Revolutionising the monitoring of culture and misconduct risks and related investigations

Intelligent use of modern techniques such as machine learning and predictive technologies enable risk and compliance functions to respond to today's escalating expectations.

These techniques also create a means to monitor culture and reputational risks, proactively deal with potential breaches, and handle many investigative requirements in-house. The secret is to bring all your key data together and then use this advanced technology to identify and prioritise hot spots. That way, you can make the most of your human expertise to investigate potential problems, and so achieve much more with limited resources.

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Compliance and senior management under pressure

As senior managers are well aware, they are becoming personally accountable for more and more aspects of a financial services business, including matters like organisational culture and conduct. This makes an effective solution to monitoring and evidencing culture more essential than ever.

Unfortunately, this need comes at a time when the regulatory environment is also getting more complex, while the business climate means that senior management, and particularly compliance functions, are often expected to handle the additional challenges without many extra resources. Since external resources can be expensive, it is important to create sustainable solutions to do much of the work in-house. At the same time, financial services businesses face an ongoing regulatory requirement to monitor conduct risk and other compliance-related risks.

Recognising these escalating – and sometimes conflicting – demands, many organisations have introduced a range of technologies to assist with identifying potential issues, and to establish proportionate monitoring over specific areas of the business.

While helpful up to a point, these technologies bring challenges of their own. Compliance functions now face multiple pockets of individual monitoring technologies, each of which raises its own alerts in isolation; reviewing these alerts demands significant resources, and is unlikely to identify the interconnectedness between separate channels. The result is that compliance officers often have more alerts than they can reasonably follow up, and no reliable way of identifying bigger emerging issues that present themselves as isolated alerts in multiple systems. This overload makes it difficult for them to be confident of identifying significant issues before the regulators do.

Firms have struggled to find a meaningful way to measure the culture and behaviours of their organisation. Senior managers are constantly facing the challenge of providing evidence – both internally and to the regulators – that their organisation has the right culture. Perhaps most importantly, they need to find a way to manage and investigate risks that arise from poor culture before they become major issues. This is especially true of those managers who have regulatory accountability for shaping culture under the UK's Senior Managers Regime.

The need for an integrated approach

How can the compliance function and senior management get this situation under control? In other words, how can they equip themselves (a) to identify events and information that require attention so that they can deal with them proactively, and (b) to conduct effective investigations internally wherever possible? The answer is to combine technology, machine learning and human expertise in innovative ways, and apply them to all the available data.

The first step is to bring together data from all relevant sources across the organisation, and sometimes outside it, into a single platform where these technologies can be applied in a joined up way. These sources might include customer information and alerts from transaction monitoring and surveillance systems, or expenses claims, along with documents and communications, such as reports produced for governance meetings and management, emails, instant messaging and even voice data.

With everything in one place, it becomes possible to apply advanced techniques and methods to make sense of all the data relating to a specific event and individuals, departments or entities involved. That makes it easier to identify where cultural challenges are developing that may lead to issues, where rules are being violated, or where suspicious activity is occurring, and to rapidly undertake an investigation across all of the relevant data sources

A battery of techniques and methods for monitoring and investigation

Traditional ways of measuring culture and misconduct such as staff surveys, chat and email data monitoring certainly give a glimpse into the culture of an organisation. Unfortunately, though, such methods are limited, and fail to provide a holistic view of the emerging cultural and conduct patterns in the day-to-day environment.

A solution to the culture and misconduct monitoring is to address the following. First, focus not on any one set of data and alerts but on the patterns that emerge when you look at all the organisation's data (chat, email, voice, structured datasets and public data) and its alerts from all relevant sources. Second, apply machine learning, advanced analytics, such as sentiment analysis, and predictive modelling, to analyse the data and prioritise certain items for further investigation.

By adopting this two-fold approach, you should be able to spot an instance of active planning of misconduct before it takes place. At this point, individuals may be exploring ways to circumvent a policy, but the organisation has the opportunity to investigate and identify the Who, What, Where, When and How before it happens.

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Implementing this approach by building on whatever monitoring tools your organisation already has in place and adding solutions that reveal correlations and other significant relationships between multiple data sources has been seen to be a successful approach to prioritise alerts that have multiple red flags relating to the same theme.

If trading systems, email and chat communications, sentiment analysis and other sources are all raising red flags around the same individuals or teams, advanced technology and analytics make it easier to spot and act on the bigger issues before they seriously harm the reputation of an organisation and its management.

The approach can also measure cultural changes to identify, for example, growing issues with staff bullying and intimidation that could lead to misconduct by a team or a specific individual.

Having all relevant data on a single platform also enables the internal investigations teams (legal, compliance, risk and HR) to create special cases and build data evidence with a full forensic audit trail relating to the potential misconduct.

Additional uses of sentiment analysis within financial institutions

Outside the responsibilities for establishing and embedding a culture of good conduct, sentiment analysis can be a valuable aid to HR and legal functions in analysing the culture and behaviours of their organisation in the context of unethical behaviours, diversity or issues like bullying and harassment – areas where organisations are spending millions on policies and procedures. In combination with other tools, sentiment analysis can help you trace the origin of problems: for example, it may emerge that bullying concerns have arisen following events such as the arrival or departure of a manager, or the introduction of another change in the business.

By analysing external data sources such as social media, sentiment analysis can also help in assessing how customers, shareholders and the general public perceive the organisation, and whether they have confidence in it. This technique can be used to understand how the organisation is viewed by the outside world in general, and also to explore the impact of a specific event on the organisation's reputation such as public regulatory criticism or notification of ongoing investigation.

The team can also more easily identify the departments, individuals and clients that are involved in a potential matter of concern, and link them to the case under investigation. State-of-the-art e-discovery tools with analytical and predictive capabilities make it possible to rapidly assess related data and construct a chronology of the events and communications that led to the potential misconduct.

Machine learning and predictive technology can to a great extent automate the process of looking for signs of fraud or misconduct. Predictive technology enables rapid processing of large amounts of data while highlighting potential concerns for scrutiny by the compliance experts. The machine learning capability means that it learns continuously through the process of internal reviews of alerts, investigations and decisions by human experts, progressively improving the accuracy and relevance of alerts and the prioritisation of key documents for review.

Other sophisticated tools include sentiment analysis, which can be used to provide predictive assessment of cultural risks and changes in behaviour. These predictions enable firms to investigate potential compliance and conduct-related matters early and intervene before they become a problem. This technology can also help firms build a heat map of the organisation's culture risks, and identify emerging patterns of fear, pressure, deceit or disregard for internal rules, all of which are known to be associated with significant misconduct events such as FX manipulation, PPI mis-selling and many others.

All this can be done by combining and applying these technologies to data in day-to-day communications such as emails, voice and chat data. The resultant information about cultural risks can be used in conjunction with other alerts, for example relating to sales, trading activities or expenses, to see if further investigation is needed.

Benefits of this approach

For monitoring purposes, this way of combining technology and human expertise makes it possible to examine an enormous volume of data for virtually any issue and receive timely and, most importantly, prioritised alerts on the emerging risks. This enables senior management, the risk and compliance teams, and HR to focus critical resources on the highest areas of risk and pre-empt problems, or at least nip them in the bud.

For regulatory and other internal investigations, or disputes that an organisation may be involved in, having all the data sources together on a single platform makes it significantly easier to identify, extract and compile case files into potential issues involving employees, customers, events or other entities, and to reduce the ramp up time that is required to prepare the data for review. A combination which will result in a much faster instigation, and potentially resolution, or any investigation.

The ability to do more of the monitoring and investigative work in-house can bring significant savings, as well as provide greater power to the organisation to identify and react to emerging issues before they become major problems. Smarter solutions for monitoring culture and conduct risks help organisations not only save costs, but also avoid regulatory penalties and reputational damage.

Conclusion

Financial institutions have made great progress with digitalisation of the customer-facing aspects of their business. Now they can benefit from applying some of the same ideas to managing risks and compliance matters, which currently follow a more traditional model with a lot of human-driven activity and technology. By adopting digital methods and applying techniques such as machine learning and sentiment analysis in conjunction with existing tools, an institution can empower its compliance function to focus on high risk areas.

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