

With Watson Financial Services, IBM Launches Cognitive Era of RegTech

First-Generation Cognitive Solutions Trained by Promontory Experts

ARMONK, N.Y. - 14 Jun 2017: Today, IBM (NYSE: [IBM](#)) launched the first suite of cognitive solutions to help financial institution professionals manage their regulatory and fiduciary responsibilities. The Watson-powered software, which can be deployed on the IBM Cloud, is designed to help financial professionals in three areas: understanding regulatory requirements, delivering increased insight into potential financial crimes, and managing financial risk with a new architectural approach for data.

At IBM's T.J. Watson Research Center in Yorktown Heights, N.Y., Promontory Financial Group Managing Director Susan Krause Bell and IBM Vice President Marc Andrews are part of the team training Watson with an initial 60,000 U.S. regulatory citations. IBM has introduced the first expertly trained suite of Watson solutions to help financial institution professionals manage their regulatory and fiduciary responsibilities. (Credit: Connie Zhou for IBM)

Managing risk and compliance currently consumes 10 to 15 percent of operational spending budgets among major banks, with annual spending estimated at \$270 billion per year for financial services organizations¹. This burden is expected to only grow in the coming years. By 2020, the global financial services industry will contend with an estimated 300 million pages of regulations, with thousands of new pages added each year after that ².

Watson – IBM's artificial intelligence and cognitive computing platform – has assisted a wide variety of professionals in managing massive and complex bodies of data. The company has trained Watson in the nuances of specific industries, including healthcare and cybersecurity.

Now, IBM is doing the same for financial regulations.

[Promontory Financial Group](#), an IBM subsidiary that specializes in risk management and regulatory compliance, has trained Watson initially on 60,000 regulatory citations. Watson has also started to review transactions and cases related to potential financial crimes. The result is a suite of cognitive solutions that are designed to offer professionals assistance in making better-informed risk and compliance decisions with greater speed. Over time, additional data sets will be added, which will allow the machine learning and

analytics embedded in Watson Financial Services to further expand and help improve the insights provided to professionals.

“Two generations ago, IBM brought the first computers to the financial services sector, allowing banks and other institutions to foster greater trust in the market by operating more efficiently and accurately,” said Bridget van Kralingen, senior vice president, IBM Industry Platforms. “To strengthen trust today, financial institutions must analyze an industry’s worth of information to help monitor risk and compliance. No individual, or team of them, can adequately do this alone, and so once again, IBM is bringing a new type of computing – cognitive computing – to help these professionals operate more effectively.”

Gene Ludwig, founder and chief executive officer of Promontory Financial Group, added, “The speed and volume of information that financial institutions must manage is already daunting and yet still growing rapidly. The answer to this problem is cognitive technology taught by industry experts, like those at Promontory. Essentially, we’re embedding our deep regulatory experience into Watson so that a broader group of professionals can benefit from this knowledge and help their organizations operate more effectively and efficiently.”

The solutions are available to financial services industry clients, many of whom have worked with IBM and Promontory to address their risk and compliance needs.

“The growing demands of regulators for more complex reporting has presented the banking industry with an enormous technical challenge,” said Rita Gnutti, head of market and counterparty risk internal models at Intesa Sanpaolo. “Working with partners like IBM, we can be more confident that our rigorous and consistent approach to risk modelling and reporting will satisfy the latest FRTB regulatory requirements.”

The specific products launched by Watson Financial Services today include:

Watson Regulatory Compliance

Watson Regulatory Compliance will help financial institutions better understand and address the constantly changing regulatory requirements. Watson's natural language processing capabilities are being used to train and understand the language of regulation, and IBM has started the process of feeding regulations from 200 different sources into the system in order to identify and tag potential obligations. This will help simplify the daily, manual activities of compliance professionals by providing a company-specific view of regulatory requirements.

Compliance professionals using Watson Regulatory Compliance will have access to a customized and searchable library of regulatory requirements, with the ability to identify the obligations and controls applicable to their business, which can be easily filtered by geography, line of business, product, process and compliance area. They will also be able to more easily track changes, with the ability to subscribe to only the specific parts of the regulation that are directly relevant to them.

IBM Financial Crimes Insight with Watson

Each year, financial institutions spend \$18 to \$21 billion on anti-money laundering (AML) activities, \$16 to \$19 billion on know-your-customer (KYC) requirements, and \$11 to \$15 billion on conduct surveillance³. These activities are extremely manual in nature, often requiring significant time to collect information from various sources. The final decision is often subjective and dependent on the experience of individual analysts.

IBM Financial Crimes Insight with Watson applies cognitive computing, intelligent robotic process automation, identity resolution, network analysis, machine learning, and other advanced analytics capabilities to accelerate due diligence activities and help organizations more effectively understand and manage the plethora of AML alerts generated by today's transaction monitoring systems. Combined with Promontory's expertise, financial institutions can increase the speed and accuracy of customer verification and adverse news collection for KYC requirements, help reduce false positives and speed up case investigations for AML alert reviews.

In addition, IBM's solution for conduct surveillance is being expanded to address broader conduct risks such as sales practices, client suitability and fiduciary responsibilities. This solution goes beyond traditional rules-based and lexicon approaches and generates increased insight by identifying the various activities and behavior associated with misconduct. It will also advance complaint management in ways that can further assist professionals responsible for identifying misconduct.

IBM Algo One Big Data Foundation

For many financial institutions, it is a challenge to scale their existing systems, and yet, scaling is necessary to meet the dramatic increase in requirements for Fundamental Review of the Trading Book (FRTB) regulations, Valuation Adjustments (XVA) measures, and liquidity analysis.

IBM Algo One Big Data Foundation is a new architectural approach to help clients achieve the performance that is required to address regulatory compliance.

The solution integrates big data technology with the core risk data management applications of Algo One. This enables financial firms to examine risk in a shorter amount of time with an intuitive user interface. By utilizing structured and unstructured data to its fullest potential, the solution is designed to encourage decision makers to ask more complex questions and get better answers faster when developing new business strategies. This moves the use of big data from an experimental or niche use at a bank to that of daily production to help satisfy banks' regulatory and financial planning. The first solutions available as part of the new architectural approach focus on liquidity, application lifecycle management, and market risk.

All of the new Watson Financial Services solutions are available today on the IBM Cloud.

About IBM Watson Financial Services

IBM is working with organizations across the financial services industry to use IBM Cloud, cognitive, regtech and blockchain technology to address their business challenges. Banking, wealth management and insurance are some of the areas poised for dramatic change by using cognitive and AI capabilities provided by IBM Watson Financial Services.

For more information about IBM Watson Financial Services, visit <https://www.ibm.com/watson/financial-services/>.

1. Source: McKinsey, 2017

2. Source: JWG, 2016

3. Source: BCG Survey, 2016

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<https://uk.newsroom.ibm.com/2017-06-14-With-Watson-Financial-Services-IBM-Launches-Cognitive-Era-of-RegTech>