BANKS REGULATORY REPORTING COMPLIANCE – THE CHALLENGES AND THE SOLUTION

Abstract

In the current era of global and interdependent financial systems, a ripple in one corner can potentially shock the entire economy. This has led to increased scrutiny with stricter and more complex regulatory requirements being put in place for financial institutions. Regulators, besides shortening the time, have also doubled the information sought.

In this scenario, risk and finance data and technology have become strategic board-level topics. Banks are now looking for strategic and sustainable solutions that can help them sail through this journey of compliance.

This paper analyzes the challenges faced by the industry in regulatory reporting, the potential remediation, and the suggested tools and ways for successful reporting.

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The onset of regulatory reporting

The recent financial crisis has created a difficult environment with strict guidelines enforced for institutions. The banking world has experienced many changes in regulations such as comprehensive capital analysis review, comprehensive liquidity analysis review, supervisory review and evaluation process, Basel III, enhanced prudential standards, and accounting changes such as IFRS and the Volker rule,

among others. Further, these strategic requirements have to be tied to broader regulatory mandates such as BCBS 239. And that's not all – the deadlines are critical too!

These regulations have not only brought a new dimension to the way banks operate but have also added complexity to reporting requirements and compliance. Risk leaders anticipate further regulatory

changes and continued supervisory pressure, where any failure to demonstrate a compliant solution can result in massive regulatory and reputational risk.

With no compromise on data and reporting quality standards, these compliance requirements call for a cultural transformation with heavy implications for risk and finance data and technology.

Key challenges in regulatory compliance

Ideally, a financial institution is expected to spend 80 percent of its time in analytics review and 20 percent on data preparation. But in reality, most spend more time on data collation and treatment and less on analytics. This is mainly because regulatory reporting is a subsidiary function with the key tasks of data enrichment, lineage, and reporting handled manually and in silos. Often, the absence of an enterprise-wide strategy or a budget for reporting systems development makes the entire process complex and challenging. Besides the other hurdles in the organizational structure and resource availability, some key technical issues in establishing a foolproof regulatory system are:

Overlapping jurisdictional applications

- Bank branches in multiple geographies add to the complexity of regulatory demands, as they are expected to be compliant with the regulatory standards set by different regulators across the jurisdiction

Data governance

- Data exists in silos
- Data standardization in terms of:
  - **Granularity**: Maintaining and managing the desired granularity of data to the level of transaction, customer, product, region, cost center, etc.
  - **Quality**: Poor data quality poses a big challenge for accuracy in processing and reporting. Data integrity can be at a big risk with insufficient and ineffective data quality frameworks
  - **Consistency**: Inconsistency in data hampers the bank's attempt to consolidate and present reporting figures
  - **Completeness:** Reconciliations and adjustments need to be done downstream to bring about completeness, which can significantly increase the time required for compliance
- Data validation:
  - Tracing back the final numbers to the origin and validation

Impaired technology

- Heavy dependence on manual methods, leading to error-prone and time-consuming processes
- Siloed applications, resulting in inaccuracies in data aggregation and reporting
- Absence of an integrated platform and advanced technology for seamless processing

Approaches to remediation

To design a proper remediation approach and to initiate the data transformation journey, banks need to identify and completely understand their current position and core challenges. Typically, banks may follow either of the two following approaches:

- A focused / fragmented approach that can help manage compliance expectations

- An enterprise-wide transformation strategy, which would mean re-architecting data for all use cases

Irrespective of the approach, banks require to develop a truly global, cost-effective, and ascendable reporting architecture providing a single version of the truth. Further, they need to have automated data flow, which can significantly reduce the turnaround time to accurately meet compliance needs.
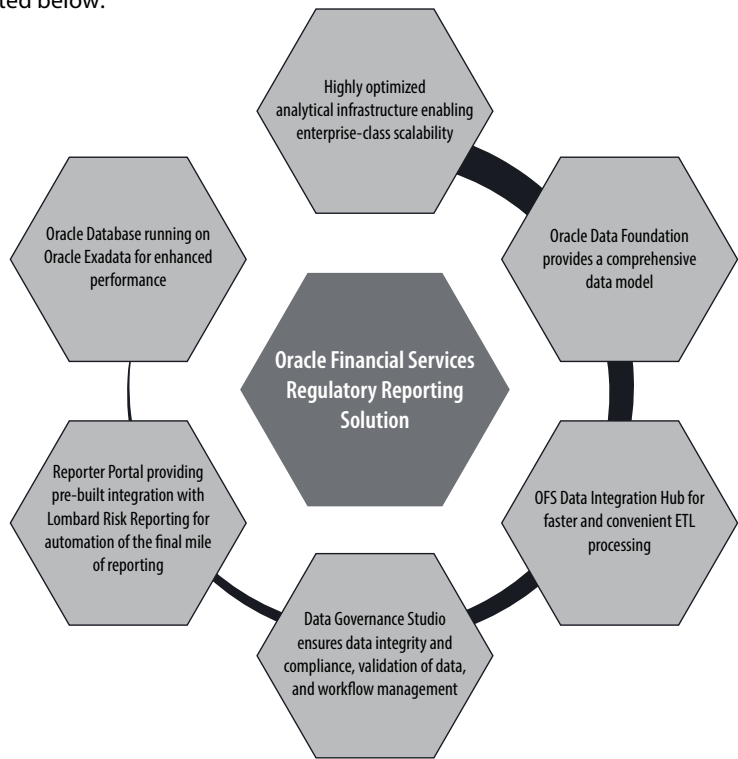
Some features that banks should look at when setting up an enterprise-wide framework include:

Bring uniformity and consistency in data; the solution presents a single version of truth across geographies

Integrated platform

Scalable and flexible solution

Scalable architecture to support ad hoc requirements

Regulatory Reporting Framework

Minimizing manual intervention; besides speeding up the entire reporting process, to make sure accurate and error-free compliance are achieved

Automation capability

Strong data quality framework

Best-in-class, quality-checked data for all downstream and upstream processing

Robust control mechanism

Capability to treat the data and to reconcile it to maintain data integrity, accuracy, and completeness with effective governance and transparency

Oracle Financial Services (OFS) Regulatory Reporting Solution and the Infosys experience

The OFS Regulatory Reporting Solution is a technological answer to the challenges of regulatory compliance. This industry-leading solution, in collaboration with Lombard Risk, provides a unified, consistent platform and a toolset with the capability to automate the comprehensive data life cycle management from sourcing to regulatory submission.

The main components driving the enterprise-class architecture of the solution are highlighted below:

Highly optimized analytical infrastructure enabling enterprise-class scalability

Oracle Data Foundation provides a comprehensive data model

Oracle Database running on Oracle Exadata for enhanced performance

Oracle Financial Services Regulatory Reporting Solution

OFS Data Integration Hub for faster and convenient ETL processing

Reporter Portal providing pre-built integration with Lombard Risk Reporting for automation of the final mile of reporting

Data Governance Studio ensures data integrity and compliance, validation of data, and workflow management

Benefits of the OFS Regulatory Reporting Solution

The Infosys experience

The business case

A leading financial institution reviewed its compliance program and planned to overhaul its existing manual process for regulatory reporting, which was cited as 'matters requiring attention' owing to heavy errors and inaccuracy. They undertook a crucial initiative to develop a strategic and sustainable solution to automate their regulatory compliance process. After multiple rounds of evaluation, including proofs of concepts, Infosys was chosen as the partner for this strategic implementation.

The Infosys solution

Leveraging the OFSAA Regulatory Capital Solution, we designed and established the most optimal and comprehensive data transformation solution for meeting, reporting, and filing requirements. We offered a best-in-class solution using components of the Oracle Financial Services Data Foundation, GL Reconciliation, Lombard, and OBIEE to automate the regulatory reporting process with adequate control and governance.

Key challenges and the Infosys solution

Challenges

- Stringent norms for generating statutory reports, desired SLA as low as one day – compared to the current lead time of five days

- Complex requirements:

  ◦ Requirements for compliance with multiple regulatory bodies

  ◦ 20+ automated and manual sources and requirements for the high data processing needs of 150+ million records per month with limited infrastructure capabilities

- First implementation from Oracle product perspective

The Infosys solution

- Designed the most optimal and sustainable reporting solution using OFSDF, GL Reconciliation, and Lombard to automate comprehensive regulatory report processing. Developed and deployed several reusable utilities, which resulted in huge cost and effort savings and timely delivery

- Designed an integrated platform and a single source for data across LOBs to conduct seamless analytical activity and regulatory / compliance reporting

- Comprehensive documentation for analysis of multiple source systems, saving project cycle time and cost

- Designed secure interfaces between the source and target with a strong reconciliation and data quality check framework. Faster processing made possible with performance tuning

- Strategic reporting solution designed with the help of lead consultants from the COE practice who regularly shared their expert insights. Performed multiple POCs for validation and arrived at a confident design decision among viable alternatives

Critical benefits achieved

Improved regulatory compliance efficiency and reporting accuracy	Huge cost-savings from reusable solution components	Closure of MRAs / gaps

In conclusion

Evolving regulatory requirements and increased supervisory expectations have changed the way banks look at regulatory reporting. It is no longer an activity performed by a confined department; rather, it has moved to being a strategic-level initiative viewed as a value-based investment.

To meet the various compliance requirements while addressing the multiple challenges that exist in doing so, banks need to establish a highly scalable, sustainable, and integrated platform with strong capabilities in data management, transformation, control, and automation. Oracle Financial Services Regulatory Reporting Solution, with its in-built components, has the capability to help banks successfully transform their reporting functions.

About the Author

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Shraddha has 9.5 years of experience in implementation of banking solutions like Finacle and OFSAA. She has deep domain understanding in core banking and risk management. She has been part of various end-to-end implementation projects of the solutions in her career.

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