Cognitive GRC—bringing the value to governance, risk and compliance

Contents

Introduction

Virtually every large company in the world maintains governance, risk and compliance (GRC) capabilities in some form. Yet many, if not most, companies see those capabilities primarily as a cost of doing business. GRC is considered an unavoidable cost that doesn't add much in the way of value, except for helping to protect the company from penalties or fines. After all, a loss avoided or an incident averted doesn't make news. And nobody gets rewarded for complying with regulations. So GRC practitioners, and the solutions they use to support their work, are regarded as an insurance policy, rather than an investment, by most in the C-suite.

But attitudes are changing, thanks to a new breed of solutions and the dawn of cognitive GRC.

Necessity is the mother of invention

GRC practitioners are asked to deliver efficient strategies for meeting an organization's legal obligations by keeping pace with evolving regulations. They are also expected to facilitate growth by preparing the company to expand into new businesses or new geographies with confidence that the new ventures will not entail unexpected costs or unpleasant surprises.

For large, multinational organizations, especially those in heavily regulated industries, governance, risk and compliance processes can involve an enormous amount of work and human resources. As Ventana Research analyst Robert Kugel observed, "… poring through pages of laws, rules and judicial rulings to identify relevant new requirements or changes to existing ones requires expertise and often considerable effort."[1]

More than a decade ago, passage of the Sarbanes-Oxley Act led to the introduction of a plethora of software solutions to help companies manage compliance. These tools were focused on document management, workflow and reporting but didn't deliver significant improvements in business practices. Until recently, governance, risk and compliance systems were focused primarily on the collection and administration of risk and compliance data to satisfy regulatory requirements.

In addition, GRC activities have long tended to be siloed, both in terms of the data used to support GRC, and in the people responsible for different areas of compliance or risk management. “Historically,” Ventana’s Robert Kugel noted, “companies have devolved responsibility for regulatory compliance to the individual business units most closely affected because it was the practical approach. However, decentralized approaches make it difficult to gauge overall compliance, and as the scope of regulation increases over time they lead to duplicate controls and increased costs of compliance.”[2]

But as risks and regulatory regimes have become more complex and intertwined, a more integrated approach to GRC has evolved. Now, with GRC practices maturing, and with greater access to reliable data, the focus is switching to analytics for better insight into the risk landscape. Integrated GRC enables you to understand not only the challenges you face—or may face in the future—but also what they mean in the context of your business.

Industry analyst Carole Switzer has written about this phenomenon, commenting that, “By ensuring consistency in how data is collected, maintained, reconciled, and analyzed, heretofore isolated silos gain a more transparent and accurate view of information they need to operate within risk and compliance parameters while supporting the performance goals of the business.”[3]

Because of this shift, the attitudes of business leaders are gradually changing and many leaders are starting to think about GRC as a potential source of real value. GRC policies and systems can be an important aid to decision-making that not only keep the company from making costly mistakes, but also help steer the company toward profitable, low-risk opportunities. So GRC is slowly moving from a cost that organizations grudgingly have to bear to something that delivers true value to the business.

Three drivers of cognitive

In today’s business environment, three developments in particular are driving the need for cognitive GRC and providing fertile ground for its growth: 1) big data, 2) the ability to probe unstructured text, and 3) increased regulation.

- **Big data**
  We hear every day about the growth of big data. The “three Vs” of big data, volume, variety, and velocity, are increasing continuously and the nascent Internet of Things (IoT) will propel that growth even faster. Data presents a challenge but also a major opportunity because fortunately, as big data has gotten bigger, computing power has also grown by leaps and bounds.

  Carole Switzer observed that “New computing capabilities can support predictive assessments and modeling of future trends. Even looking solely at regulatory compliance, given the volume and variety of change, these capabilities are essential at some level for any business.”[4]

- **Probing unstructured text**
  Along with the growing volume of transactional data, which is typically numerical and lends itself readily to the world of spreadsheets and databases, the volume of unstructured text in the form of email, texts, tweets, social media postings and even voicemail messages is increasing as well. Natural-language processing capabilities now make it possible to survey all that information automatically. Unstructured text is now a rich source of insight on regulations and commentary, as well as on customer and employee sentiment and behavior.
- **Increased regulation**
  The aforementioned Sarbanes-Oxley Act was passed in the wake of headline-making corporate scandals in 2002 and imposed many new reporting requirements on corporations. Since then, the Great Recession of 2008-2009 produced the Dodd-Frank Act, Basel III and myriad other rules and regulations.

  To put this in context, "the number of pages added to the U.S. Federal Register, a rough measure of rule-making, grew 38 percent, from 529,223 pages in the 1980s to 730,176 in the 2000s, and that growth is on pace to reach 800,000 for the decade ending in 2019."[4]

Big data, the ability to probe unstructured text and increased regulation, as well as other factors, have all created a need for more powerful GRC solutions and given rise to a new kind of solution: cognitive GRC.

The promise of cognitive GRC

If software solutions could help companies anticipate dangers and identify the strategic direction that offers the fewest hazards, those companies could make better choices. Or, if an unavoidably hazardous business opportunity offers the potential for great rewards, superior risk/reward calculations could show how to make that journey as safely as possible, and take advantage of opportunities that competitors, with equal caution but perhaps less foresight, would have to pass up.

Cognitive capabilities in GRC platforms make it possible to make more risk-aware and more value-driven decisions. With cognitive, GRC platforms are evolving from solutions that ask you to do work such as data input, to something that actually does work for you.

Deeper insight into risk decisions

With the benefit of cognitive GRC, risk managers have access to analytic insights that will enable them to gain a much broader and deeper view of the factors that affect risk exposure.

For example, IBM® risk expert Christophe Delaure observed that in the areas of root cause analysis and regulatory change management "the ability of cognitive software to now understand native language and learn what terms or descriptions different people might use when talking about essentially the same thing brings real value." He added, "For root cause analysis, cognitive systems can sort through vast amounts of information and see patterns that human eyes might not or could not. In managing regulatory change, cognitive systems can read and develop relationships between tens of thousands of pieces of information to see changes as they take place or even in advance, and identify how they might impact operations and controls."[5]

In the area of regulatory compliance, cognitive GRC could make it possible to automatically map regulations to company policies and to specific internal controls. In areas such as customer retention and customer churn, cognitive GRC could help provide a better understanding of the factors that affect customer satisfaction, and recommend actions to prevent at-risk customers from leaving.

Cognitive GRC can also be used in the formulation of key risk indicators for a broad range of business situations, and function as an early warning system, signaling the likelihood that a risk event may occur. Early adopters of cognitive GRC have spoken of the ability to "see around corners" to not only predict specific events but anticipate ripple effects and understand potential impacts in the context of the overall business.

Conclusion

Businesses take risks all the time. And all business exist in a world of overlapping legal and regulatory jurisdictions. Effective governance, risk and compliance solutions make it possible for organizations to negotiate that landscape successfully with a maximum of agility and a minimum of hazard or uncertainty.

Cognitive GRC platforms can be part of an ecosystem that connects and integrates data, people, and processes based on a solid foundation of solutions and technology. It can help companies outthink risk and anticipate regulation with centralized solutions that engage and empower people all across the business.

About IBM Analytics

IBM Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

Analytics solutions enable companies to identify and visualize trends and patterns in areas such as customer analytics, which can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals. For further information please visit **ibm.com**/analytics.

Request a call

To request a call or to ask a question, go to **ibm.com**/analytics/us/en/contact-us. An IBM representative will respond to your inquiry within two business days.

IBM Corporation
IBM Analytics
Route 100
Somers, NY 10589

Produced in the United States of America
October 2016

1 Robert Kugel, *IBM Watson and Cognitive Computing to Streamline Compliance*, Ventana Research, August 5, 2016 https://robertkugel.ventanaresearch.com/2016/08/05/ibm-watson-and-cognitive-computing-to-streamline-compliance/

2 Robert Kugel, *IBM Watson and Cognitive Computing to Streamline Compliance*, Ventana Research, August 5, 2016 https://robertkugel.ventanaresearch.com/2016/08/05/ibm-watson-and-cognitive-computing-to-streamline-compliance/

3 Carole Switzer, *Accelerating the Evolution of GRC*, OCEG Blog, July 15, 2016 http://www.oceg.org/accelerating-evolution-grc/

4 Robert Kugel, *IBM Watson and Cognitive Computing to Streamline Compliance*, Ventana Research, August 5, 2016 https://robertkugel.ventanaresearch.com/2016/08/05/ibm-watson-and-cognitive-computing-to-streamline-compliance/

5 Christophe Delaure, *Accelerating the Evolution of GRC*, OCEG Blog, July 15, 2016

ASW12405-USEN-00