TBR SPECIAL REPORT

KNOW YOUR CONSULTANCY: EY'S FINCRIME PRACTICE AND THE FUTURE OF COMPLIANCE

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OVERVIEW

On March 30, 2021, leaders from EY's financial crime (FinCrime) practice briefed TBR about the firm's investments, capabilities and client use cases. The following is based on that discussion and TBR's ongoing assessment of EY's overall management consulting, risk and technology practices.

BE THE FRICTIONLESS PROVIDER OF FINCRIME SERVICES

Ron Giammarco, leader of EY Global FinCrime Managed Services, described EY's foundational principles for the financial crime practice in both technology and business model terms, noting that the firm has been committed to making every new offering cloud-native, but still deployable on premises. EY's FinCrime practice, which was established 20 years ago, generates $1 billion in annual revenue, and there are over 30 clients on the firm's FinCrime technology platform. To further its business, EY is determined to own the technology ecosystem, including all the intellectual property within the practice and every aspect of the relationship with clients. In Giammarco's view, EY should provide "frictionless" experiences for clients using its different platforms and solutions, with EY smoothing out any underlying technology or partnering issues. To offer those platforms, Giammarco noted, the firm has decided to acquire and partner as much as possible, building assets internally only when needed. In TBR's view, these foundational principles reflect a shift in EY's approach to technology and the firm's overall ecosystem. Embracing the business model shift and the substantial financial investment needed to be a technology company — at least to the degree EY is now — requires reorienting around the current competitive and partnership landscape, not the more siloed and opaque environment of several years ago, when digital transformation emerged as a challenge to the traditional consulting business model. Among the significant changes, Microsoft (Nasdaq: MSFT) and SAS now list EY's offerings within their own services catalogs, and EY expects those partners to not only provide technology support but also engage in sales efforts and the onboarding of new clients.

EY's differentiation: Expertise, discipline and global standards

Within this changed competitive and partnering environment, EY has been challenged to differentiate from peers, an effort TBR has tracked across Strategy and Transactions, Blockchain and other EY practices. For Nic Bastable, leader of EY Global Financial Crime Managed Services Delivery, the firm's uniqueness has coalesced around three main characteristics. First, EY has developed deep domain expertise, which continues to evolve. Bastable explained that every FinCrime interaction, even through a managed services arrangement, has eventually led to an analyst helping a bank make a financial crime risk decision, which has involved more than just following simple procedures. EY has invested in its professionals, building career tracks for FinCrime analysts and providing ongoing training, which led the firm to have, in

Bastable's opinion, differentiated expertise. Second, within the complex environment of helping banks make decisions about risk, EY has exhibited tight operational controls — essential at the global scale of EY's services and to meet clients' needs. Third, over years of providing FinCrime services, EY has created a global standard operating model, distilling best practices from dozens of engagements, by thousands of professionals, across more than a million events. Underlying all this, according to Bastable, EY brought automation and efficiency to the firm's operations and delivery, further differentiating the value of EY's services. In TBR's view, while each of the core elements of EY's FinCrime practice does not separate the firm from specialists or niche services providers, the combination, particularly with global reach and substantial scale, gives the firm a compelling story. Overall, EY's FinCrime practice does not depend on setting itself apart from peers, especially as professional services firms rarely differentiate from one another; instead, EY succeeds through solidifying trust by offering domain depth and delivering.

Remediate, automate and save me 30%

After describing the complex financial crimes and compliance environment banks face and EY's evolving approach to providing services tailored to address clients' changing needs, Giammarco detailed EY's three core offerings: Know Your Customer (KYC), Anti-money Laundering (AML) Monitoring and Investigations, and List Screening. According to Giammarco:

- KYC solutions "transform end-to-end management of KYC processes for new customers, including data and document gathering and validation based on policy requirements; aggregate and automate customer information across business lines, legal entities and jurisdictions; accurately address the data requirements for ultimate beneficial owners; and enhance end-to-end management of KYC processes for existing customers, including data and document gathering and validation based on policy requirements, according to renewal cycle and customer trigger events."

- AML includes "a deep bench of dedicated, highly trained investigators" providing "24/7 Level 1 and Level 2 investigations support"; Investigation Automation, which "provides technology solutions that automate manual investigation preparation, recommend alert dispositions and pre-populate investigation narratives"; a Platform as a Service offering that "provides a compliance by design, future-proof, configurable system that automates the alert generation process"; and Tuning as a Service, which "offers a configurable, intuitive model management module for segmentation and threshold tuning using visual analytics."

- List Screening includes a Screening Platform as a Service, which "provides sanctions, politically exposed persons and adverse media screening, and includes automated capabilities such as alert generation, smart alert decisioning and case management"; Testing and Tuning as a Service, which "harnesses customized test data packs to assess performance of screening models and provide valuable peer benchmarking to help identify areas for potential improvement"; and Investigations as a Service, which "automates alert dispositioning and provides operational support for investigation and escalation of Level 1 and Level 2 alerts."

Giammarco noted that the KYC offering has been taken up in the U.S. primarily by commercial and wholesale banks, while retail banks in other regions have more frequently been clients for this service. EY charges per unit for KYC, with clients generating an estimated cost savings of between 15% and 30%. When asked where clients typically reinvested those savings, Giammarco surprised TBR by saying banks had been turning savings into customer experience improvements, including faster onboarding. For List Screening, EY noted that the engagements continue to be highly transactional, with clients not replacing their current list screening capabilities or processes but instead applying EY's solutions as an additional layer to enhance compliance and reduce labor costs. Only one EY client currently uses all three core offerings. KYC is the most frequently deployed offering, typically through a bank's CEO or COO, who can see the immediate benefits of automation and cost savings. TBR noted that Giammarco summed up this detailed description of EY's FinCrime offerings with a simple statement: "We are very disciplined; this is what we offer." In TBR's view, clearly defined solutions backed by proven expertise and readily quantifiable cost considerations are nearly always a successful combination, particularly when enabled by a trusted brand.

Delivering differently

In addition to detailing what EY offers for financial crimes prevention and remediation, Giammarco and Bastable detailed how the firm delivers services, describing three business models not commonly associated with traditional consultancies. Most clients, according to EY, opt for building and running EY's solutions in-house, with EY supporting implementation and launch, then augmenting staff as needed, particularly to ensure surge capacity during an event or crisis. For these engagements, particularly if they are initiated as a remediation effort, EY aims to move the clients into a managed services contract — the second business model and an approach EY has been using for a few years. The managed services engagements, as described by Giammarco and Natalie Gjertsen, EY's EMEIA Financial Crime Managed Services leader, are "highly tech-enabled" and use a low-cost global delivery network that follows a global standard operating model and meets agreed-upon service-level agreements (SLAs) around predictability, continuity and cost savings. While some clients prefer onshore or nearshore resources due to language issues, data privacy concerns or simply client proximity, EY currently delivers managed services from 11 different countries. To staff these engagements, EY has 1,700 professionals dedicated to FinCrime and has invested over $100 million in the practice since 2017, spending nearly all of that investment on "organic technology." The third business model — which the firm uses occasionally — involves EY building and operating a financial crimes compliance capability and then transferring ownership of the technology and assets to the client after an agreed-upon period (typically two or three years). While TBR recognizes Build, Operate, Transfer arrangements have been deployed commercially for decades, consultancies and IT services vendors have rarely made use of this approach.

Partnering differently

Further on technology, Giammarco highlighted EY's partnerships with Microsoft, for the underlying AI and the Azure platform, as well as with SAS for analytics and Pega for the workflow layer. Giammarco made a specific point that the top two technology partners, Microsoft and SAS, include EY within their services catalogs, adding that EY expects technology partners to sell EY as part of their joint go-to-market motions. Notable to TBR, Giammarco said that, at the AI and machine learning layer, EY owns the models and algorithms and maintains responsibility for governance. TBR views these partnerships, particularly with Microsoft, as critical to EY's sustained success in this area — not because Microsoft and SAS have technology solutions that are markedly better than their peers (TBR is not in a position to judge this) but because the intimate technology-driven collaborations, combined with EY's decision to own the client relationship, position EY to benefit from the brand boost and revenue streams associated with being the trusted solution provider that is capable of addressing a core, and unavoidable, compliance challenge. Which automation, AI or data management system clients use matters far less to Bank Secrecy Act or AML officers than whether they trust the provider to deliver consistently.

MANAGED SERVICES IS THE FUTURE — BUT IN ITS CURRENT FORM STILL NEEDS CONSULTING

EY continues to make its FinCrime solutions sticky, converting remediation engagements into long-term managed services clients and expanding the firm's FinCrime capabilities to include cybersecurity and, potentially, blockchain.

TBR expects EY will likely be challenged to balance the business model advantages of managed services with the threats to the firm's overall brand as a trusted adviser and a consultancy with depth and expertise, not simply a technology implementer with global reach. Outsourcing back-office operations may be appealing to many enterprises, but banks are unlikely to outsource their KYC and AML obligations to just any provider, at least not in the near term. EY's sustained ability to strengthen its consulting backbone and maintain permission to be a trusted adviser on banks' fundamental risks may determine how the FinCrime practice evolves over the next five years.

TBR's coverage of EY includes semiannual profiles of the firm's management consulting business as part of our *Management Consulting Benchmark* as well as frequent special reports, such as this one. TBR also includes EY in its Digital Transformation portfolio, when merited.