart integrations with downstream GRC platforms that digitize workflows, support enforcement and offer training around new rules. This is where AI and integration create business value.**
>
> **— Michael Gibbs,**
> **Founder and CEO, SureStep**

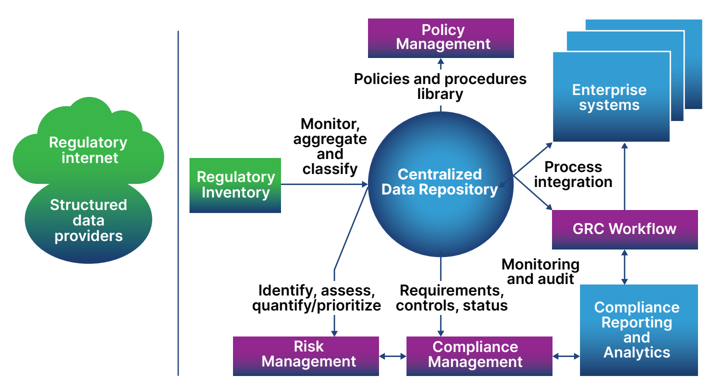
- **A centralized data repository** is the heart of such an approach. Managing risk compliance data provides a single source of truth that helps enterprises respond to regulatory change.
- Upstream, the **regulatory inventory** ingests data from relevant regulatory bodies and governing regulations. The challenge, however, is keeping it up-to-date by scanning and incorporating notices and other changes.
- Downstream, **GRC platforms** organize requirements and help operationalize changes to business processes and platforms.
- Additionally, they foster efficiency with **workflow and automation tools**. GRC-enabled workflows include controls that lower the risks of human error or intentional irregular behavior.
- Finally, a holistic approach to GRC requires advanced **analytics and reporting** to allow financial institutions to audit their performance and achieve continuous improvement around risk and compliance.

Meeting the Technology Challenge

Leading firms make their regulatory inventory part of an integrated approach with risk management and compliance capabilities. They assess changes and then align them with existing risk profiles, priorities and compliance requirements.

Meeting the technology challenge for financial services GRC requires addressing both upstream (regulatory management) and downstream risk management and regulatory compliance within business operations) activity.

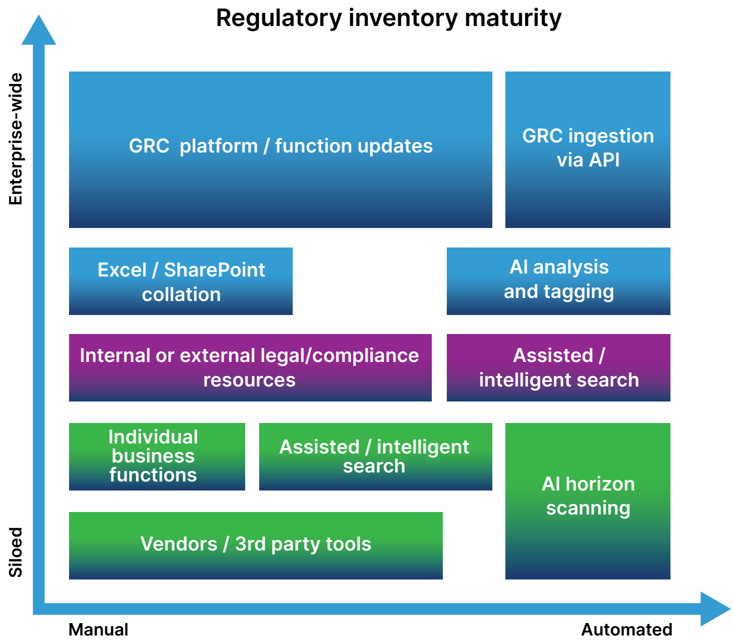
Enterprise architecture: Regulatory inventory and GRC



Current and Future Adoption Trends

Adoption and growth potential in regulatory inventory solutions for the financial services sector suggest by a gradual but significant shift towards technology-driven approaches. Advanced technologies like AI, machine learning, and automation into regulatory management processes are gaining traction. These technologies offer the ability to automatically aggregate, classify and update vast amounts of regulatory information, transforming the traditionally reactive nature of compliance into a proactive and strategic function.

Regulatory inventory maturity



Yet, despite the clear advantages of these technology-driven solutions, most firms are still only exploring their potential. They often lean on external vendors for AI and machine learning capabilities. This cautious approach reflects the challenges associated with integrating new technologies into existing systems and processes, as well as concerns over explainability, cybersecurity and data privacy. As enterprise solutions mature, firms that adopt early may gain a strategic edge over those that still struggle to assimilate regulatory change.

Regulatory Intelligence and GRC

Beyond the technology challenges, Governance, Risk, and Compliance (GRC) has evolved into a board-level priority. It is also becoming more widely operationalized within financial firms over time.

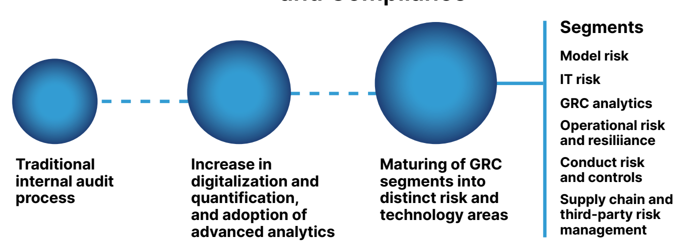
The increased volume of regulatory change forces organizations to take a more systematic approach than ever before.

> **"We have clients inundated with upwards of 57,000 new regulatory rules annually across jurisdictions. Tracking and managing this manually burns tremendous effort. The pace of change continues escalating as rules permeate more industries, encumbering firms with added reporting, analysis, and infrastructure requirements. The complexity creates delays, costs, and risks that directly hinder competitiveness, innovation opportunities, and long-term growth."**
>
> **— Ben Richmond,**
> **CEO and Founder, CUBE Global**

- On the one hand, regulatory change management programs must be more robust than simple regulatory content feeds. As they mature, they must address the end-to-end regulatory change process, from initial ingestion and distribution to the triaging of changes and updates to controls, policies, and procedures.
- On the other hand, financial firms must adopt a "regulatory intelligence" mindset. This approach includes consuming regulatory content and enriching it with analyses of the functional scope of changes (i.e., which entities are relevant and how to comply). Automation and workflow tooling also play a part in more mature organizations.

This evolution aligns with a broader concept that Chartis calls 'GRC+.' It represents an integrated and comprehensive view of GRC as organizational functions as well as technology solutions. There is a need for a holistic understanding of risk and compliance across entire organizations rather than treating them as isolated or compartmentalized issues. Regulatory change has implications for every aspect of the way Chartis defines GRC+.

The Evolution of Governance, Risk Management, and Compliance



Source: Chartis Research, Spotlight on GRC+

GRC solutions—including regulatory change management—must now integrate across business functions to support this expansion. They must offer a depth of analytical capabilities and controls. This shift reflects a broader move towards automated regulatory change management and regulatory intelligence frameworks—the intensification of regulatory pressures demands it.

Research Methodology

Chartis interviewed internal GRC researchers and analysts along with external vendors who focus on GRC. Chartis also relied on previous reports and analysis of GRC. The contents of this report also reflect secondary research using information published by United States regulators.

Public sources used:

Consumer Financial Protection Bureau

Department of the Treasury

Financial Crime Enforcement Network

Federal Deposit Insurance Corporation

Federal Reserve

Office of Management and Budget

Office of the Comptroller of the Currency

Office of Foreign Assets Control

Additional sources used:

Chartis Research: **https://www.chartis-research.com/**

CUBE Global: **https://www.cube.global/**

SureStep: **https://www.surestepsi.com/**

About Chartis

Chartis Research ('Chartis') is the leading provider of research and analysis on the global market for risk technology. It is part of Infopro Digital, which owns market-leading brands such as Risk and WatersTechnology. Chartis' goal is to support enterprises as they drive business performance through improved risk management, corporate governance and compliance, and to help clients make informed technology and business decisions by providing in-depth analysis and actionable advice on virtually all aspects of risk technology.

Areas of expertise include:

- Credit risk
- Operational risk and governance, risk
- Management and compliance (GRC)
- Market risk
- Asset and liability management (ALM) and liquidity risk
- Energy and commodity trading risk
- Financial crime, including trader surveillance,
- Anti-fraud and anti-money laundering
- Cyber risk management
- Insurance risk

Chartis has brought together a leading team of analysts and advisors from the risk management and financial services industries. This team has hands-on experience with developing and implementing risk management systems and programs for Fortune 500 companies and leading consulting firms.

Visit **chartis-research.com** for more information.

Join our global online community at **www.risktech-forum.com**.

Managing Financial Regulatory Change: From Inventory to Integration

Financial service providers must contend with incessant regulatory change. They operate in multiple jurisdictions, with activities overseen by multiple regulators, and with new regulations and provisions coming into force at an a larming rate. Keeping track of regulatory change typically happens in a scattered and haphazard fashion, with individual business functions and platform providers relying on manual or ad hoc monitoring. Firms lack the tools or capabilities to capture a holistic view of change. As a result, they struggle to accommodate regulatory change into their enterprise Governance, Risk, and Compliance (GRC) function. Lack of visibility at the front end (incoming changes) impedes their ability to assess risk, adapt business processes, and implement controls. But at the same time, regulators expect firms to take more proactive approaches to GRC and many, such as the SEC, have increased their scrutiny. Failures create undue costs (fines) and intangible damage (e.g., reputation and lost business). Managing regulatory inventory effectively and efficiently is essential for firms operating in this environment to capture and address change. Automation and AI in regulatory inventory sit at the leading edge of GRC maturity by creating the opportunity for consistent and comprehensive regulatory management.

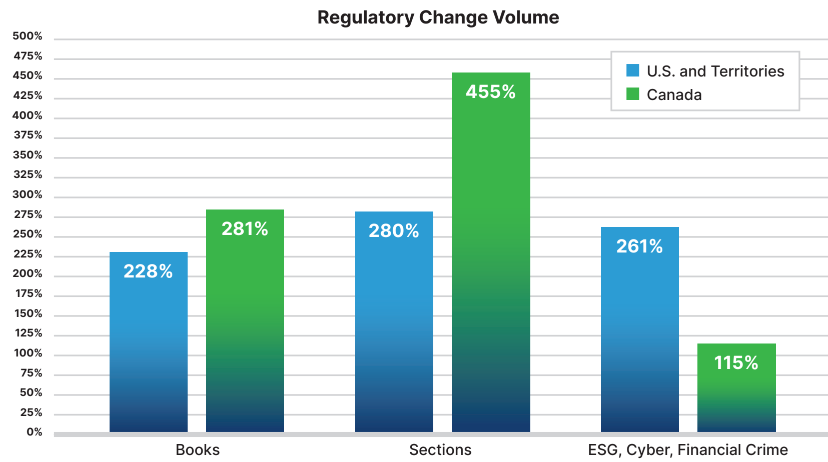
Financial regulations result in enormous cost and complexity

65 billion
Regulatory responses

$11.4 billion
Regulatory fines

523 million
Hours of labor

Scoped to CTTC, CFBP, FDIC, Fed, FinCEN, NCUA, OCC and SEC



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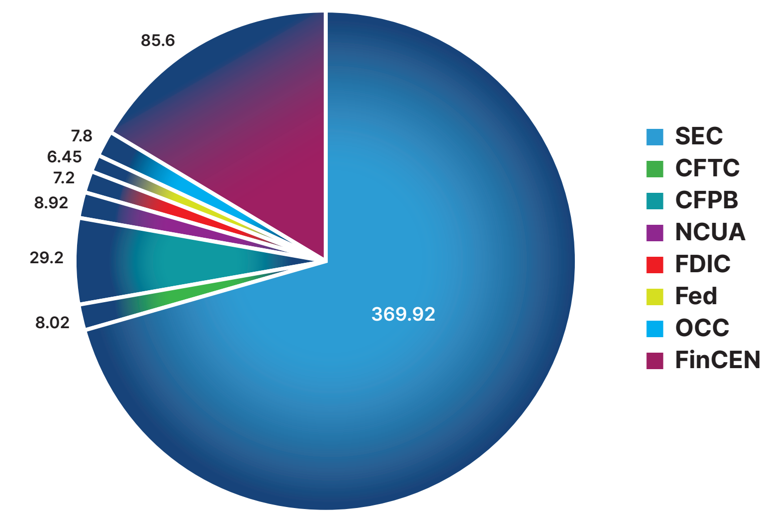
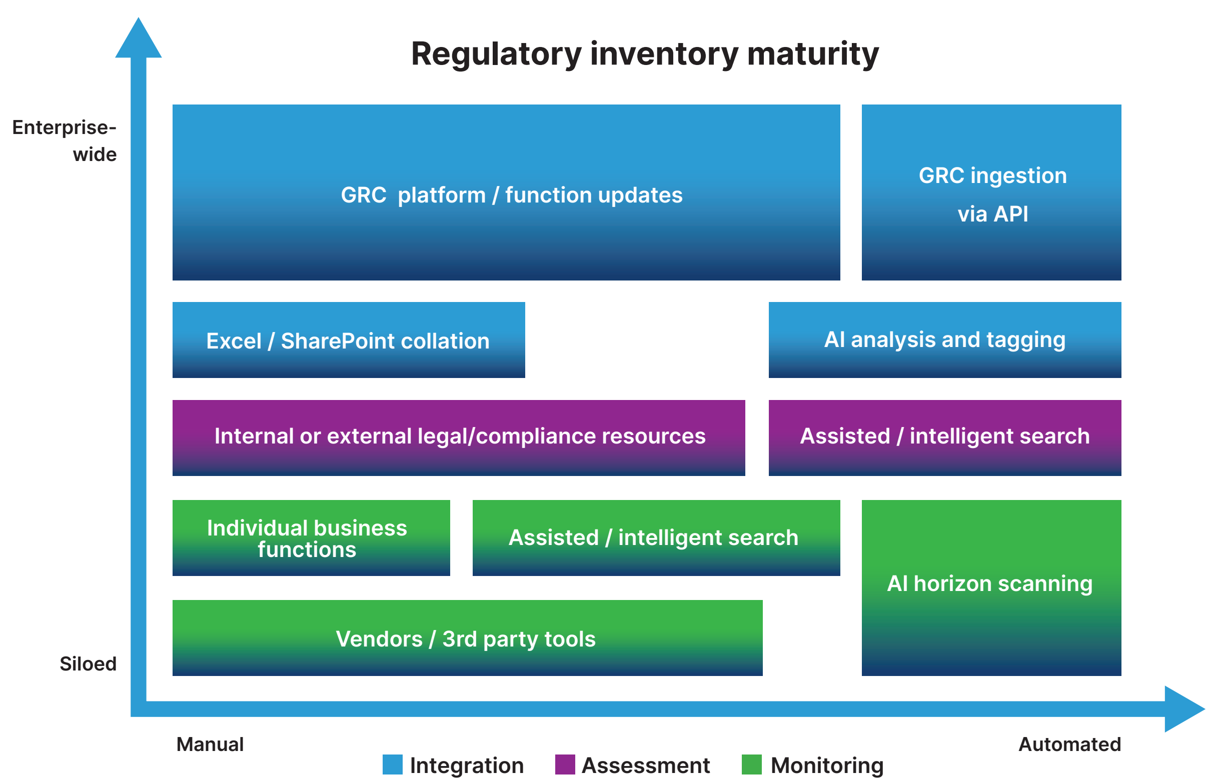


Regulatory inventory maturity



Enterprise architecture: Regulatory inventory and GRC