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Enhanced Risk Mitigation for Fraud and Regulatory Compliance

A Look at Emerging Technologies and Techniques

A White Paper from **NICE®**

Enhanced Risk Mitigation for Fraud and Regulatory Compliance – A Look at Emerging Technologies and Techniques

Financial service companies deal with a wide array of operational priorities. Some are industry-specific such as regulatory compliance and fraud detection, while others are common to businesses in general, like customer satisfaction and operational efficiency.

This paper explores the issues related to risk mitigation of fraud and regulatory compliance, and investigates new technologies that are emerging to assist in managing those efforts more effectively and efficiently.

Lowering Costs and Potential Risks

The operational expenses of managing risk have increased in the face of expanding compliance requirements and increasingly sophisticated fraud methods. In light of these escalating costs, companies need to focus on improving the efficiency of their efforts.

Other potential costs to the business have risen as well. Non-compliance penalties and the impact to a company's reputation from high-profile fraud attacks are two good examples. It is imperative the organizations do a better job of successfully mitigating these risks.

Technology has always played a key role in risk management. Two emerging technologies, interaction analytics and real-time transaction analytics, provide new opportunities for businesses to make significant gains in both the effectiveness and efficiency of their risk

management efforts—lowering operational costs and reducing the possibility of potential ones.

Two emerging technologies, interaction analytics and real-time transaction analytics, provide opportunities for businesses to improve the effectiveness and efficiency of their risk mitigation efforts

Interaction Analytics

A businesses' interactions with its customers occur over many channels of communication—telephone, email, self-service, online chat and in-person. The information contained in these interactions is *unstructured* in nature, meaning that it is not directly queryable like information contained in a database.

Interaction analytics extracts business intelligence from this unstructured information. It provides insights into questions that are difficult or impossible to obtain using other methods—what makes customers happy, how are employees acting, what are competitors doing?

In relation to risk mitigation, interaction analytics enables a business to specifically identify which employees represent the highest potential risks, for

example those not proving the appropriate mandatory disclosures or conducting transaction without proper authentication.

Results from interaction analytics are available very near to the actual event. This significantly reduces the time delay between identifying an issue and taking actions to address it. When dealing with regulatory compliance issues, a quicker response reduces the potential liability. In cases of fraud, timely alerts enable intervention before an attempt succeeds.

Interaction analytics is a powerful new tool for managing the risks associated with regulatory compliance and fraud.

The ability of interaction analytics to identify specific instances of high-risk actions enables precise corrective actions to be taken—refresher training sessions, enhanced activity monitoring or even termination when appropriate. In cases where termination is pursued, the necessary backup documentation is readily available from the system.

Interaction analytics is a powerful new tool for managing the risks associated with regulatory compliance and fraud. It is an automated solution which drives down the costs associated with oversight, enabling businesses to do more with less. The results of risk management efforts are also improved by having access to information that

was difficult to obtain through other sources.

Real-Time Transaction Analytics

Transaction analytics systems are in relatively common use within the financial services industry. An emerging offshoot of this technology enables similar analysis in real-time, as transactions occur. The benefit here is obvious. If a fraudulent transaction is detected while it is happening, it can be blocked from completing, or additional authentication can be requested.

Fraud attempts take many forms and are aimed at different types of transactions—ATM, Remote Banking, Wire/ACH Transfers and Deposits—and are conducted by internal as well as external personnel. A comprehensive real-time transaction monitoring solution must be capable of monitoring these various types of transactions, and across multiple channels such as Web, phone and mobile.

Accuracy is also a key factor. A high number of false positive alerts, and resulting blocked transaction, create a negative impact on customer satisfaction. Multi-entity behavioral profiling at the customer and channel level significantly reduces false positive ratios and provides a high level of early anomaly recognition. Detection rates as high as 85% at a 1:12 false positive rate are possible providing financial institutions with potential savings of millions of dollars a year above and beyond existing transaction monitoring solutions.

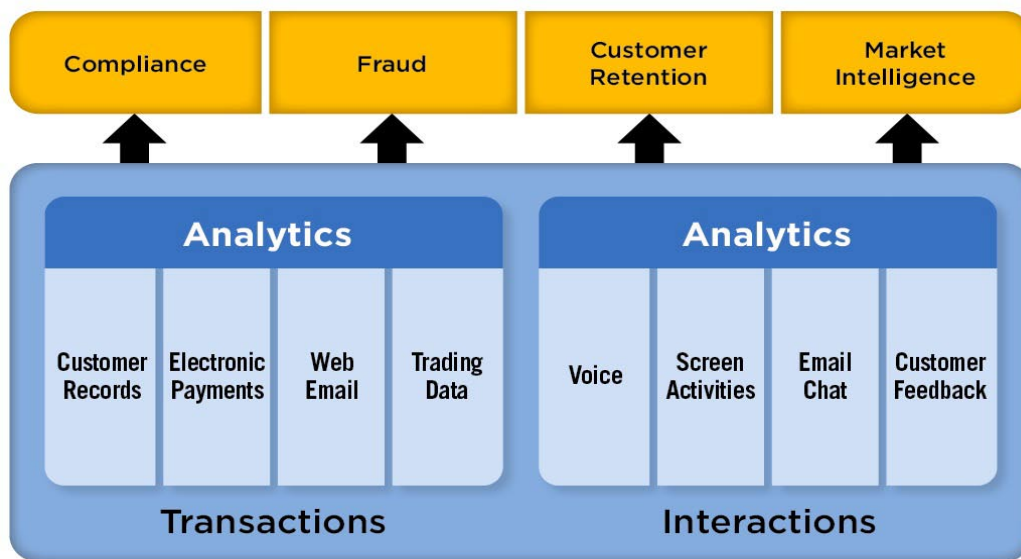
Real-time transaction analytics compliments existing transaction analysis systems, providing additional information that can improve the results of a business’s risk mitigation efforts.

Integrated Interaction and Transaction Solutions

As powerful as interaction and real-time transaction analytics solutions are in their own right, they can be even more so when working together. An integrated solution has the ability to process, analyze and cross-reference information from both sources giving a more complete picture of potential compliance and fraud activities.

more accurate net to be cast when searching for compliance and fraud occurrences resulting in better results.

Having a single, integrated view covering both interactions and transactions greatly speeds the investigation process, reducing associated costs. Fraud investigation personnel easily retrieve and listen to relevant sections of calls and other interactions associated with suspicious transactions. Conversely, compliance officers can immediately reference all connected transactions for calls where regulatory issues were detected.



Combining transaction and interaction analytics multiplies the benefits

For example, interactions can contribute information on customer metrics—gender, voiceprint, stress, aggressiveness—while transactions provide highly detailed information on customer activities and norms. More information sources enable a wider,

The automated aspects of the solution further boost productivity and streamline dispute resolution, investigations, eDiscovery and other compliance and risk related processes.

The remainder of this paper presents two specific use cases that illustrate the benefits of a combined interaction/transaction analysis solution.

Use Case—Enhanced Trading Surveillance

Government regulators are demanding more information from financial institutions when monitoring and investigating cases involving insider trading and market abuse. Regulations such as the Market Abuse Directive (MAD), Markets in Financial Instruments Directive (MiFID) and the new requirements from the UK's Financial Services Authority (FSA), are creating new challenges for compliance officers tasked with enforcing these rules and answering to authorities.

A typical compliance investigation involves hours spent reviewing call recordings and potentially related transactions. A combined analysis solution significantly speeds that process by automatically presenting relevant calls and associated transactions for review. Transaction risk scores, enhanced through the detection of key words and phrases in the interaction, increase the accuracy of triggered alerts, helping investigators focus their time on the trades most likely to produce results.

Officers can also run ad-hoc investigations on interactions according to specific regulatory issues such as wall crossing, black-out periods, script adherence, market abuse, conflicts of interest, breach of confidentiality and other potential abuses. When suspicious

interactions are identified, associated transactions are presented for review to assess whether further action is required.

Use Case—Enhanced Fraud Detection

Sophisticated fraud detection systems combine information from multiple sources to identify potentially fraudulent activities. Adding unstructured data sources—calls, emails, chat—from interaction analytics significantly expands the scope and quality of detection. Transactions that may have gone 'under the radar' in the past can now be identified and addressed.

Once a fraudulent incident is confirmed, interaction analytics can look for similar identity patterns in other interactions. The full scope of a fraud attack can be quickly assessed in order to understand the potential severity and allocate resources appropriately.

Black lists of known fraudsters can be created based on speech characteristics and used to search through past recorded interactions to flag other potentially similar incidents. These black lists can also be used to trigger alerts in future interactions as they occur in order to intercept and block their success.