



# COMPLEXITY AND TRUST: EY'S EVOLVING APPROACH TO RISK

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## ► INTERNAL RISK PROFESSIONALS MAY HAVE THE BEST INTERNAL INTELLIGENCE

Setting the stage for changes at EY and in the broader market, Frank Leenders, EY's Digital & Innovation lead based in the Netherlands, explained that the firm helps clients "reframe the future" and focus on "trusted transformation," which comes through six different lenses: Investor Trust, Organizational Trust, Third-party Trust, Customer Trust, Technology Trust and Regulatory Trust. Leenders added that the COVID-19 pandemic helped expose in greater detail how clients think about risk and trust and how different lines of defense can become sources of organizational intelligence. Risk-oriented functions within clients' organizations brought forward insights using data analytics and provided timely analysis on strengths and weaknesses, as revealed by internal responses to operational challenges created by the pandemic (and echoed by EY's own Megatrends pandemic-related survey findings). While many clients' digital agendas had been accelerating over the past four years, 2020 became an inflection point in understanding how using data and technology for timely insights related to risk could show not only what could go wrong but also how clients could improve their operations and enhance overall risk management. In short, internal audit and risk professionals likely have the best intelligence and insight into their own organizations — skills that are critical to running the business and optimizing opportunities during a prolonged crisis.

After walking through details on EY Resilience Edge — an AI-powered emerging risk modeling and scenario planner developed with IBM Watson and IBM Research — the EY partners described the EY VIA (Virtual Internal Audit) platform, a tool for end-to-end digitalization of the internal audit process and activities, including continuously ingesting data and developing analytics on clients' ERP environments. EY uses the platform, which includes risk monitoring and what EY has

### TBR PERSPECTIVE

In late January, TBR spoke with leaders in EY's risk consulting services practice about recent portfolio developments and expectations for 2021. Three critical elements stood out for TBR. First, the maturation of EY's risk consulting services practice (which sits in the firm's Business Consulting domain) provides the firm with a solid foundation to build new offerings and help clients with the transformational opportunities connected to risk, not simply the obligatory or compliance-related aspects of risk management. Second, the firm remains committed to making technology an enabler, through innovation and at scale, while keeping the fundamental consulting business model intact. Third, and most critically for understanding EY's overall thinking on risk, the firm fully embraces the complexities that arise when applying technologies at scale to every component of a client's organization and utilizes these complexities to build trust while addressing risk. In EY's approach, complex linkages between data, technology platforms and internal business groups help identify risk and thus help clients' transformations. In short, complexity can be good if handled well.



named its Flexible Audit Response Model, not only as a tool for delivering on its internal audit engagements but also as a stand-alone Software as a Service offering. In addition to the technology tools and bespoke configurations, EY has the opportunity to provide change management consulting as clients adopt new tools and processes.

## ➤ REGULATORY TRUST AS THE GATEWAY TO TRUSTED COMPLEXITY

Shifting to Regulatory Trust, which EY defines as managing “the regulatory burden with innovative frameworks that make compliance an enabler, allowing organizations to pursue sustainable pathways,” Federico Guerreri, EY’s Global Financial Services Risk leader, noted that stakeholders and customers have increased pressures around understanding and evaluating an enterprise’s full ecosystem, including suppliers, particularly as the end of the COVID-19 pandemic is in sight. For EY, “compliance and conduct” have become “the most important offerings” as clients in highly regulated sectors, including financial services and energy and utilities, recognize new risks associated with ecosystem partners’ behaviors and the regulators’ view of those risks. For EY, this leads to “working from the future back to transform compliance” and infusing technology to create “continuous, dynamic monitoring.” Guerreri specifically pointed out that EY’s clients see the potential risk impacts of new regulations as a board-level issue, further raising the profile of risk professionals as well as the need for EY’s services and solutions centered on compliance. Building on that point, Amy Gennarini, EY’s America’s FSO Risk Technology leader, said the organizations most successfully addressing risk have explicitly tied together regulatory obligations and business attributes. By integrating and making complex linkages across an entire organization, a business can enable faster and more comprehensive transformation. For TBR, this insight stands out as critical to understanding how EY sees the future of risk, trust and digital transformation: Complex linkages help identify risks and facilitate transformations. Complexity, usually a byword for making things too complicated, can be hugely beneficial for enterprises, if managed properly.

## ➤ WHERE TECHNOLOGY AND TRUST GET TESTED DAILY: FINANCIAL CRIMES

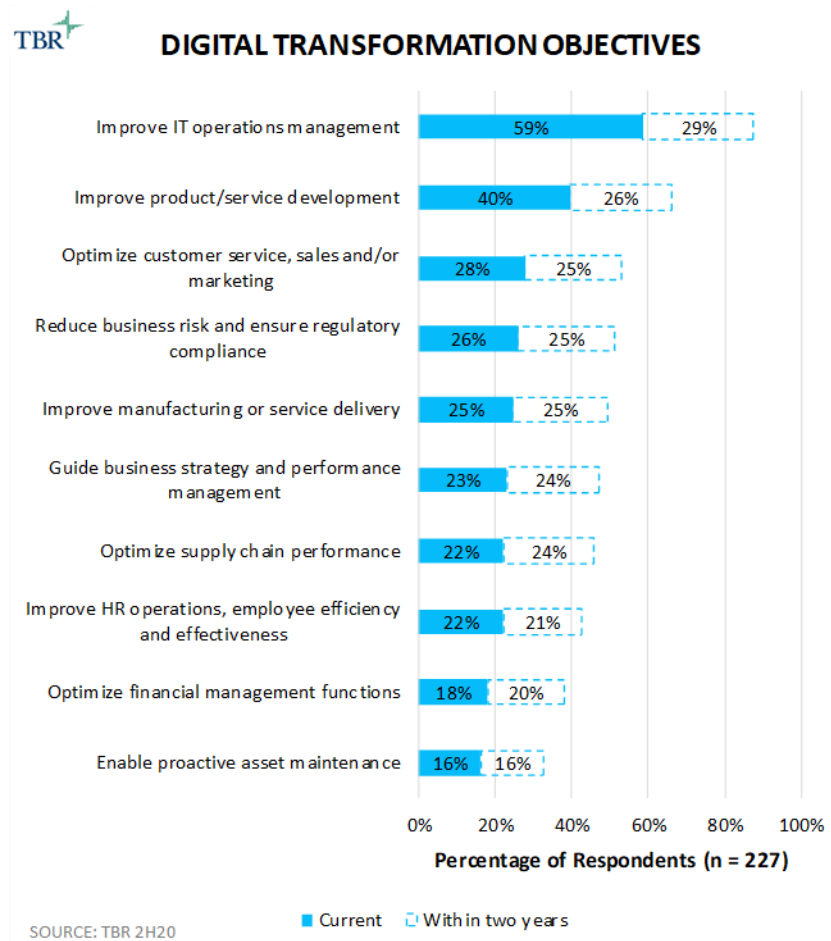
Turning specifically to EY’s Financial Crime solutions, Gennarini noted the high operational costs financial institutions bear in complying with Know Your Customer, anti-money laundering, and list screening obligations and the more than \$100 million EY has invested since 2017 in developing solutions to these challenges. She added that technology and analytics have substantially reduced operating costs for financial services clients, ranging from global banks to small regional and community banks, with the deployment of EY’s various tools contributing to a (labor) cost reduction of as much as 30%. When TBR asked if EY played a role as a trusted source for both clients and regulators, such as the U.S. Department of the Treasury’s Office of Foreign Assets Control, Gennarini explained that EY’s audit legacy and reputation around proper model management, controls, auditability and traceability help the firm facilitate discussions between regulators and clients, most often as a trusted source of information and advisory services. In TBR’s view, this role has been and will be critical for EY to both manage and expand as technologies increasingly permeate all enterprises engaged in financial transactions, including nontraditional financial services vendors, financial technology (fintech) startups and even large enterprises with global financial obligations. Facilitating an understanding — among both participants and regulators — of the risks associated with AI, machine learning and blockchain will be at the core of EY’s efforts to maintain its brand and fulfill the mission of shifting clients’ mindsets around trust.

Looking ahead, EY detailed its vision of a single platform that could provide horizon scanning of risks, inventory of all regulatory and compliance obligations and subsequent translation of that in policies, procedures, actions and controls, and finally mapping, testing, analytics and reporting on the effectiveness of this all. With the introduction of robotic process automation into previously manually administered activities, EY could scan regulatory changes across



multiple countries, upload regulation updates, and use AI tools to identify major requests in regulation that would impact individual clients. Late in 2021, EY plans to deploy tools that could assign to internal workflows applicable controls, continuously test those controls, and provide analytics and reports. While EY still needs to build out critical additional capabilities, in a few years' time this new platform could be a client's single risk platform, extracting, transforming and loading data from various internal systems and marrying that data with external factors, such as regulatory changes and other risks. EY reinforced that complexity — in this case, gathering all functions, risk and tech onto one platform — could build more trust within an enterprise, which could be extended to its ecosystem, including suppliers, customers, third-party service providers and even regulators. Trust and risk have become so intertwined, in EY's understanding, that only a complexity-embracing approach to operations and transformation will yield favorable results.

According to TBR's *December 2020 Digital Transformation: Voice of the Customer Research*, "One-quarter of respondents indicated reducing business risk and ensuring regulatory compliance climbed among their top DT [digital transformation] initiative with another quarter planning to address it in the next two years. The function has climbed from No. 8 to No. 4 in terms of priority from a year ago." We believe EY's ongoing investments in enhancing its risk capabilities, along with sustaining commitments to technologies that address risk, regulatory compliance and optimizing supply chains, will increasingly separate the firm from immediate peers and make EY a more attractive partner in the broader digital transformation ecosystem.





## IN MANAGED SERVICES, EY CONTINUES TO SET ITSELF APART

In addition to EY's evolution on technology, TBR has previously noted a significant differentiation between EY and its consulting and IT services peers with respect to managed services. EY targets front-office managed services opportunities, such as tax, in contrast with its peers' efforts to secure managed services contracts with back-office commodity BPO engagements. In TBR's special report [EY's Managed Services: A co-sourcing partner for value creation](#), we wrote: "In the ever-evolving BPO market, which historically has been associated with driving cost takeout by outsourcing back-office functions to third-party suppliers, EY's approach to managed services changes the paradigm of the service line 180 degrees, positioning it as value creator. ... While EY relies heavily on its established trust with the C-Suite to drive transformational conversations, the firm is investing heavily in technology-enabled frameworks to ensure consistency and repeatability, thus industrializing processes and securing margin expansion. EY's approach to technology within its Managed Services business aligns with the firm's overall push into the technology domain and also supports its business-first, but technology-enabled, go-to-market strategy." The frameworks and platforms EY continues to develop, build out and offer to clients, is evolving continuously toward that single platform for risk and single source of the complex truth about an enterprise, will provide a smart strategic road map for growth as digital transformations in the post-pandemic world.

TBR's ongoing coverage of EY includes a semiannual detailed profile of the firm's management consulting practice, inclusion in the semiannual *Management Consulting Benchmark*, and frequent detailed assessments of EY's digital transformation capabilities and offerings in the monthly Digital Transformation reports. TBR similarly covers EY's Big Four peers and the largest management consultancies, including McKinsey & Co., Bain & Co., and Boston Consulting Group (BCG). TBR covers governance, risk and compliance consulting in the *Management Consulting Benchmark* and publishes frequent special reports.

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