Compliance Analytics Software Build vs Buy: Key Considerations

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Introduction

Although compliance has not traditionally been a technology-driven field, data analytics is beginning to play an increasingly prominent role in the discipline. Advances in data analytics technology are helping companies gain insights about risk more quickly than traditional compliance processes. As recent updates to the United States Department of Justice guidance for corporate compliance programs has made clear, this trend will continue accelerating as companies look to assess the effectiveness of their compliance programs more holistically and in real-time.

Taking that technological leap forward can be intimidating for compliance professionals and companies, especially when considering whether to build compliance analytics technology from the ground up or purchase off-the-shelf software from a third party. Businesses use a "build versus buy" analysis to compare the cost and benefits of developing new technology internally (building) versus the cost and benefits of purchasing an existing technology solution from an existing supplier (buying). Both choices have potential benefits and long-term implications. It is essential to consider which option is optimal for your company when taking the first steps toward modernizing your compliance analytics program.

There are many factors to consider in the analysis, including resources, time, technical requirements, and more. This white paper will break down the key considerations your company should evaluate when determining whether to buy or build a compliance analytics solution and the pros and cons of each option.

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Project Scope

The first thing your company should do is define the scope of the compliance analytics project and the risks to be monitored, to determine how common or bespoke that scope truly is. For example, if the compliance analytics scope is focused on spend and counterparty risks in your organization's financial data, that is a common scope addressed directly by fit-for-purpose off-the- shelf solutions in the marketplace. If your scope, however, is highly unique to your business or to the systems you use in your organization, then an off-the-shelf solution may not exist and a build approach will likely be a better approach.

Note, however, that your company's compliance needs along with regulatory expectations for compliance programs will change over time. In the build case, it is essential to consider future software and analytics updates and whether your in-house built software will be customizable enough to make necessary upgrades for years to come. A potential benefit for companies building their own software is that when done correctly, the company should have complete control over when and how upgrades are applied and will be able to evolve and seamlessly integrate the software with the company's other tools. On the other hand, high-quality compliance data analytics software will likely also include configuration flexibility and integration via pre-built adapters and system connections that your company can leverage. Although you may not have full control over the product roadmap of an external provider, many vendors work closely with customers when designing or improving their products. Companies looking to purchase data analytics solutions should also evaluate the track record and support capabilities of the vendors they consider to ensure they can scale with the evolving scope of your analytics efforts over time.
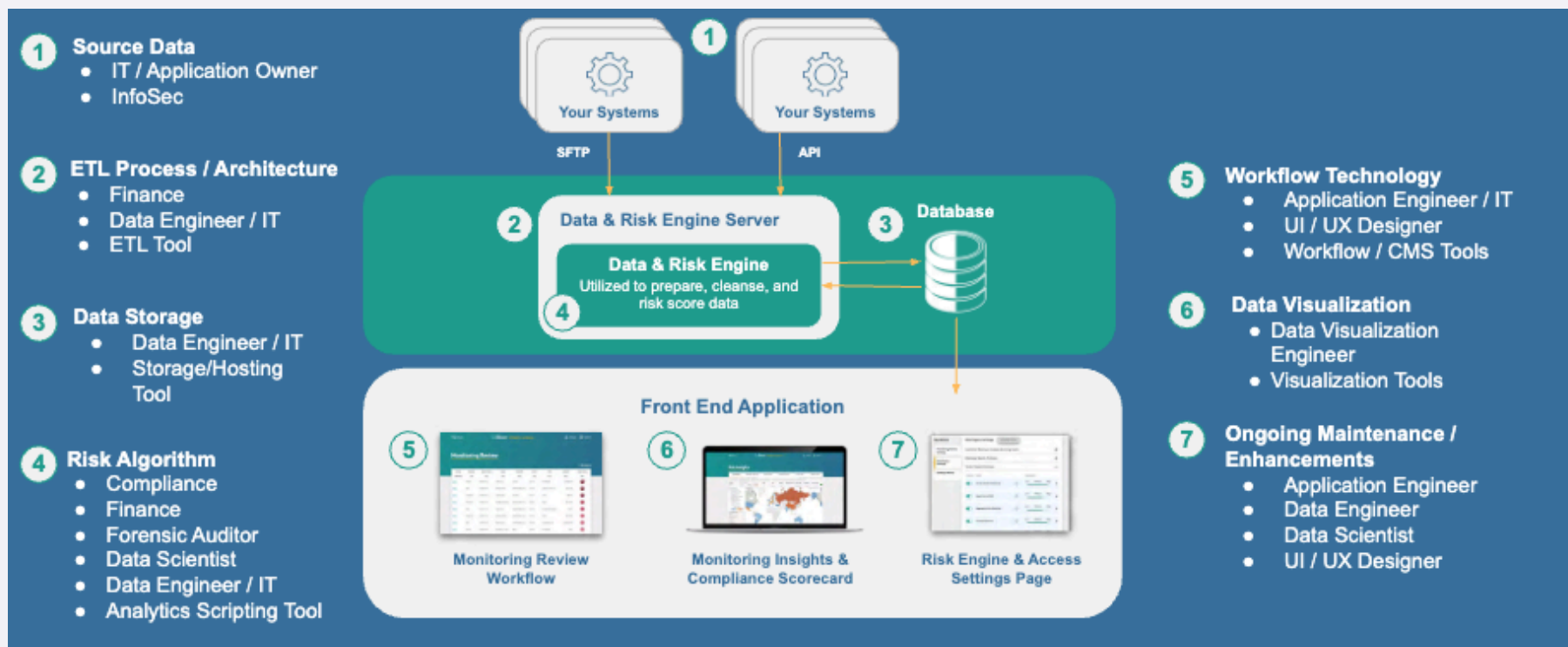
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Overall Costs

The next question companies will likely consider when weighing the build versus buy decision is which option makes the most financial sense. Let's begin by discussing the build option. A company with the resources to build its own data analytics solution can ensure that the program functions according to its exact needs and specifications. However, going the build route means companies must still buy multiple software components from external providers, usually on a recurring annual subscription basis, to support their analytics build.

For example, when building a data analytics compliance program from the ground up, companies will still need to purchase things such as data repositories to host their data, an extract, transform, and load (ETL) application to ingest and process the data, a visualization engine, a workflow app to document follow-up from the analytics, and, often, a data analytics scripting tool. One- time development costs to integrate these tools together will also be required, and all of these one-time and ongoing costs can quickly add up.

Beyond the technology needed to support building an in-house analytics tool, significant personnel investments are required for the expertise to implement the data engineering infrastructure as well as the analytics themselves. Developing software takes a diverse and experienced team of data engineers, application engineers, visualization engineers, UI/UX designers, and data scientists. Often these are new positions if a company is not already creating software in-house. Building robust compliance analytics requires a partnership of data engineering, data science and forensic accounting expertise that are rarely, if ever, found in one personnel resource. This means that a company either needs to hire at least three separate headcount or rely on external consultants or IT resources from within the company, which usually are charged back to the compliance function. These personnel costs are both one-time during the build and are needed on an ongoing ad hoc basis as the analytics engine requires improvements over time and inevitable changes in data require ongoing data engineering support.

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It is important to note that IT development projects often take longer than expected and cost far more than estimated. After factoring in the initial build cost, support, bug fixes, upgrades, and keeping up with market trends, it's no surprise that Gallup reports that one in six IT projects have an average cost overrun of 200% and a schedule overrun of almost 70%. While purchased software can have a high upfront cost or a substantial subscription fee, it's a known expense for a product that will be ready to use immediately. For many CIOs, this fixed cost vastly outweighs the unpredictability associated with building software in-house.

The illustration below approximates the technology and related personnel required to build internal software that could replicate a solution like Case IQ's Compliance Monitoring software.

1 Source Data
- IT / Application Owner
- InfoSec

2 ETL Process / Architecture
- Finance
- Data Engineer / IT
- ETL Tool

3 Data Storage
- Data Engineer / IT
- Storage/Hosting Tool

4 Risk Algorithm
- Compliance
- Finance
- Forensic Auditor
- Data Scientist
- Data Engineer / IT
- Analytics Scripting Tool

5 Workflow Technology
- Application Engineer / IT
- UI / UX Designer
- Workflow / CMS Tools

6 Data Visualization
- Data Visualization Engineer
- Visualization Tools

7 Ongoing Maintenance / Enhancements
- Application Engineer
- Data Engineer
- Data Scientist
- UI / UX Designer

Your Systems — SFTP | Your Systems — API

2 Data & Risk Engine Server
4 Data & Risk Engine — Utilized to prepare, cleanse, and risk score data

3 Database

Front End Application
5 Monitoring Review Workflow
6 Monitoring Insights & Compliance Scorecard
7 Risk Engine & Access Settings Page

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Short-Term vs. Long-Term Costs

When transitioning to a data-driven compliance analytics system, it's critical to consider both the long-term and short-term/upfront costs. Buying off-the-shelf data analytics software offers several advantages. For starters, building a data analytics program is not a fire-and-forget affair. The analytics themselves should be frequently updated to meet your company's evolving risks, incorporate learnings from your monitoring reviews and address new guidance from regulators or enforcement agencies. Regularly updating internally built data analytics software can be a financial drain and a technical challenge, as it may require keeping data engineers, data scientists and forensic accountants on staff full time or bearing the cost of those resources from within the broader internal IT team on an ad hoc basis, setting aside whether those resources will even be readily available when needed. On the other hand, buying off-the-shelf software means partnering with a company that has these resources internally and is dedicated to updating its products to address evolving customer needs. Most importantly, good off-the-shelf compliance data analytics software should allow you to update your analytics through a no-code user interface, without needing any programming or data science expertise. If an off-the-shelf analytics tool requires your team to use SQL or another scripting language to modify analytics, then the benefits of such a tool decline dramatically compared to a build option.

Purchasing off-the-shelf compliance analytics software has upfront costs and requires paying a subscription fee, but it also ensures your company will have a dedicated support team that can answer any questions about the service, assist with implementation and configuration, and train your users. Good off-the-shelf analytics software providers also have adapters and API connections that make ingesting data from your source systems much easier than managing that data ingestion yourself. Going the build route requires your company to pay data engineers and data scientists as well as forensic compliance experts that can translate compliance risks to those data scientists, by either having them on the payroll or paying third-party specialists to construct and update the software as needed. If such individuals aren't already a part of your team, dedicating resources to building compliance analytic software could exceed the costs of subscribing to an off-the-shelf product in the short and long term.

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Personnel Considerations

Although for many companies, the most significant appeal of building software in-house is that it can be created to meet all of its precise requirements, it also means that the company will always rely on the developers who've built it. It's increasingly common for companies who've built custom solutions in-house to be left sitting on a plethora of code created by developers who no longer work at the company. Hiring and training developers to rebuild and maintain a codebase is a costly endeavor.

Development cost isn't the only consideration. Employee turnover has been on the rise across industries in recent years, and the technology industry is notable for having an incredibly high turnover rate. One of the primary benefits of building compliance data analytics software in- house is that your IT team will theoretically be intimately familiar with the software. However, employee turnover means that a company will likely lose at least some of its institutional knowledge about its software due to personnel changes— the range of internal roles described above only multiplies this risk. Finally, the personnel who stand up your compliance data analytics project internally will be coveted by many other organizations looking for similar talent, given the dearth of experts in this space, further increasing your risk of attrition and the risks to the sustainability of your overall compliance analytics program.

Developing and maintaining an effective compliance analytics platform is a significant technical undertaking that requires a team of experts with specialized skill sets. It's not just about having a data scientist on the payroll but also network security experts, analytics professionals, user interface creators, data architects, and business and forensic risk experts who can ensure the system does what the company needs. These roles are irreplaceable, and companies must consider whether they have such individuals on staff - or are willing to spend the resources to hire them or outsource part of the work - if the goal is to build a compliance data analytics program in-house.

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Buying off-the-shelf compliance data analytics software can help companies avoid these personnel issues by partnering with a supplier that already has a cross-functional team of experts who are experienced with the product and can be held accountable. The supplier is responsible for maintaining and updating their software with new analytics, integrations, and features without requiring your company to retain in-house experts. Furthermore, although IT teams at companies seeking to buy compliance data analytics software often express concerns about whether the buy option will increase their workload or force them to work with unfamiliar technology, effective off-the-shelf data analytics programs are designed to be user-friendly and easy to integrate into companies' pre-existing systems and should be configurable by the legal and compliance personnel themselves through no-code interfaces, without any need for SQL coding or any other technical analytics development.

Time to Market

Buying an off-the-shelf software-as-a-service (SaaS) platform shrinks your time to value drastically. Your time investment is reduced to the time it takes you to evaluate the available SaaS platforms, decide on one, and launch it internally. A SaaS platform purchase provides the fastest window to connect your goals to full execution.

Think about the goals you want to reach using newly-created software. If you build it internally, how long will it be before you can make any headway toward those goals? Building version 1.0 of a well-functioning, user-friendly platform can take at least six months to a year. Can you afford to wait that long?

An off-the-shelf solution is an attractive choice for many businesses looking for an immediate fix to a pressing business problem. It doesn't require hardware procurement or IT systems maintenance. It's easy to deploy, and it's ready to use right out of the box and you get a set of prebuilt features, often much more sophisticated than you could easily build internally, that you can use immediately.

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Future Breadth & Quality

Whether your company builds or buys compliance data analytics software, it's critical to ensure you have the best-in-class in terms of features and functionality. Matching the quality and breadth of analytics, user interface, reporting and workflows provided by a professional software company using internal resources will be an uphill, if not impossible feat. You should assess the size of the vendor's data engineering, data science, front-end engineering, DevOps and customer success team compared to your organization as well as the ratio of their engineering staff to sales and marketing staff. A company with a much larger ratio of engineering staff to sales and marketing will be investing far more resources in product development, from which your company will benefit on an ongoing basis. A software company is likely also to have thought through challenges and issues such as data hosting and storage and segregating user access to data. For a software company, software development is their core competency and world-class feature development, support and consumer-grade user experience is a requirement for their success. This will not be the case for an in-house team which will likely have a host of competing priorities and projects from other departments. A software company will also be bringing to bear feedback and best practices from peer companies to their product development and services offerings, from which your company will benefit automatically.

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Conclusion

Ultimately, the decision to build or buy a compliance analytics solution will depend on each company's unique needs and circumstances. It is crucial to weigh the pros and cons of each option carefully and to consult with internal stakeholders, IT professionals, and third-party vendors before making a final decision. While building an in-house analytics tool offers the benefit of customization and control, it also requires significant personnel and technology investments, with the potential for cost overruns and delays. On the other hand, purchasing off-the-shelf compliance analytics software requires an upfront investment but provides immediate access to a tested and proven product.

The necessity of digitally transforming your compliance process with data analytics is more apparent than ever. However, it can still be challenging to determine whether it's best to build or buy data-driven software that can meet your company's needs. By taking the time to evaluate these key considerations, companies can ensure that they make an informed and strategic choice that aligns with their long-term compliance goals and objectives. All the considerations above are important, regardless of whether your company goes the build or buy route. If your company has decided to build its compliance data analytics software, it's crucial to consider these points before development begins. If your company wants to buy, weigh your project requirements based on all of these considerations rather than just the initial cost. As Adobe recommends, buying is the way to go if the requirement fit of commercial software is 60% or more.

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BUILD

- Requires headcount with data science and forensic accounting expertise as well as investments in IT infrastructure, often resulting in slower speed, narrower scope and higher execution risks.

- Internal development of analytics tends to limit the scope of analytics available and the speed of deployment. Changes to configurations in response to evolving risks may be time consuming.

- Internal IT teams are unlikely to deliver mature software, such as robust access rights, workflow and audit trails. User experience for users may not be consumer grade.

BUY

- Out-of-the-box software does not require additional headcount or IT infrastructure and new analytics are rolled out at no additional cost. A global roll-out is possible in weeks.

- Software allows customer employees to configure analytics dynamically and create new analytics. Company regularly deploys new analytics at no cost.

- As a software firm, software development is a core competency. Company provides world-class feature development and support and consumer grade user experience.

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One-on-One Advice

Our team of experts has implemented Case IQ for compliance teams around the world.

They are available - free of charge - to speak with you and share the best practices we've learned. No pushy salespeople, just a chance for you to learn from our experts.

With our suite of compliance tools, reporting hotline, and case management software, plus a 25-year track record of successful implementations, Case IQ is the global leader for end-to-end compliance risk management. To get a demo please visit www.caseiq.com/request-a-demo.

To book your one-on-one, please contact:

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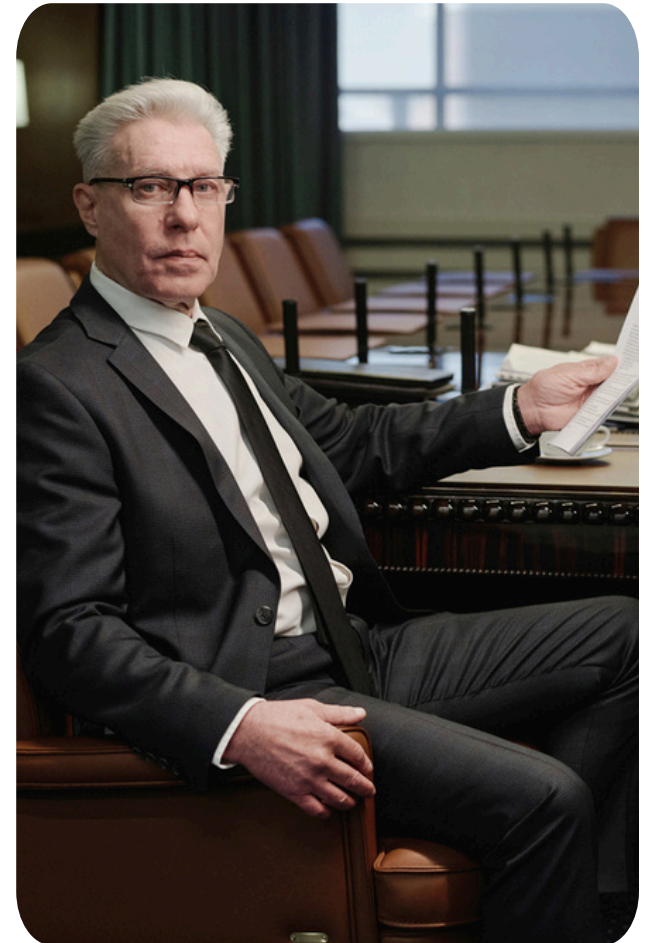
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