

UBS Case Study

Message broking and screening improves compliance for UBS and lowers total cost of ownership

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Peter Haener, Head of AML Monitoring and Surveillance Compliance, UBS





Introduction

UBS draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS combines its wealth management, investment banking and asset management businesses with its Swiss operations to deliver superior financial solutions and manage CHF 2.2 trillion in invested assets.

UBS, a global bank based in Switzerland, has always put a premium on keeping its compliance functions state-of-the-art. As part of these ongoing efforts the bank has been working closely with Temenos to centralise and standardise its sanction screening processes.

The cooperation began in 2002, when UBS entered discussions with Temenos (then Viveo) with a view to developing a standardised, combined compliance screening solution. This solution would be based in its Swiss headquarters, but could be rolled out to its worldwide locations, which all connect to the markets via financial messaging gateways such as SWIFT.

For UBS, it was important to have a partner who could deliver more than just an “off-the-shelf” screening product. Instead, the bank was looking for someone to develop a UBS design concept into a working solution to cover UBS-specific needs. Several vendors were interviewed, including a US competitor of Temenos. “We chose the Temenos product mainly because the performance was convincing and the staff were especially open to new ideas,” says Peter Haener, Head of AML Monitoring and Surveillance Compliance at UBS.

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Challenge

Although the screening tool in its US operations was sufficient for its US needs at the time, UBS was not convinced that the tool was capable of managing the much higher volumes experienced in Switzerland. On top of this, the US tool collated payments by using a simple name-matching technology similar to programs such as Word and Excel. "What was available on the market was more or less the first generation of such tools," explains Peter Haener, Head of AML Monitoring and Surveillance Compliance, UBS. "The Temenos offer was a second-generation and, in some respects, a third-generation product."

UBS wanted to combine the advantages of Temenos' solution, Screen, with its own IT system design, which placed a message broker between all its branches and the centralised compliance function. In this way all banking applications would send their messages to the message broker to be given a standardised format before entering the screening solution. In addition, it was important to keep false positives generated by the system to a minimum. It had to be possible to configure the system to achieve a low hit rate while guaranteeing a high level of accuracy from the screening.

Haener were alert to the increasingly onerous requirements from financial regulators for banks to thoroughly screen messages in order to prevent money laundering and/or transfer of money with the intent to to break UN sanctions or finance terrorism. Regulators were asking the banks to screen against more and more names without providing good data quality or defining precisely what they were looking for. UBS's requirement was therefore for a robust tool that would stand the test of time by being designed to exceed the initial demands demands placed on it.

Solution

Temenos set up Screen to interact with the message broker via an in-house link between the banking applications generating financial messages, such as SWIFT, and the markets. Upstream applications were connected to the markets via the message broker. In this way, UBS was able to ensure a consistent approach – all messages were produced in a standardised format, allowing the bank to screen financial messages in a reliable, repeatable manner.

In August 2003, UBS started testing the new system in Switzerland using a phased approach, starting with Message MT103. It was later implemented in London, going live in November 2006. In parallel with this process, in 2006 UBS began to work with a centralised screening engine capable of screening copies of messages from all locations.

UBS used a specialised technical setup to enable the product to run on its mainframe infrastructure, presenting an integration challenge. "It was a major project, but we now have a very stable infrastructure, and a high-performance screening solution," says Haener. "We had very knowledgeable Temenos staff to talk to for the implementation."

UBS valued the dialogue with Temenos' experts and when confronted with technical challenges, both parties were able to keep talking and overcome them together. "The overall project - implementation of the global message broker together with the compliance screening solution - finished on time and within budget," adds Haener.



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Benefits to financial institutions

- ▷ Risk based approach – integrates watch lists from various origins: public, commercial or private
- ▷ Complementary features – sophisticated wizards highlighting enhancements, avoid false detections, test lists etc.
- ▷ Flexible workflow framework – define roles/access rights, context-based validation and 4-eye review default
- ▷ Versatile – watch lists, high value payments and solvency risk while applying geographic and business rules
- ▷ Fast – >20msec per transaction, scans over 5 million transactions per day in production
- ▷ Access – >25 years of data - compares current activity with historical behavior patterns
- ▷ Agile – open technology fits the operational needs of any financial institution
- ▷ Complete – screens customer database, payments and all other types of transaction
- ▷ Lowest ‘false positive’ rate – lowest possible level of ‘false positives’ minimizing operational systems impact
- ▷ Flexible deployment options – choice of on-premise or SaaS solution in line with your IT strategy



Results

Based on the results that were achieved in Switzerland, UBS proceeded with the global rollout, which is now complete, with new or smaller branches still coming on line as required. The system currently covers more than 99 per cent of the messages UBS produces globally.

Haener recalls that UBS was concerned from the beginning about the resources that would be required to manage the predicted increase in screening. Research now shows however that the system design, which puts the operations team in Switzerland at the centre, handling hits for the whole world, has paid off. Operators can review hits and release false hits more quickly than before. As a result, the compliance unit does not miss any cut-off times so there is no impact on UBS's clients.

Screen has freed resources, which has allowed compliance officers to take on more responsibility in clearing hits and dealing with more complex compliance issues. The time to produce reports has also been reduced, due to the centralised and standardised approach, helping to improve the management information system.

Meli can also show that the cost per screened message is coming steadily down, which is important to other business lines in UBS which are charged for this service. Looking back to 2006, each full-time position in operations was handling an average of 4,000 hit messages per day. Now the average is up to 9,000. Increased regulation has forced up the head count in the operations team but the processed hits are up 250% while the head count is up only 30%.

UBS has also reduced its exposure to risk. With recent fines based on sanctions regulations imposed on other banks by the US authorities unning to tens of millions of dollars, strict compliance is clearly a priority.

UBS also uses Screen to mitigate some financial risks, for example checking that it doesn't unwittingly pay out to unwanted counterparties. Automatic screening can also check that a keying error, such as an extra zero or writing billion instead of million, does not get through.

The compliance unit is always looking at ways to use screening to provide value to other parts of UBS and this will form part of the next stage of any IT investment, to further reduce total cost of ownership (TCO).

Despite the rising number of messages and hits that it has to manage, the screening solution has already improved efficiency at UBS quite dramatically, says Meli. "Within the last two years, using the tools from Temenos, we were able to reduce our TCO by approximately 50 per cent, following a major project to identify our cost saving potential by identifying gaps, centralising as much as we could and making use of our economies of scale."

Haener remarks: "UBS chose a very specific set-up, and Temenos was able to follow and understand the concept and to support us in implementing it. From our perspective, it has proved to be a success story."

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