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Improving Regulatory Compliance with Data & Enhanced Controls

Introduction

Financial services regulators expect that to effectively manage risk, financial institutions and securities firms must have mature quality assurance practices in place to manage adherence to regulations and an institution's policies and controls. Regulators are asking for access to the data flowing throughout the business to allow them to examine the bank's controls from AML & KYC, to credit and operational risk, to liquidity, transactions, and resiliency. Foundational to their examinations, regulators are improving their skills, tools, and techniques to look more broadly and more deeply at the critical data elements in use, in addition to interviews and traditional examination techniques. The result: banks are prioritizing modernization initiatives to enhance controls, data quality and their use of data enhance controls.
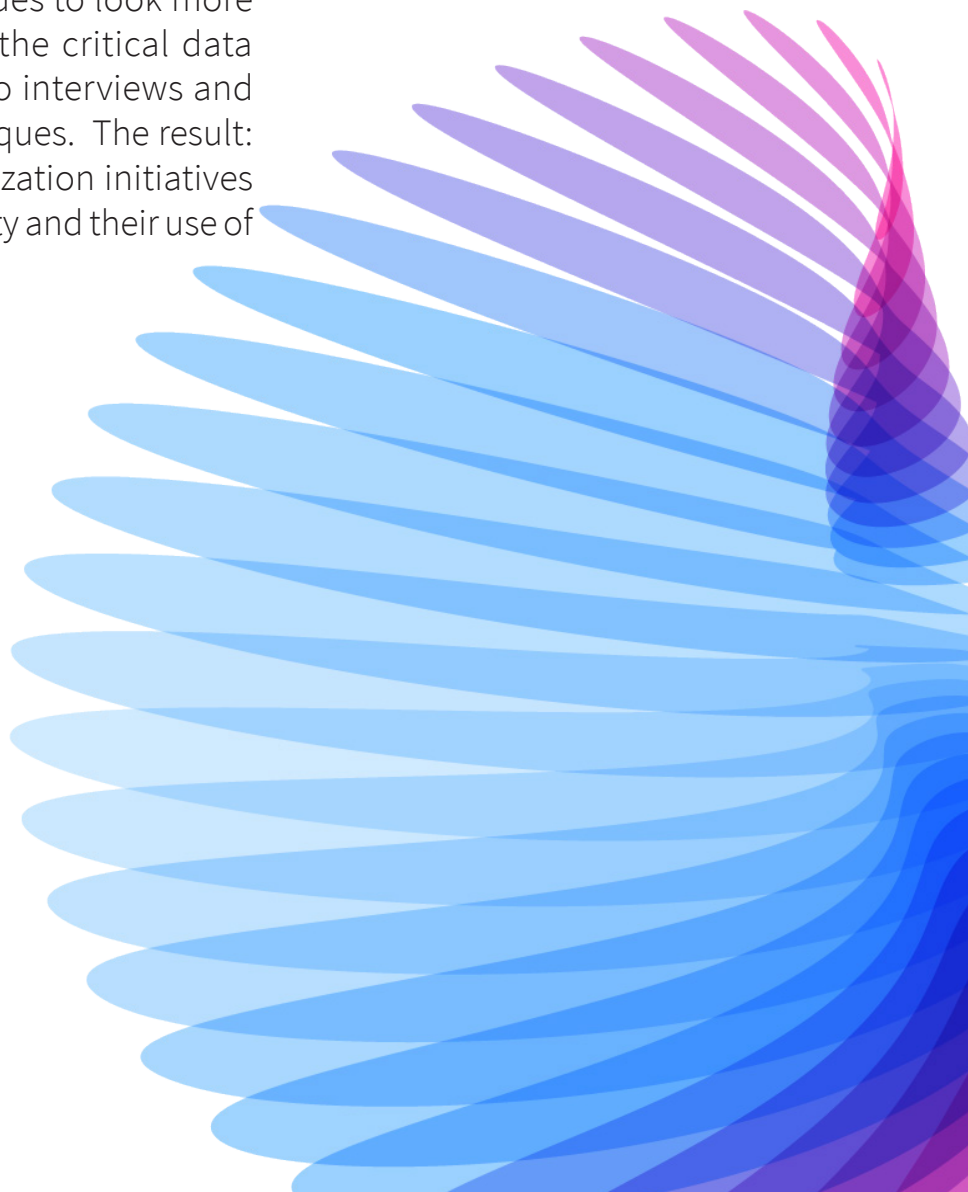
Why Do Issues Exist?

Most banks have invested in regulatory reporting programs, data governance programs, and new technologies, and they employ teams of people to manage risk and help the bank conform to regulatory requirements. While these programs and operations exist, risk management deficiencies and data quality issues remain, which lead to MRAs and even MRIAs. In discussions with executive leaders across the top GSIBs, there are **five leading themes creating issues that must be identified, remediated, and prevented.**

01 Disparate systems and processes from mergers and acquisitions

02 Aging systems not built for today's products and processes

03 Retiring talent who perpetuated legacy knowledge-based quality processes

04 Lacking data governance and data quality practices in key systems and processes

05 Historic investment imbalances between growing the business and investing in risk and resiliency systems and processes

As we examine the various issues affecting financial services firms, it is clear that these interconnected problems hinder a firm's overall effectiveness. Addressing the issues individually may provide temporary relief, but to achieve lasting improvements, we recommend a comprehensive approach.

So what's the answer?

Enhanced Controls

Enhanced controls are a critical part of a mature, proactive quality assurance program. To improve regulatory compliance and reduce risk, leading financial institutions are investing in enhanced controls, especially focused on automating manual processes and improving data quality. These controls focus on the data and decisions that flow from system to system, process to process in a large bank.

By using critical data from well-governed systems and processes, **banks are focused on five essential capabilities to enhance controls and improve quality assurance:**

1. Prevent issues and enforce data quality

2. Automate issue detection and reporting

3. Remediate critical data issues regularly and efficiently

4. Monitor ongoing control effectiveness and efficiency

5. Improve efficiency of audit and ad-hoc controls

1. Prevent issues and enforce data quality

Not only do regulators expect monitoring and identification of issues (see #2 below), but they also expect preventative controls to be in place. Banks must implement preventative controls that allow data quality rules and automation to be implemented in key data governance and operational processes. Processes that have historically been manual are now automated. AI technologies are tested and implemented to scale issue identification and dynamically apply controls across large datasets. Rules that were applied ad-hoc are now applied consistently across systems and business units. Preventative controls are also implemented quickly in response to known issues, while BAU processes and key systems are enhanced with additional controls.

Financial services firms often face several challenges while establishing effective preventative controls due to several factors:

- Complex regulatory environment

- Rapid technological changes

- Magnitude and complexity of data

- Evolving landscape

- Organizational buy-in

Checklist
Assess your firm's effectiveness

☐ Are you investing in the appropriate technology designed to improve data quality?

☐ Are your data sources seamlessly integrated to maintain consistency and quality across systems and business units?

☐ Does your technology allow for automated processes, workflows, and rules?

☐ Do you perform a regular analysis of historical data trends to identify potential issues before they arise?

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2. Automate issue detection and reporting

Data quality issues drive regulatory reporting issues. Regulators are asking to see automated controls to detect and report on issues, but the environment is challenging.

- Anomalies exist across classifications of clients or products.

- Inconsistencies are prevalent in how accounts are set up or relationships and linkages are missing across clients and beneficial owners.

- Errors in the reference data and coding used for transaction reporting cause daily fixes.

- KYC reviews that are lacking or not performed perpetually.

Banks that invest to automate controls, such as using AI technologies, are able to use critical enterprise data to detect issues and perform real-time, daily, or frequent reporting and build confidence that data is reliable and risk is monitored. Automation also allows institutions to improve self-identified audit processes and provide transparency to management and regulators.

Checklist
Assess your firm's effectiveness
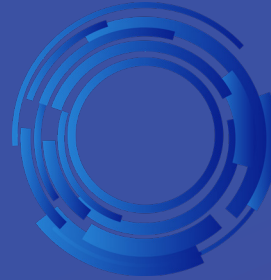
☐ Can you detect issues in real-time?

☐ What is your coverage of data reviewed by regulators?

☐ Do you have dashboards that can be presented to regulators without manual intervention?

☐ Do you have scheduled reports on data quality metrics?

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3. Remediate critical data issues regularly and efficiently

New data issues will likely arise as markets, products, clients, and transactions evolve over time; change creates issues. Additionally, data quality issues originate from simple errors in logic, manual processes, or lacking controls. While the preventative and automated controls listed in #1 and #2 above will provide significant improvement, banks still must have responsive remediation capabilities that allow quick action, and complete, governed remediation when data quality issues arise. Mature organizations will have remediation tools for data operations or data SMEs as well as capabilities that enable them to leverage data science, advanced analysis, and automated enrichment capabilities.

Checklist

Assess your firm's effectiveness

☐ Do you have clearly documented procedures for conducting root cause analysis and addressing data issues?

☐ Do you have clearly defined workflows for data remediation, including collaboration between relevant departments / escalation paths?

☐ Do you have a process to address the most critical data issues first?

☐ Do you have regular reviews to refine processes to improve remediation strategies?

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4. Monitor ongoing control effectiveness and efficiency

Monitoring ongoing controls not only supports regulatory obligations and reinforces the organization's commitment to a culture of continuous improvement but also enables banks to proactively track real-time progress and compliance with established regulatory standards by ensuring that processes and controls are operating effectively and efficiently. Through routine monitoring, banks are able to identify potential issues earlier, enabling timely corrective actions and process adjustments:

- Gathering performance metrics and compliance data on an ongoing basis.

- Identifying deviations from anticipated outcomes, ensuring quicker responses.

- Analyzing patterns over time to anticipate potential risks and develop preventive proceses and measures.

Checklist
Assess your firm's effectiveness
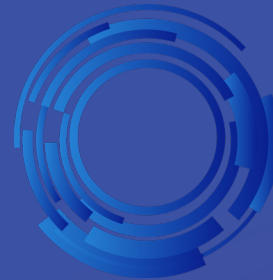
☐ Have you implemented automated tools for real-time monitoring of controls?ww

☐ Do you have key performance indicators (KPIs) and key risk indicators (KRIs) to gauge control effectiveness?

☐ Do you have a schedule for regular testing of controls to verify their effectiveness?

☐ Do you periodically conduct independent reviews of your control processes?

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5. Improve efficiency of audit and ad-hoc controls

Not all issues can be identified through automated processes or preventative controls. Regulators expect on-going audit and ad-hoc capabilities to assess operational risk, resiliency, and a risk management culture. Banks must have tools and teams who have ready access to critical data and can perform ad-hoc activities to audit data quality, audit key processes, and identify potential issues. Regular audit and examination with governed review and decision making is a best practice and mature institutions will be able to demonstrate these practices with records and evidence of on-going improvement actions planned and implemented.

Checklist

Assess your firm's effectiveness

☐ Do you have regularly scheduled internal audits to assess data quality and controls?

☐ Are ongoing assessments performed to ensure adherence to regulatory requirements?

☐ Do you have ongoing training programs for audit and control staff?

☐ Do you benchmark against industry standards to identify improvement opportunities?

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Enhancing Controls with Data Refinement

One of the best practices being used in the industry is to leverage a data refinement approach to develop these five capabilities within the bank. **Data refinement** enables banks to bring capabilities alongside existing processes and systems and proactively aggregate, analyze, enrich, and remediate the data. From there, banks can then operationalize the results by automating data quality rules, controls, reconciliations, workflows, and exception processing. All of these capabilities can be performed without a major system replacement or major tool transformation. As the regulators become more sophisticated, banks can have successful examinations by demonstrating progress and new controls, providing evidence of advanced data analysis and enrichment, and providing examples of successful remediation - an enhanced control environment.

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