

BENCHMARKING DATA READINESS FOR REGULATORY COMPLIANCE AND REPORTING

Exploring data challenges faced by financial firms when addressing complex and changing finance, risk and regulatory reporting requirements

The results in this report are based on a survey of 113 senior level executives in risk, finance and compliance functions in banks across three regions – the Americas, Asia-Pacific and Europe – conducted by The Banker between March and April 2018.

REGIONAL BREAKDOWN



The Banker

Published by The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, United Kingdom
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Website: www.thebanker.com

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REGULATORY COMPLIANCE: IT'S ALL ABOUT DATA

During the past decade, financial services firms have faced an onslaught of regulatory initiatives designed to strengthen the industry and prevent a repeat of the 2007-8 financial crisis. Many of the solutions that firms built in response were based on multiple technologies and functionalities. Workarounds were often the order of the day, caused by a regulatory compliance approach that was tactical, rather than strategic. Solutions were costly and inefficient to maintain.

Moreover, in recent years regulators have changed their approach, centring on more detailed and granular data, rather than static reports. Data – its management, governance and reporting – is being put at the heart of regulatory initiatives by financial authorities that want deeper insights into firms' activities.

Regulations such as the Basel Committee on Banking Supervision's (BCBS) 239, the International Financial Reporting Standard (IFRS) 9, the Financial Accounting Standards Board's Current

Expected Credit Loss, and the European Central Bank's AnaCredit are increasing the focus on data structure and management.

Additionally, financial institutions' senior management teams are also looking for ways to enhance their risk management and decision-making processes internally. Data quality, consistency, reconciliation and lineage is now top of mind for both regulators and the firms they oversee.

The data issue is focusing the minds of bankers across the globe. This study, based on a survey of 113 senior-level bankers in risk, finance and compliance, identifies the key challenges. It has found the biggest challenge in ensuring regulatory compliance is keeping up to date with the fast pace of regulatory change, as well as staying compliant with changing regulations and adhering to respective regulatory deadlines.

Technology integration is another headache for banks, as they struggle to overcome historically siloed data. Without a holistic approach to data,

firms will find it much more difficult to gain insight and analysis across the enterprise.

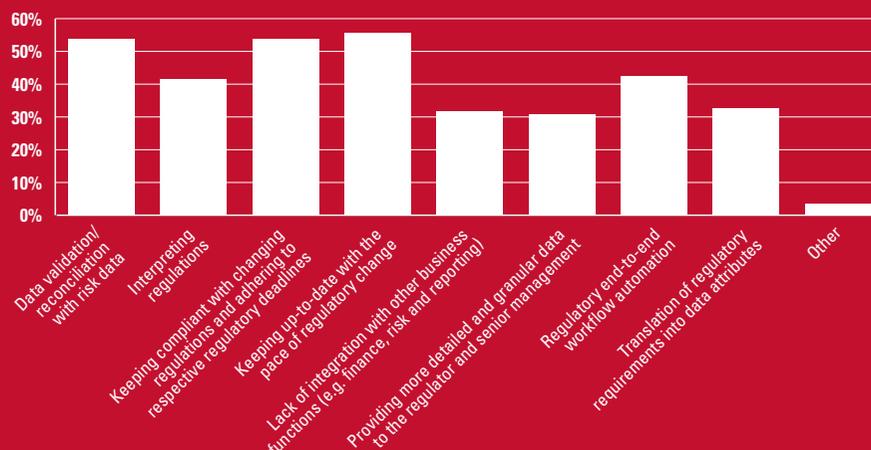
Today technological innovations are enabling institutions to merge their finance, risk and regulatory reporting functions into a set of processes to help meet the twin demands of regulatory compliance and a competitive commercial landscape. Data warehouses that link risk, finance and other key functions to merge old systems with new ones can provide banks with a competitive advantage by integrating finance, risk and regulatory reporting duties.

However, integrating finance, risk and regulatory workflow data and reporting will be a long journey and is one on which most firms have embarked, but still have a long way to go. A majority of survey respondents said the creation of an integrated and consistent view of data across their businesses is their main challenge. The good news is that most firms have set integration as their ultimate goal; how long it takes them to get there remains to be seen.

WHAT ARE YOUR BIGGEST CHALLENGES IN ENSURING REGULATORY COMPLIANCE?



Keeping up with pace of regulatory change is number one compliance challenge.

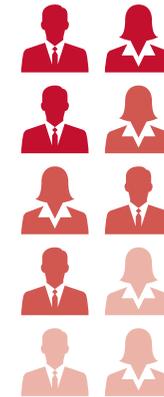


CHALLENGES IN ENSURING REGULATORY COMPLIANCE

Two of the top three challenges for our survey respondents in ensuring regulatory compliance are related to the actions of regulators themselves. The top concern was keeping up to date with the pace of regulatory change (55.8%), followed closely by keeping compliant with changing regulations and adhering to respective regulatory deadlines (54.0%). The same number of respondents cited data validation and reconciliation of regulatory data with risk and/or financial underlying data as a challenge.

Worryingly, 41.6% said they found interpreting regulations a challenge, which could suggest that some firms are struggling to source the appropriate expertise. One respondent said: “The most difficult challenge is to bring the second line of defence people to a change process.”

WHAT IS YOUR PRIMARY TECHNOLOGY CHALLENGE WHEN IT COMES TO REGULATION?

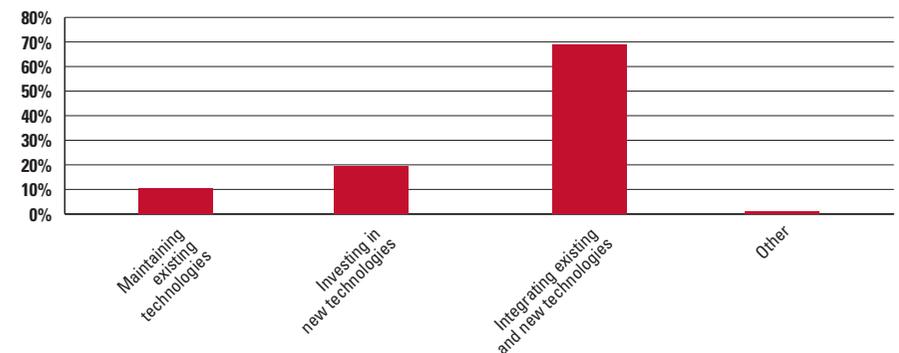


7 out of 10 say integration is biggest technology challenge.

TECHNOLOGY CHALLENGES

One issue dominates when it comes to the technology challenges that financial institutions face in ensuring regulatory compliance: integration. Nearly seven out of 10 respondents cited the integration of existing and new technologies as their primary technology challenge. As mentioned, the increasing focus on granularity by regulators means existing systems are no longer fit for purpose. Financial firms must integrate new systems that can cater to these needs.

Other considerations, such as investing in new technologies and maintaining existing technologies, were of comparatively little concern to survey respondents (10.6% and 19.5%, respectively). However, maintaining existing technologies was more likely to be an issue for European institutions, compared with their Americas or Asia-Pacific counterparts. One respondent pointed to a lack of “single solutions” as an additional challenge.

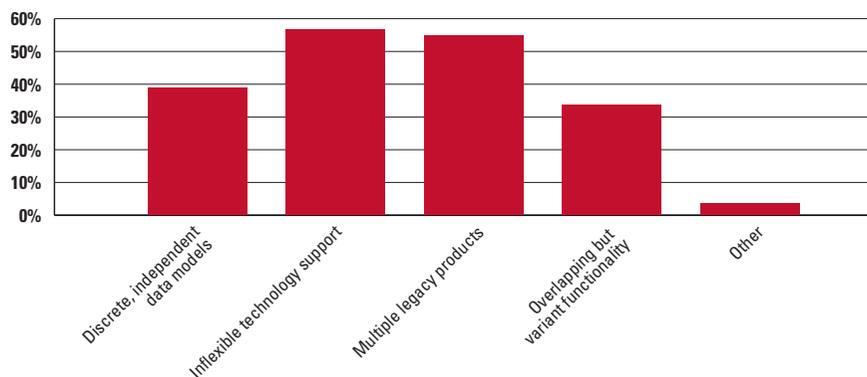


WHICH ARE YOUR MAIN ISSUES WITH REGARDS TO LEGACY TECHNOLOGY INFRASTRUCTURE?

THE PROBLEMS WITH LEGACY INFRASTRUCTURES

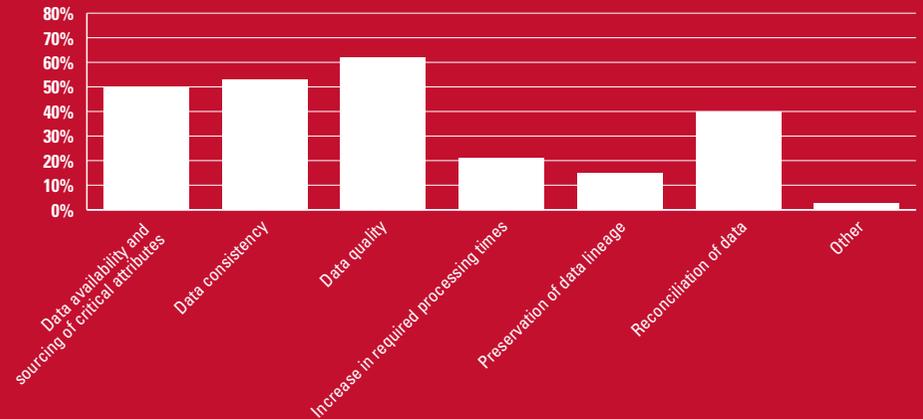
Legacy systems are a somewhat inconvenient fact for financial institutions – they have invested significant resources in these systems and are reluctant to abandon them. Their integration with new technologies is a concern, but so too are other issues such as inflexible technology support (cited by 56.6% of respondents) and the multiplicity of legacy products (54.9%).

Other concerns included the existence of discrete, independent data models (38.9%) and overlapping, but variant functionality (33.6%). One respondent stated: “We have issues in integrating data silos in a cohesive, agile way.” Another cited the difficulties that legacy systems presented in increasing data availability as well as improving data quality.



Multiple products and inflexibility are top two legacy infrastructure issues.

WHICH ELEMENTS OF THE DATA-DRIVEN REGULATORY REGIMES (BCBS 239, MAS 610, ANACREDIT, ETC) DO YOU FIND THE MOST CHALLENGING?



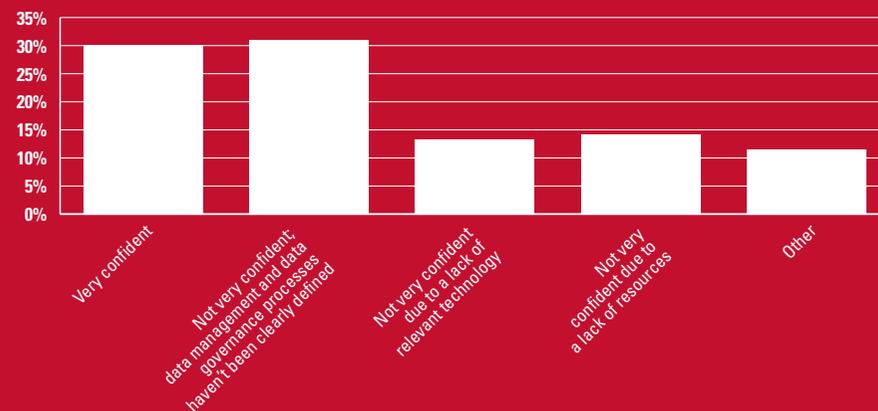
Data quality is the top challenge in data-driven regulatory regimes.

THE FOCUS ON DATA AND ITS IMPACT

Regulators’ focus on data has put pressure on financial firms’ practices across a wide range of factors including availability, consistency, quality, reconciliation and data lineage. As with many of the issues surveyed, no single factor stood out – financial firms are grappling with a multitude of challenges. Nearly 62% of respondents cited achieving the required data quality as a challenge.

The next biggest challenge is ensuring data consistency (53.1%), followed by data availability and the sourcing of critical attributes (49.6%). “Our system and software architecture are not meeting fluid regulatory expectations,” said one survey respondent. Firms are feeling the pressure as they try to retrieve and analyse greater quantities of data faster and more efficiently than in the past.

HOW CONFIDENT ARE YOU IN THE QUALITY OF YOUR FIRM'S DATA?



Only one in three very confident in quality of data.

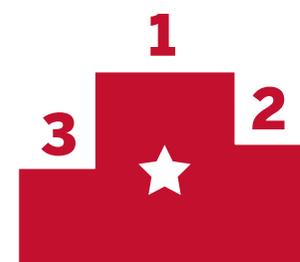
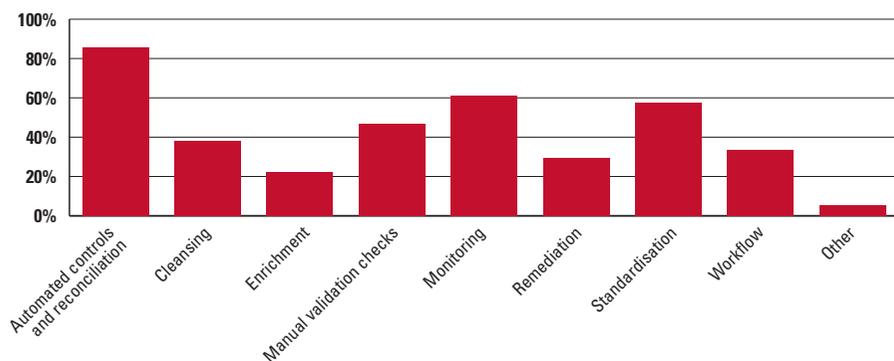
THE DATA QUALITY DIVIDE

Data quality is clearly the biggest challenge financial firms face in complying with regulations, as evidenced by almost six out of 10 (58.4%) admitting they were not very confident in the quality of their firm's data. This was mainly due to data management and data governance processes not having been clearly defined, but the lack of relevant technology and resources also play a role for some.

However, almost a third of respondents said they were "very confident" in the quality of their organisation's data. For these institutions, although data quality remains a challenge, they feel they have met it satisfactorily.

One "quite confident" respondent observed: "This is an ongoing process where everyone – regulators and firms – need to adjust to the new reality with more challenging requirements and multiple layers of data and cross-references."

WHICH CONTROLS ARE YOU GOING TO PERFORM TO ENSURE DATA QUALITY?



Automation is top aid for data quality.

CONTROLLING DATA QUALITY

When asked which controls they would implement to ensure data quality, 85.8% of respondents said they would automate controls and reconciliation. Other popular methods of ensuring data quality include monitoring data (61.1%), standardisation (57.5%) and performing manual validation checks (46.9%).

This last element would seem to suggest that some firms are not yet ready to fully automate the data quality function. Two respondents pointed to the existence of separate data quality departments within their institutions. Unlike those who perform manual validation checks, one institution among those surveyed has established automated validation checks that are based on expert user criteria.

WHICH AREA OF REGULATION WILL BE YOUR HIGHEST PRIORITY IN THE COMING YEAR(S)?

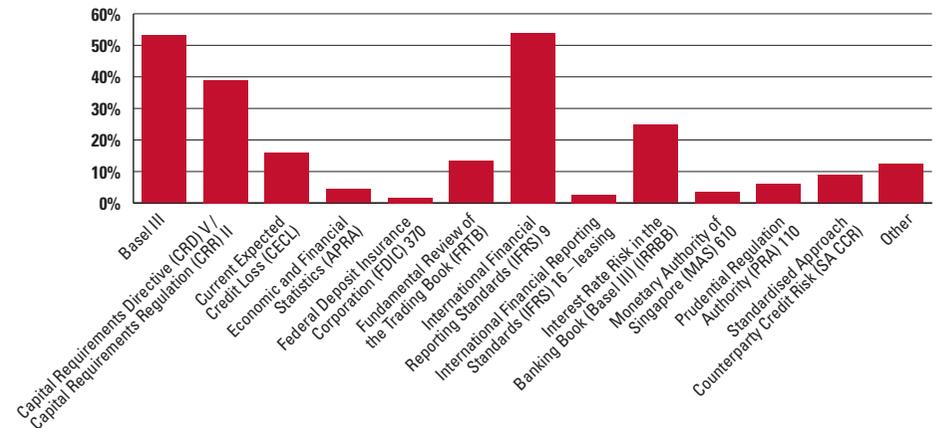
REGULATORY PRIORITIES

Given the multiplicity of regulatory initiatives that financial services firms face, decisions about which should take priority must be made. Among survey respondents, two initiatives stood out: IFRS 9 (54.0%) and Basel III (53.1%), with Capital Requirements Directive V/Capital Requirements Regulation II unsurprisingly figuring strongly in the responses by firms operating in Europe.

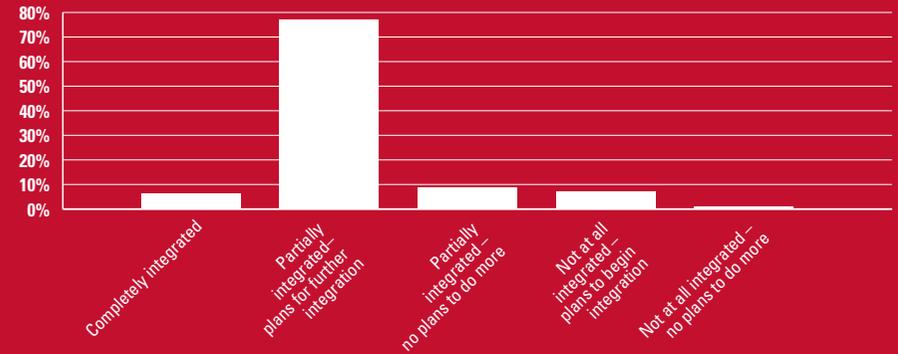
IFRS 9, which is effective from 1 January 2018, specifies how an entity should classify and measure financial assets, liabilities and some contracts to buy or sell non-financial items. Basel III, which is extended to 31 March 2019, seeks to improve the quality of bank regulatory capital and increase capital requirements to ensure banks' resilience at times of stress.



Basel III and IFRS 9 are top two priorities in near future.



HOW INTEGRATED IS YOUR REGULATORY WORKFLOW DATA?



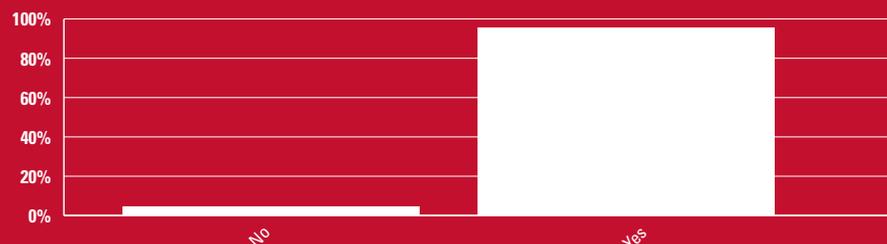
STATE OF REGULATORY WORKFLOW DATA INTEGRATION

When asked how integrated their regulatory workflow data was, a significant majority of respondents – almost eight in 10 – revealed they had partially integrated this aspect of regulatory compliance, with plans in place for further integration. Only 6% of respondents have completely integrated regulatory workflow data – the majority based in the Americas – while only one respondent said its organisation had not integrated and did not intend to integrate its regulatory workflow data.

80%

have plans for further integration of regulatory data.

IN THE LONG TERM, IS YOUR ORGANISATION AIMING TO INTEGRATE DATA ACROSS ITS WORKFLOWS?



96%

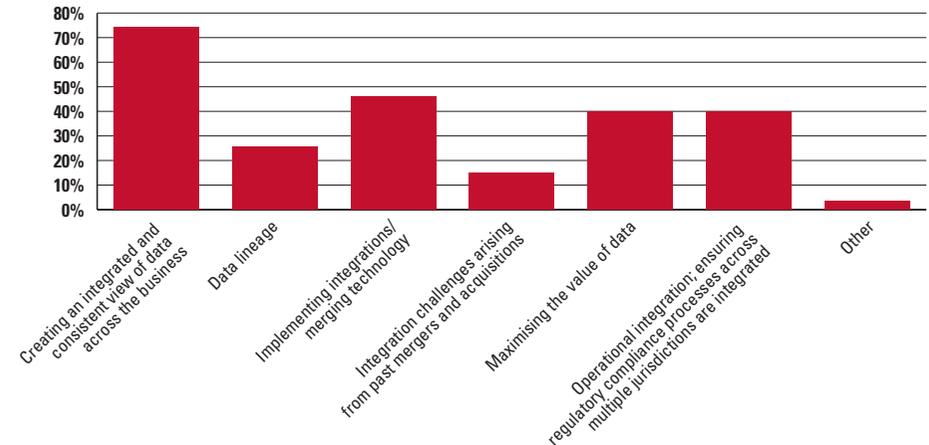
aim for better data
integration in long term.

LONG-TERM PLANS FOR FURTHER INTEGRATION

In a related question, firms were asked if they intended to integrate data across their workflows in the long term. An overwhelming majority (95.6%) responded positively. Only five respondents said their organisations would not be further integrating data across workflows.

Integration should help firms to develop regulatory compliance and reporting solutions that answer the need for increased data granularity and transparent data lineage. Creating and maintaining such solutions requires a focus on data structure and management that permits each piece of information to be understood in the context of others – as a detail when it's necessary to consider it on its own, but also as a piece of a much bigger puzzle.

WHAT ARE THE MAIN INTEGRATION CHALLENGES YOU FACE IN YOUR BUSINESS?



Consistent view of data across the business is number one business integration challenge.

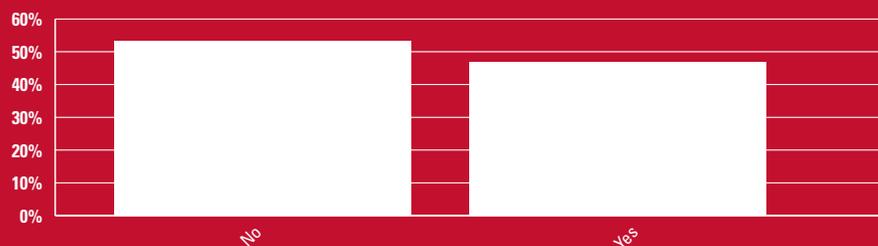
INTEGRATION CHALLENGES

Integration is not without its challenges. Nearly three out of four respondents reported that creating an integrated and consistent view of data across the business was their main challenge. Just under half (46.0%) also pointed to integrating and merging technology as a significant challenge. Four out of 10 respondents cited maximising the value of data and operational integration as two other top challenges.

The operational challenge is defined as ensuring regulatory compliance processes are integrated across multiple jurisdictions – clearly a big issue for international firms. One respondent cited a lack of budget to support integration.

Survey respondents were asked about their priorities among 12 regulatory initiatives, but some highlighted other priorities such as the General Data Protection Regulation and anti-money laundering regulation.

IN THE COMING ONE TO THREE YEARS, DO YOU ANTICIPATE THAT YOUR ORGANISATION WILL ADOPT A MANAGED SERVICES MODEL FOR REGULATORY COMPLIANCE?



47%

look to managed service model for regulatory compliance.

TOWARDS A MANAGED SERVICE MODEL

Despite the very real challenges they face in ensuring regulatory compliance, a majority of financial services firms surveyed are not yet prepared to consider handing over their regulatory compliance activities to a third party. However, quite a few appear to be exploring the managed services option.

Just over half (53.1%) said they would not adopt a managed services model for compliance within the next one to three years, while 46.9% said they would.



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The Banker has been the trusted source of banking information since 1926 and has navigated its way through 92 years of banking coverage from the Wall Street Crash of 1929 to the financial crisis of 2008 with the same reputation for accuracy, authority and integrity. It combines in-depth regional and country coverage reporting on capital markets, structured finance, risk management, working capital management and securities services, environmental finance, trade and project finance, trading, technology and management and governance issues.

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