Strengthening Risk Management and Regulatory Compliance in Financial Services

Emerging Applications of GenAI in Risk and Compliance[1]

- Regulatory compliance
- Financial crime
- Credit risk
- Cyber risk
- Climate risk (ESG reporting)

Driving Innovation and Competitive Advantage With Data Management

The financial services industry is intensely data-driven and hypercompetitive. Balancing product innovation and the customer experience with risk management and regulatory compliance requires firms to transform vast data volumes into strategic assets, an exercise whose complexity is compounded by security requirements, disparate data sources, digital transformation initiatives and the migration of operations to multi-cloud environments.

Artificial intelligence (AI), generative AI (GenAI) and other technologies can help you achieve your goals, but doing so requires modern data management practices to ensure that data is accessible, valid and error-free — that it is fit for business use. "Gen AI has the potential to revolutionize the way that banks manage risks over the next three to five years," predicts McKinsey & Company. "Data will serve as a competitive advantage in extracting value from gen AI."[1]

Prioritizing risk enables financial firms to plan AI implementations in a way that maximizes value realization while adopting the technology in a responsible and sustainable way. Considerations include impact, feasibility and the threat posed by AI's capacity for mischief, including bias, invasion of privacy, malicious use, security vulnerabilities, incorrect answers and hallucinations, intellectual property infringement, noncompliance and other hazards. Such risks, however, are well documented, and a well-thought-out strategy for deploying AI and GenAI will help firms overcome any hesitation and use these technology innovations to their advantage.

[1] https://www.mckinsey.com/capabilities/risk-and-resilience/our-insights/how-generative-ai-can-help-banks-manage-risk-and-compliance

Freddie Mac: Managing and Protecting Sensitive Information at Scale

Home lending giant **Freddie Mac** is entrusted with clients' most sensitive personal information and financial data. As mortgage volumes increased, so did the firm's data processing and reporting demands. They needed to speed up processing and decision-making without introducing errors, running afoul of regulating agencies or putting client data at risk. Regularly scanning Freddie Mac's huge volumes of data for PII traditionally required a team of dedicated experts who had to search a vast data landscape distributed across many different systems.

To drive scale and efficiency, Freddie Mac deployed Informatica Data Privacy Management™ (IDPM), enabling the company to find, classify and identify PII. IDPM also gave data management teams greater visibility into files and apps not directly related to PII for faster, more accurate decision-making, and made it easier to comply with privacy laws.

Data Challenges and Business Impacts

Across the financial services industry, firms of all sectors and sizes have implemented data governance and controls within their risk management frameworks for sustainability, resiliency and efficiency. Unfortunately, many have relied on throwing bodies at the data problems or on existing tools to address MRA (matters that require attention) requests from industry regulators and avoid financial penalties. In the following chart, you can see the top financial services data management challenges and their associated business impact.

Top Data Management and Governance Challenges in Financial Services

Category	Top Data Challenges	Business Impact
Data Integration	Integrating and orchestrating business processes and data between existing systems, applications and workloads in the cloud	Limited visibility into existing data lineage processes that leads to: • Lack of single view of risks or fragmented risk information • Lack of automation leading to productivity challenges • Scalability challenges associated with AI applications • Data privacy concerns • Security threats
Data Quality	Persistent and ineffective data quality processes that result in data being unfit for use to manage risk and deal with ongoing regulations	Unwanted audits and fines due to: • Miscalculated risk scores • Underfunded capital reserves • Regulatory reporting errors
Data Validity	Lack of accurate and comprehensive legal entity/ counterparty data due to the lack of a central trusted source of the information used for risk management	• Higher risk management costs • Increased risk from counterparty and credit reporting errors to industry regulators • Underfunded capital reserves • Increased risk of financial exposure stemming from regulatory fines and penalties
Data Governance	Slow to execute and extremely labor intensive processes for data governance oversight	• Policies are not adequately enforced • Processes are not consistent • Data governance costs are higher than expected • Business users are not getting the right answers to their data questions at the right time

Making Data Fit for Business Use for AI

The success of AI models is dependent on the availability of trusted and timely data. If data is missing, incomplete or inaccurate, the model's behavior will be adversely affected during training and deployment, which could lead to incorrect or biased predictions and reduce the value of the entire effort. Ensuring that data is fit for business use is the number one priority for financial institutions implementing new technology investments to strengthen risk management and regulatory compliance.

Data that is fit for business use has six characteristics. It is:

- **Accessible** – Data from legacy systems, cloud applications, mobile devices, IoT devices and other sources must be accessible to build and execute solutions powered by large language models (LLMs).
- **Clean and trustworthy** – Avoiding errors and GenAI hallucinations requires clean, trustworthy data devoid of corruption, missing or duplicate values, etc. Model development cannot move forward with data quality errors.
- **Valid and authoritative** – Trusted master data about customers, partners and services, along with security instrument information, must be provided.
- **Transparent** – There is end-to-end visibility into the lineage of data used for GenAI applications.
- **Governed and protected** – Data asset policies, standards, access authorizations and privacy controls are defined.
- **Understood and shared** – Every business user is able to get answers about the data used for GenAI needs.

Informatica Intelligent Data Management Cloud™ (IDMC) for Financial Services

Informatica helps you access, process and leverage data to better understand your risk exposures, reduce the cost of managing risk and ongoing compliance, and help reduce the cost of managing and governing data across the enterprise. We provide insights into where data comes from, what happens to it, who uses it and for what purpose. With IDMC, you can ensure that the data throughout your firm is accurate, consistent and readily accessible, supporting efficient business operations. IDMC leverages cloud-native capabilities to enhance data governance, ensuring that all regulatory and corporate policies are met while making data available across the organization. It provides a single view of critical business information that enables you to make informed decisions quickly and innovate effectively.

About Informatica

Informatica (NYSE: INFA), a leader in enterprise AI-powered cloud data management, brings data and AI to life by empowering businesses to realize the transformative power of their most critical assets. We have created a new category of software, the Informatica Intelligent Data Management Cloud™ (IDMC), powered by AI and an end-to-end data management platform that connects, manages and unifies data across virtually any multi-cloud, hybrid system, democratizing data and enabling enterprises to modernize their business strategies. Customers in approximately 100 countries and more than 80 of the Fortune 100 rely on Informatica to drive data-led digital transformation. **Informatica. Where data and AI come to life.™**

- **Improve business trust in your data** – Accurately identify errors, build and execute data quality rules to fix those errors, monitor exceptions, and deliver data quality reports and scorecards to improve business confidence in your data.

- **Gain transparency into your data lineage** – Discover, inventory and organize data assets with an AI-powered data catalog. Get a unified view of enterprise metadata to add context to your data. And use collaborative, self-service data preparation, AI and machine learning to rapidly turn data into trusted business insights.

- **Identify and lower your risk exposures** – Manage and relate legal and non-legal entities in a single, authoritative and trusted source for Know Your Customer (KYC), Customer Due Diligence (CDD), Credit Risk Management and more.

- **Operationalize and democratize data governance** – Enable data stewards to scale their duties across the enterprise, automate policy oversight, and help business users get access to their data questions quickly and accurately.

Next Steps

For more than 25 years, Informatica has helped financial services companies leverage data as a strategic business asset with trusted, governed, relevant and accessible data. Today, Informatica is bringing data to life for financial services firms by empowering you to realize the transformative power of your most critical assets. Accelerating your data's AI readiness will take your organization to the next level, helping you operationalize data governance for risk management and regulatory compliance while improving the customer experience, increasing wallet share, combatting fraud and financial crimes, and speeding time to value from past and future mergers and acquisitions. Learn more at **www.informatica.com/financialservices**

Where data & AI come to LIFE™