

Overcoming data challenges to achieve regulatory compliance and improve business results

Coping with the pace of regulatory change can only be addressed through better data management which, ultimately, brings further efficiencies and helps achieve better business results. But how far have banks come in addressing the data challenges to meet complex compliance and reporting requirements?

A recent survey by *The Banker*, in association with Wolters Kluwer, found that two of the top challenges for banks in ensuring regulatory compliance were: keeping pace with regulatory change and ensuring compliance with changing regulations. Many respondents also cited data validation and reconciliation of regulatory data with risk and/or financial underlying data as a significant challenge.

Additionally, as the complexity of the regulatory agenda continues to intensify, global financial institutions are confronted by a fragmented regulatory landscape. “This challenge is bigger for multi-country organisations, such as Citi, which are exposed to numerous regulatory regimes,” says Ruth Wandhöfer, global head of regulatory and market strategy, treasury and trade solutions at Citi. “And the regimes keep moving at different paces; it is challenging to achieve global consistency towards compliance across the organisation.”

Richard Chenga-Reddy, global head of regulatory affairs, group public affairs at Standard Chartered, agrees. “We’ve had to work hard as an internationally active bank to ensure that we keep pace with not only the number of regulations but also with the breadth and depth of those regulations,” he says.

Survey respondents pointed to internationally applicable regulations, such as International Financial Reporting Standards (IFRS) 9 and Basel III, as their top priorities in the coming years. These regulations, according to Mr Chenga-Reddy, require banks to make “very substantial changes” to systems, data and models. Ensuring harmonious application of these rules across many different markets is “a very significant challenge”, he adds.

One of the biggest challenges for banks, according to Rajat Somany, global head of product and platform management at Wolters Kluwer, is to get the required data together in a consistent way. “Banks have been developing one-off solutions to meet regulatory deadlines, thus creating operational risk,” he says.

DEALING WITH LEGACY TECHNOLOGY

Mr Chenga-Reddy agrees with Mr Somany, returning to the original issue of the disparate nature of regulatory requirements and timelines, which has led financial institutions to set up multitudes of different programmes, each designed to cater for specific rules. “As a result, we are not able to think through and implement strategic solutions; the tendency is to implement tactical solutions,” says Mr Chenga-Reddy. While in the short-term piecemeal approaches to regulation will continue, he is optimistic that over time, institutions will think more strategically and develop integrated approaches to regulatory compliance.

However, a tactical approach to regulatory compliance can lead to significant problems, according to Mr Somany. “A lot of logic is built into legacy systems and often the people who developed those macros are long gone. Banks often don’t want to touch these systems because they don’t have the full understanding of them, but they are trying now to pull that information together and it is proving expensive,” he says.

Dealing with legacy systems is a headache for most incumbent banks, says Peter Bonisch, chairman and co-managing partner at risk consultancy Kage Strategy. “This concern about legacy systems is driven by the fact that institutions have not been able to spend the money on replacement systems. Instead, they have had to put band aids on existing systems in order to cope with the new data requirements and regulatory approach from an IT architectural perspective,” he says.

Even for those banks willing to migrate from legacy IT infrastructure to new technology stacks, it is a “very big decision” to take, emphasises Ms Wandhöfer. Moreover, some of the new technologies that could potentially help are not yet mature enough to deploy in a banking environment. Integrating existing technologies with new technologies was viewed by survey respondents as the primary technology challenge when it comes to regulation.



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From left: Richard Chenga-Reddy, Standard Chartered; Rajat Somany, Wolters Kluwer; Joy Macknight, The Banker; Ruth Wandhöfer, Citi; Peter Bonisch, Kage Strategy

IS YOUR DATA CLEAN?

In the meantime, financial institutions have created data lakes and are working hard to ensure data is clean and accessible, which can be “a long mile” for many large organisations, warns Ms Wandhöfer. However, establishing data lineage should be viewed not only as a challenge but also as a key opportunity. “Once data lineage is established, we can actually find much more economic intelligence,” she says.

She continues, “Complementary to data lineage is the digitisation of data, for example, having digital documents rather than manually updated reports. Financial institutions must start digitising their processes to ensure they have an audit trail and complete lineage of structured and unstructured data not only for regulatory reporting, but also for credit and counterparty risk management.”

But achieving the required data quality and consistency is proving challenging for many financial institutions. Only one in three institutions surveyed by *The Banker* said they were very confident in the quality of their firm’s data.

Mr Chenga-Reddy says Standard Chartered is focused on trying to ensure that its data is fit for purpose. “We need to be very mindful of the fact that sometimes a piece of data can be used as originally intended for a particular purpose, but in response to regulatory reporting demands sometimes it’s being used for an alternative purpose.

“For this reason, we are strong advocates of standardisation, utilising international standards such as the legal entity identifier,” he adds. Standards, along with new technologies such as artificial intelligence and machine learning, can help banks to delve

down into data, identify anomalies and more effectively cleanse data.

“We have much further to go in order to utilise those new technologies and to really see the benefits,” he says. “It’s not just about data quality; it’s also about data enrichment and seeing the true value in data. New entrants are entering the banking sector and many of them are technology companies that are acutely aware of the value of the customer data banks have.”

REGULATORY WORKFLOW INTEGRATION

Nearly three out of four respondents in *The Banker* survey reported that creating an integrated and consistent view of data across the business was their main challenge, while almost eight in 10 said they had partially integrated their regulatory workflow data and were planning further integration.

Mr Bonisch argues that in terms of integrating data to support a variety of workflows there is “no alternative” but to provide a single source of data within the firm where information can reside. “To me, the regulatory push is almost secondary to the fundamental role data integration has in the commercial performance of an organisation,” he says.

Ms Wandhöfer agrees, pointing out that getting data into one place and making sure it is clean is the “very essence of running a business”. And often regulators will require something that should be part of the proper running of a business, she adds.

Clearly, sound regulatory compliance and sound business analytics are manifestations of the same set of processes. Satisfying the demands of supervisory authorities and maximising profitability and competitiveness in the marketplace involve similar types of

analysis, modelling and forecasting.

A variety of approaches are being pursued by organisations which are seeking to achieve both objectives. One possible avenue is a collaborative organisational structure which places the key functions of finance, risk and regulatory reporting at its heart.

DATA MANAGEMENT

Mr Somany believes banks must not only ensure they have the “right data” to comply with regulatory requirements, but must also recognise the importance of good, high quality data in running the business of the bank, returning to Ms Wandhöfer’s point. 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,” he says.

Ms Wandhöfer says Citi has for several years been “scouting the market” for a regtech solution set that is scalable and can address Citi’s needs.

“We don’t yet have the answer, but we’ve seen a lot of potentially amazing things,” she reports. The answer may lie in bringing together multiple firms to create a holistic solution from data cleansing through to data security that a large organisation such as Citi can then plug in.

However, she adds, “only an organisation itself understands its data challenge, its business challenge and the regulatory reporting and regulatory compliance challenge, so it’s not as easy as just plugging in something from the outside. It needs to be an iterative engagement process.”