

# Solving the Contract Analytics Imperative: technology, people and process

Financial institutions are facing an imperative to reduce risk. Regulatory standards demand that the terms and commitments within contracts are intimately analyzed to reveal the risks that they may represent.

Not doing so has been legislated as an unacceptable risk to the stability of the domestic and international financial system. In addition to external pressure, many financial organizations are increasingly viewing the need to understand the contents of their contracts as a vital internal operational interest.

But contracts are often in large sets of unstructured, highly dispersed formats. There are specific challenges posed by the nature of these contracts, which typically impact large custodian banks and insurers the most. In general, both types of organizations have a set of counterparties that have evolved as well as a high number of historical contracts, those with risk aspects that change over time, and contracts with jurisdictional complexities. For many institutions, the need to uncover and address these risks is driven by programs designed to ensure compliance with the Recovery and Resolution Planning regulation.

This white paper covers the rollout of a contract intelligence program that a client needed to meet regulatory timelines and avoid significant sanctions. The client was seeking to provide transparency on contract data in a manner that was readily available, searchable, and automated. The scope of the challenge included 500,000+ client contracts within numerous legal entities/business units. In some cases, the contracts were over 30 years old, which presented significant challenges for this Fortune 500 financial services company.

By deploying an advanced contract analytics platform, the client was able to meet the demanding regulatory timelines at each of several successive review stages and satisfy the various regulators (Federal Reserve, FDIC, and FSOC) by demonstrating that their contract intelligence program had fulfilled the necessary requirements. The client was also able to realize significant operational benefits through better contract intelligence and risk management.

## Creating a Solution

In addition to the core capability of being able to transform the contracts into a collection of searchable digital assets, the platform had to have a number of other key attributes, including:

1. The ability to intelligently read the contract and its component data, regardless of the file format or where the document was stored
2. The ability to classify the contracts by type, region, and party
3. Extensive rules-based workflows to extract relevant data into summary views
4. Rich dashboards to display the risk hierarchy within the contracts
5. The ability to post the contracts in an intelligent repository and analytics-rich system of record

## Technology

Adlib Software was chosen as the core digital transformation and contract intelligence solution, with Documentum as the repository to house the elevated corpus of contracts. In addition to the functional criteria described earlier, the Adlib platform was chosen because of its ability to anchor effective process automation balanced by iterative QA, human review, and reporting.

This balance of pervasive reporting and QA with process automation is fundamental. QA and reporting allow for control and accuracy assurance, while process automation eliminates the inefficiencies of manual processing. In addition to the challenges of scaling people vs. scaling machines, automation applies rules consistently and without human error or variance. Another issue is that manual review can rarely keep up with regulatory timelines and often results in a perpetual cycle of catch-up and non-compliance.

## The Content Elevation Process™

The Content Elevation Process is the foundation of how Adlib is able to provide clear visibility and deep insight into the classes of contracts and data within individual agreements and make sense of complex contracts within the organization. This scalable, multi-phased approach consists of:

### Standardize

- Ingestion of contracts from any source.
- Conversion of all contracts into a common, searchable format. The conversion activity includes the deployment of advanced OCR to clean up any images or other constructs within the documents, ensuring complete searchability and drastically improving the accuracy of analytics.
- Digital Preparation to remove empty files, trivial content, etc.

### Analyze

- Flow Interpretation of all content to achieve a rich understanding of how the contracts are structured, much like how a person would read a document.
- Rule Application to further prepare content for analysis by removing artifacts that can interfere with machine interpretation of the contracts (footnotes, for example).

### Categorize

- Similarity Analysis is performed to identify duplicates and near duplicates by assessing and assigning a digital fingerprint to each contract.
- Deduplication of contracts based on similarity index results with thresholds that can be set by clients (i.e. 100 percent duplicates or something less).
- Auto-Bucketing and Classification of contracts based on deeper technical analysis of each digital fingerprint, groups of fingerprints, and their relationship to each other within the universe of contracts.

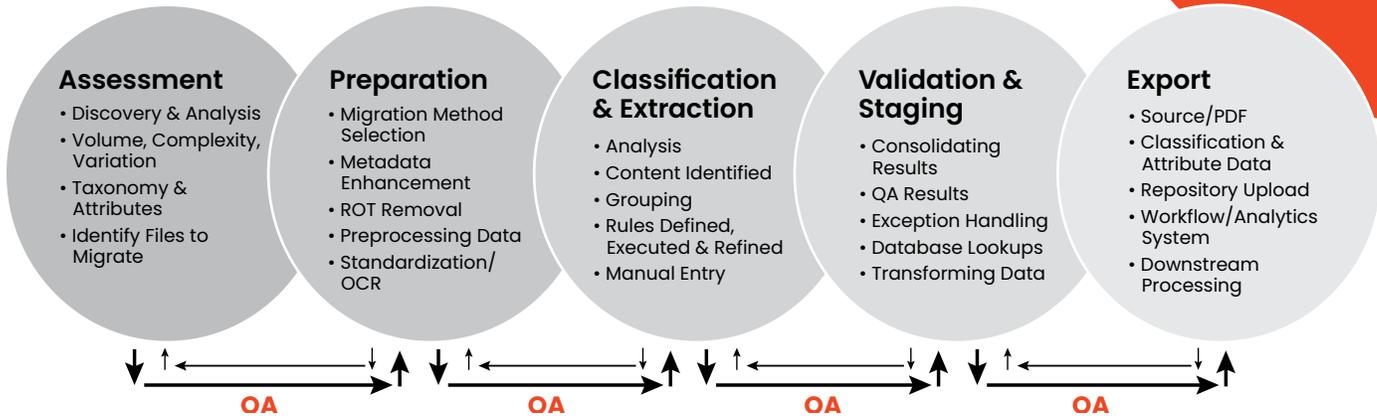
### Optimize

- A broad set of configurable, rules-based outcomes are applied.
- Technical outcomes included the extraction of target content to summary tables and risk hierarchy reports.
- Information Governance outcomes included the development of a rich classification structure for the entire corpus of contracts and the assignment of each contract within the structure.

# The Implementation Plan

The specific implementation of Adlib's robust capabilities consisted of five iterative components, all with effective reporting, audit trails and QA throughout.

## Contract Analytics – Project Methodology



Contract Analytics is a highly iterative process with QA, exclusions, refinement & reporting throughout.

### Assessment

Inventory of contracts via Adlib to conduct an automated initial appraisal of key attributes such as age, format, and variation

### Preparation

Audit and enhancement of metadata. Conversion to transform hundreds of different file types and standardize all contracts for analytics-ready consistency. Creation of a single set of unique contracts by deduplication of copies and removing blank or temp files.

### Classification & Extraction

Labelling all contracts into their proper attribution buckets via Adlib's Progressive Classification solution. Classification analysis enables rule development because extraction is predicated on knowing the type of contract and its associated characteristics. Rules are defined, executed, and refined.

### Validation

Analysis of QA results between manual samples and automated outcomes. Exceptions handling and refinement.

### Export

Flexible delivery of classified content and attributes, packaged and loaded into the repository. The program components highlight the importance of using advanced automated technologies in combination with manual review and management to assure accuracy while making it practical to elevate content at scale. With the Adlib platform, the client gained deep insights into complex contracts—transforming these documents into useable, actionable, defensible assets. The living master corpus of contracts and the many implementation lessons learned helped ensure that the elevated contract intelligence objectives will be fulfilled long-term.

## Results

Despite the enormous variability across and within the contracts, Adlib was able to automate 75 to 80 percent of the digital transformation workflow—turning massive volumes of content into actionable assets in months, not years. The new solution transformed “people processes,” and allowed decisions and manual review rules to be deployed quickly and with better results. Human intervention was optimized, minimized, and delivered in a much more meaningful way with dedication to value-added contributions.

The client was able to embed resolvability concerns defined by Living Wills into business-as-usual (BAU) processes by permanently adopting the rules and intelligence learned within the project. This resulted in a set of go-forward processes that mitigated risk within the compliance framework. Specific business achievements include:



### **Global contract classification, standardization, and extraction of key terms**

Unstructured and poorly organized documents are now classified and easily searchable. Key terms are searchable at the document level.

For example, a quick search can be conducted if the customer wishes to find assignability clauses for all Custody Contracts. Contract names and terms are standardized, ensuring consistency enterprise-wide.



### **Document deduplication was performed across all documents, producing a clean set of contracts**

Deduplication plays a critical role in ensuring that the analysis reflects unique contracts, so duplicates do not skew the results. Removing duplicate contracts reduced the overall volume by approximately 30–40 percent, which substantially accelerated the overall process.



### **Linking of parent / child contracts**

Amendments, schedules, and supporting documentation to contracts are linked to a master contract to ensure accurate knowledge of contract terms.



### **Global repository created**

Shared drives and local storage were replaced with an enterprise-wide “single source of truth” that assures consistency, integrity, and accessibility of all contracts. Achieving a clean master corpus of contracts also reduces risk and streamlines the compliance reporting process.



### **Non-standard / high-risk contract terms were identified**

This allowed for additional segregation of these documents. Qualified Financial Contracts (QFC) requirements were satisfied, as contract data is easily and readily linked to a counterparty.

# Project Lessons

A quality solution to Recovery and Resolution Planning can solve many issues. In this case, the solution addressed complex business issues associated with Recovery and Resolution Planning and provided opportunities for additional use cases that drive new business growth and increase the organization's ability to comply with the changing regulatory environment. The enduring processes developed at the back end of the work have identifiable controls and measurable outcomes that support long-term Recovery and Resolution Planning. Without these refined processes, risks would continue to surface.

Overall, the solution delivered an essential combination of expertise, process, technology, and control mechanisms. This allowed the client to fully leverage the Content Elevation Process™ to manage business risk and regulatory requirement imperatives. The client met all of the timelines at each successive review stage and was able to assure regulators that effective risk management had been adopted long-term.

By partnering with Adlib, the client was able to successfully meet challenging timelines and strict regulatory requirements. By leveraging the powerful Content Elevation Process—with its combination of expertise, process, and technology—the organization met their business goals and were well prepared for additional information governance and digital transformation use cases.



## Break Free from Content Chaos

Schedule a demo to experience the power of Adlib.

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