IBM Risk and Compliance Solutions:

Navigating the complexities of compliance regulations

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Organizations in both the private and public sectors face mounting challenges associated with compliance regulations. Companies in a variety of industries have become familiar with the incredible complexity and expense of financial reporting and corporate due diligence required under the Sarbanes-Oxley Act. But they also must conform to regulations set forth by other legislation such as the Patriot Act, the Bank Secrecy Act or Basel II. Standards within these acts—such as Know Your Customer (KYC), Suspicious Activity and Transaction Reporting to recognize money laundering, Office of Foreign Assets Control (OFAC) and Politically Exposed Person (PEP) watch list filtering—require organizations to focus on recognizing who they are doing business with.

Although companies face large fines if they are found to be out of compliance, the more significant threat is damage to the company's reputation and brand. Unimaginable damage could result from having insufficient controls that result in your products or services being used by criminal or terrorist interests to finance an attack or crime. The bad press from this single bad transaction can destroy shareholder trust and confidence built over millions of good transactions. It can send stock prices plummeting almost overnight—and in extreme cases, companies can collapse based largely on the damage to their reputation.

Public organizations face similar challenges. Civilian social services agencies are coping with a complex body of regulations designed to ensure proper oversight. Because Medicaid and welfare programs are restricted in how their budgets are spent, these regulations are meant to assure that the agencies are serving the intended populations and that taxpayer dollars are being spent appropriately.

In the past, compliance has often been enforced retroactively through audits and crisis management. Today, the emerging trend is toward proactive management of risk, fraud and abuse through better management of information. In addition, astute institutions are looking to leverage their compliance investments to achieve competitive business advantage—not just "checking the box" for regulatory requirements, which results in expense without benefit. By mitigating risks and promoting compliance ahead of time, organizations can better combat the operational, financial and reputational risks that threaten their business.

Do you know who you are doing business with?

The ability to recognize the business entity or customer you are doing business with is a compliance standard shared by almost all national security, consumer privacy and financial reporting regulations. Unfortunately, it is also one of the most difficult and complex standards to meet. People can represent or misrepresent themselves in a variety of ways—for example, by changing the way they spell their names or by using a false or stolen identity, making them difficult to identify A single customer may identify himself as Bill Andrews during one transaction, Andy Williams during another and Drew Williamson in a third. In this example, the customer is using simple westernized "name" discrepancies to create three separate customer records. For non-westernized names and surnames such as Da-Wei, Kifaayat or Jin-Woo, recognizing and managing the identity becomes almost impossible unless your company employs a team of seasoned linguists.

When identity fraudsters combine multiple attributes to mask their identity—such as addresses, telephone numbers, account numbers, vehicle identification numbers or Social Security numbers, just to name a few—identity issues become even more difficult. Combine that with the fact that sophisticated identity masking schemes are often perpetrated by organized, off-shore rings of persons who use third parties to act on their behalf. Frequently, these third parties do not appear on watch lists.

The inability to recognize who you are doing business with is not always deliberate. It may be the result of naturally occurring data drift, transposition errors or data silos. Most large organizations have hundreds of millions of customer records, as well as information about their partners and suppliers, housed in many systems across multiple divisions. Nearly 80 percent of organizations manage this information with two or more data repositories, and one in four firms has more than 15 data repositories. The average US$1 billion company operates 48 disparate financial systems and 2.7 enterprise resource planning (ERP) systems.[1] For these reasons, organizations can face difficulty in recognizing customers and partners in a consistent, accurate and timely manner.

Organizations that lack a clear, consistent, resolved view of the entities with whom they do business will always have holes and exposure to non-compliance with the regulations designed to ensure national security, consumer privacy, financial transparency and budgetary oversight. This can leave organizations exposed to fines and catastrophic damage to their reputations. For these reasons, knowing exactly who they are doing business with is no longer a luxury. It is fundamental to mitigating risk and meeting compliance requirements. IBM Risk and Compliance solutions help companies and government agencies create a "single view of the truth" across multiple identities, cultures and disparate systems—and also help to simplify compliance efforts dramatically, enhance efficiency and reduce costs.

IBM delivers tested risk management and compliance tools

IBM recognizes that for both private and public organizations, the key to mitigating risks and remaining in compliance is to stop high-risk activity before it can actually take root within the system. Through IBM Risk and Compliance solutions, organizations can better understand their identity assets, as well as undisclosed relationships that may contribute to an individual's risk to the organization. IBM offers the technology and expertise to help organizations reduce risks to their brand and reputation, navigate regulatory and legal pitfalls and respond rapidly and thoroughly to government information requests.

The key components of the IBM Risk and Compliance solution are IBM Entity Analytic Solutions (EAS) and IBM Global Name Recognition (GNR). Together, EAS and GNR bring a new level of accuracy, precision and fidelity to risk and compliance efforts. EAS extends its groundbreaking identity resolution capabilities to encompass non-obvious relationships and to facilitate anonymous information sharing. Only a strong identity recognition platform delivers accurate alerts in real time, giving organizations the ability to take preventative measures before a potential threat becomes reality. Used in conjunction with powerful name recognition capabilities, EAS can accurately and immediately help identify people across the globe, either with names as a sole data point or with extensive identity information.

Key components of IBM Risk and Compliance solutions include:

- **IBM Global Name Recognition** software recognizes multicultural variations of names and applies culturally specific rules to manage name information. It addresses the cultural variations, representations, prefixes and parsing issues that make customer recognition so difficult in meeting compliance standards; for example, the 200 variations of the name Mohammed. IBM Global Name Recognition leverages the most advanced knowledge-based name-matching technology to provide the most accurate and intelligent watch list checking and filtering available.

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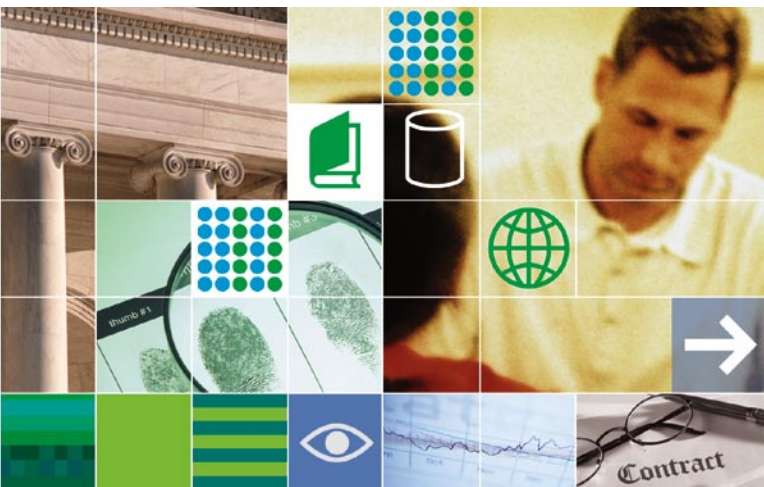
• **IBM Identity Resolution "Who Is Who"** software detects persons using multiple identity packages. The Identity Resolution process determines whether multiple records that appear to describe different individuals or organizations—even with different attribute variations—are actually records for a single identity. Once the process has determined that two or more identities are the same, multiple records are integrated into a single entity and assigned a unique identifier called a persistent key. The resolved identity data is presented in a comprehensive, unified view that maintains all of its original attributes, such as information about the individual or organization from prior records—even identifying the source systems that provided the original data.

• **IBM Relationship Resolution "Who Knows Who"** detects and crystallizes non-obvious relationships between individuals that may indicate networks of persons engaging in suspicious or illegal activities. Relationship Resolution creates links across *"massive"* resolved identity datasets to generate candidate lists (suspect lists) of persons trying to defeat KYC compliance measures. These links can then be fed to investigative tools to determine non-obvious relationships that may constitute threats, such as an account holder and a beneficiary on the FBI Most Wanted list.

Other key IBM products also can help companies mitigate risk and help ensure compliance:

• **IBM WebSphere Customer Center**
IBM® WebSphere® Customer Center helps organizations to mitigate operational risk by maintaining an authoritative record of customer or citizen data in a single application.

• **IBM Workplace Forms**
The IBM Workplace Forms™ family of products is designed to help companies create, deploy and manage XML forms–based processes that automate the capture and processing of business information. These processes help streamline data entry, speed transactions, increase operational efficiency and simplify compliance.

- **IBM Information Server**
  The industry's most robust data integration platform provides the foundation for customizable information solutions.

- **IBM Industry Models and Assets**
  These prebuilt frameworks integrate IBM Information Server and master data management technologies with data, processes and services for industries including banking, insurance, healthcare, retail and telecommunications. These industry models enable organizations to respond to current events quickly and efficiently.

Innovation that matters from IBM

Across the globe, industries continue to struggle with risk and compliance—and these efforts will only become more intense. Organizations must stop high-risk activity before it takes root within their systems to protect their brands and reputations, reduce legal risks and enable them to respond quickly and comprehensively to government requests for information. To achieve these goals, enterprises must have access to a full range of information about their customers and partners—information that is in-line, in context, accurate and in real time—so they can protect themselves, their clients and society.

IBM recognizes the challenges businesses are facing and—through its risk and compliance solutions—stands ready to support leaders as they confront these challenges, transform the way they detect risk and achieve compliance and realize competitive advantage from their compliance investments.

IBM Risk and Compliance solutions in action

One U.S. state welfare and social services agency found itself facing a common situation. Because the agency lacked a consistent view of is clients across programs and did not have a system in place for budgetary oversight, people had begun taking advantage of the system to gain additional services and benefits. Program stakeholders needed a clear view of the benefits that welfare applicants were receiving across programs. To accomplish this goal, the agency had to minimize duplicate client records, increase accuracy for reporting and link benefits and services to clients—and use its available resources and budget more effectively.

The agency turned to IBM for help. By using EAS, they were able to create unique client identities to link and match records, link client cases with welfare services, benefits and providers, and detect errors and fraud. Ultimately, the organization was able to dramatically reduce the creation of duplicate person records on the welfare rolls. The IBM solution generates a Unique Person Identifier (UPI) prior to either initiating a new case or adding someone to an existing case. This identifier helps to create a more accurate repository of recipients and less need for interface development to other data sources—as well as lower associated costs.

The IBM Risk and Compliance solution has greatly improved the agency's outlook and the service it provides to its clients. More accurate, rapid verification of eligible applicants for one or more welfare programs has helped to improve caseworker effectiveness and improve client outcomes. Automated, in-context identity and relationship resolution also has enabled the agency to create a single record for each client across programs, helping to streamline relationship and case management processes.

These systems also enhance compliance efforts by helping to ensure that the clients receiving welfare benefits are, in fact, the right people and that services are distributed in accordance with the law. By reducing the risk of improper payments to ineligible welfare clients or applicants, the state has increased its ability to meet federally mandated programs to continue obtaining state funding.

The IBM solution also benefits the state's population at large. Because the agency has a clear picture of its clients, it can more accurately forecast the impact on current or anticipated welfare liabilities and entitlements—resulting in more effective use of available budget for the legitimate applicants who are most in need. Efficient operation lends integrity and legitimacy to the agency's work and contributes to the public's view of welfare agency officials as faithful stewards or guardians of human well-being.

For more information

To learn more about IBM Risk and Compliance solutions, please contact your IBM sales representative, call toll-free (U.S.) 1-866-382-9774 or visit **ibm.com**/software/data/ips/solutions/risk-compliance

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