The worldwide travel and expense (T&E) management software market is forecast to reach $2.7 billion by 2022 at a CAGR of 8.7%. Meanwhile, T&E is getting more complex as organizations become more global in their scope. Finance leaders are under tremendous strain to deliver a strong user experience that satisfies internal needs.

Effective Risk and Compliance Strategies for Financial Firms Managing Travel and Expense

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Questions posed by: SAP

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Q What are the key challenges for financial services firms to counteract fraud and help their employees be compliant?

A Financial services firms are changing rapidly. Regulatory changes, tax reform, and geopolitical issues are all tectonic plates moving underneath the financial services industry. While financial services firms must adjust quickly to this ever-changing reality, one issue that remains steady is the importance of maintaining compliance and mitigating fraud risk. Unfortunately, there is no magic formula to rid the business of the burden of fraud and noncompliance. Financial services firms struggle to maintain compliance with their established travel policies while combating noncompliance among employees. The key challenges are as follows:

» **People/process challenges to compliance.** In the end, when it comes to fraud and compliance, every business can be defined by its people and its policies. Like firms in many other service industries, financial services firms are particularly vulnerable to these challenges because people form both the workforce and the product. Employees' lack of compliance with policies is one of the biggest barriers for organizations. Examples of this people/policy barrier include:

  ■ **Lack of clear travel policies.** Many business travelers fall out of compliance when no clear policies exist to use as guidance. Organizations must first define a clear and detailed travel policy and make the policy accessible.

  ■ **Rubber stamping.** Managers often don't have the time to scrutinize expense reports. Even when managers find expense reports are errant, they hesitate to challenge the claims.

  ■ **Inconsistent system usage.** In many organizations, a significant percentage of noncompliant travel/expenses does not make it into the expense management system in a form that a manager can properly analyze. For example, a noncompliant travel booking made outside of the system might be difficult to evaluate. Travel and expense application usage can also vary across business groups.

» **Data/visibility challenges to compliance.** Coping with the massive amount of data within large travel departments becomes a huge challenge for compliance. Reconciling, monitoring, and analyzing travel and expense data are often among the biggest pain points referenced by finance teams. Data/visibility challenges include:

- **Sheer volume of business travel data.** Many organizations are flooded with data from business expenses. The volume of data that travel managers and expense accountants face makes it difficult to find compliance red flags before they become larger, more impactful issues.

- **Lack of analysis/insight capabilities.** Organizations often lack the reporting and analytics to conquer the mountain of expense data from business travelers. This inability to "crunch" the data leads to a true lack of visibility into more sophisticated fraud schemes.

- **Data security concerns.** Data governance and customer data security is incredibly important within financial services firms. As a result, new regulations such as GDPR have been introduced in 2018. Importantly, GDPR is likely only the beginning of a wave of new regulations and standards addressing customer data security/protection. As these regulatory changes continue, organizations will struggle to keep up with the compliance burden without the right set of tools.

» **Globalization complexity challenges to compliance.** Travel and expense management is one of the most complex functions within a business because it touches so many aspects of the business. This is especially true in organizations with employees/operations in multiple countries:

- **Shifting regulatory landscape.** Regulations within the financial services industry such as the Sarbanes-Oxley Act (SOX) and the Foreign Corrupt Practices Act (FCPA) as well as new rules from the Financial Industry Regulatory Authority (FINRA) add an additional layer of difficulty to the travel and expense compliance process related to constantly changing national and international rules. Similarly, changes in tax codes and local laws add a tremendous amount of complexity to maintaining compliance.

- **Globalization issues.** Companies with employees traveling to multiple countries may have to deal with expense reporting in multiple currencies and languages. Cultural elements also complicate expense reporting protocols from country to country.

Q What are the consequences for financial services firms unable to establish a compliance and antifraud strategy for travel and expense?

A First and foremost, fraud is expensive. Companies stand to lose millions of dollars if they don't have an active and effective fraud and compliance apparatus that features strong and well-communicated policies as well as advanced technology.

For financial services firms, the impacts of fraud and noncompliance go well beyond financial losses. Financial services firms depend on regulations and compliance to build trust among their clients. In many ways, financial services firms are built on trust. As lapses in compliance happen and fraud cases proliferate, consumer trust in a firm can erode, which can do incredible harm to a firm's brand. In addition, there are punitive concerns for those

who are found to be negligent. C-suite jobs could be at stake, or worse, if executives cannot keep employee spend compliant with the organization's policies and government regulations. The penalties resulting from not complying with government regulations are potentially severe, ranging from fines to incarceration.

Without the right systems, a financial services firm might find it difficult to build and maintain the proper level of expertise required to understand all of the regulations and policies necessary to create a culture of compliance. This is an area where technology, specifically a dedicated travel and expense management system, can be especially helpful for building a compliance and antifraud strategy.

Q What are the best practices from industry leaders to fight fraud, and what are the resulting benefits for business performance and the bottom line?

Best practices must improve the user experience for both the business traveler and the finance leader.

A Financial services firms are on the cusp of tremendous change within their industry. In fact, IDC research shows that internal compliance-related IT spend within the financial services industry is set to increase by more than 5% globally through 2021. This is evidence of the coming digital transformation set to take place within financial services. The industry will look to software providers and industry thought leaders for guidance and best practices to keep pace with the rate of change. According to IDC research, best practices include the following:

» Gain a unified view of spend. Simplify expense, travel, and invoice management in an integrated solution for total visibility and greater control.

» Use automation to improve compliance. Impose payment controls, eliminate mistakes, and accelerate audits with smart automation.

» Ensure you have clear, well-thought-out policies and procedures in place around T&E spending. Utilize intelligent, integrated applications to automate business processes and increase staff efficiency.

» Foster a culture of compliance by leveraging easy-to-use tools that help employees stay within the parameters of company policy.

» Optimize your purchasing-card (P-card) program. An effective corporate P-card program provides accurate and reliable data that can be easily validated.

» Get visibility into travel plans, no matter how the travel is booked.

» Support travelers with a team of experts who can monitor, alert, and assist employees in need.

» Assess employee risk during travel and maintain two-way communication until employees reach safety (duty of care).

Q With the fast pace of regulatory change, what should industry leaders do to manage compliance? How can technology help?

A Financial services firm leaders need to leverage advanced technology to augment their policies for combating fraud and maintaining compliance. Again, financial services firm leaders must consider compliance as a means to mitigate risk, manage expenses, and maintain trust among their client base. Unfortunately, financial services firms have been slow to adopt newer technology. Some of this hesitancy is based on the regulatory burden each firm must shoulder. However, some of the hesitancy is due to the risk-averse culture within the financial services industry. Financial services firms must work to overcome this hesitancy and take advantage of the modern systems available to tackle the challenge of expense management. Many of the systems available today have taken significant leaps forward in terms of usability and accuracy over the past 24 months. A few of the technologies that are emerging in today's market are as follows:

» **Optical character recognition (OCR).** Historically, one of the major pain points for business travelers and finance leaders has been dealing with mountains of paper receipts. Overcoming a deluge of receipts can be tedious and time consuming when done manually. Also, the information on receipts can be used (if efficiently processed) to drive real business insights. OCR is being used by business to capture valuable information from receipts and streamline the expense reporting process.

» **Machine learning.** Machine learning continues to proliferate within the T&E software market in 2018. Machine learning is being used in nearly all aspects of T&E management including extracting data from images and emails, creating expense report entries, recording expenses for miles driven, and auditing expense reports.

» **Application programming interfaces (APIs).** T&E applications must interact with many different external systems, such as enterprise resource planning (ERP), human capital management (HCM), external booking tools, credit cards, and travel-specific apps, to most effectively manage an organization's spend. APIs allow T&E applications to connect directly with those systems so that information and expenses flow seamlessly between end users and external services. The potential of APIs to make a more connected, frictionless workflow within T&E is significant for employees at all levels of the organization.

» **Advanced analytics.** Analytics can play an important role in travel and expense applications by turning expense report data into actionable information. With advanced analytics, businesses can identify spending patterns and adjust T&E policies accordingly. Pairing data from other departments can unlock even more value from analytics. For example, running a cross-section analysis on T&E costs against prospect scores in the customer relationship management (CRM) system can predict the most valuable travel locations for a member of the sales team.

Q What do you see as future trends in compliance and risk?

A The rise of the fintech market segment is pushing new investment into the financial services industry overall. Indeed, financial services firms are rushing to take advantage of the new technology and new business paradigms offered by the emergence of fintech. It is spurring a tremendous amount of investment/innovation within the expense management industry. As a result, we will see technology take center stage and augment the user experience for both the business traveler and the finance leader. At IDC, we see the following trends as organizations move to combat fraud and maintain compliance:

» **Enhance globalization capabilities.** T&E applications must support transactions across the globe. Major tax and regulatory changes will greatly impact travel and expense in the coming years. T&E software vendors must incorporate enhancements regarding tax management as well as multicountry and multicurrency capabilities into their near-term road map.

» **Build up analytics capabilities.** Organizations are becoming increasingly interested in having a deeper, quantitative understanding of their business spend. Analytics is one of the main means to reach this end. Business intelligence and analytics improve visibility into employees' travel and spending patterns, in addition to employee travel management.

» **Improve mobile experience.** The user experience on mobile devices is becoming increasingly important in travel and expense management applications. T&E software vendors have focused their efforts on making it easier for employees to record expenses and file expense reports directly from their mobile devices, thereby improving compliance.

» **Introduce predictive analytics.** Analytics capabilities are extremely important for better understanding the business and stopping compliance risk in its tracks. The next step beyond analytics is predictive analytics. Predictive analytics leverages machine learning algorithms to forecast business results based on past results. In terms of compliance and risk, predictive analytics can forecast where problems might arise and allows decision makers to forecast alternative policy outcomes.

» **Enhance risk management.** In recent years, more resources have been devoted to travel risk management. Specifically, T&E applications are beginning to help travel managers assess and manage travel risk by providing access to real-time employee location data, integrating itinerary data, and providing security alert information to all relevant parties.

About the analysts:

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As a senior research analyst with IDC's Enterprise Applications team, Kevin M. Permenter provides insights and intelligence across multiple areas including enterprise resource planning (ERP), order management, financial applications, and project and portfolio management. He assesses the interplay, challenges, and trends regarding various enterprise application deployment models like mobile enterprise applications and cloud models. He also develops and delivers his views, opinions, and analysis on the dynamics and evolution of this complex technology ecosystem.

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