White paper

Using data management to meet financial regulations

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Introduction

Financial institutions collect a wealth of information about their customers. But while most banks have systems to store compliance-required information, many of them lack the necessary infrastructure that would enable them to access that information when needed. Digging up data and building reports are often manual, time-consuming tasks. Most of the time, data just sits around in warehouses with no hope for ever being used.

If you don't have easy access to your data, how do you determine if it's accurate or still relevant?

This is a question that financial institutions must think about, as duplicate, expired, or inaccurate data can lurk unnoticed for many years in a data warehouse. Even if you implement data quality practices to prevent bad data from entering your organization, like address or telephone verification, without a full data management program you have little defense against expired data.

Coming out of the financial crisis of 2008, many of the regulations that were applied to the financial industry have a similar objective: to increase the transparency of organizations' data in order to monitor and prevent risky decision-making. And good data management is at the heart of this objective. Without a proper data management strategy in place, financial institutions will struggle to deliver the true transparency that regulators require. For financial institutions, bad data can result in hefty fines from regulators and possible litigation, depending on the severity of the infraction.

Many banks attempt to meet burgeoning compliance standards by investing in additional resources and personnel. However, years of insufficient data management practices have created data silos that make it hard to compare information across systems. Many financial institutions, including the domestic systemically important banks (DSIBs) and smaller firms, have legacy systems that need to be modernized in order to make their data readily available to regulators.

In order to meet constantly evolving regulatory requirements, your financial institution needs to be proactive about its data governance. In this white paper, we've put together some helpful advice to get you on your way to developing a scalable data management program.

For more information on specific data-related regulations, check out "Playing data defense: A look at financial regulations' impact on data management."

Click here

Empower your data stewards

Across the finance industry, data governance programs assign responsibility to individuals, typically known as data stewards, to enforce the organization's data governance policy. All too often, however, these organizations do not have the processes in place to ensure consistency, so data stewards create one-off spreadsheets or codes that only they can use. Although this process works in the short term, it's not a scalable approach to data governance and moves data analysis further away from business users—and regulators.

In order for your data management program to be implemented consistently across the organization, you need to empower your data stewards with the right tools. By investing in the necessary infrastructure and data management software, you can enable your data stewards to work much more efficiently. In addition, by making the data more readily accessible, you can increase collaboration between data stewards and business analysts, better enabling data-driven decision-making and risk analytics.

A core objective of most financial regulations is transparency, so by implementing a standardized process for data governance, your organization will be better prepared when the regulators come knocking. For instance, BCBS 239 mandates that banks aggregate and report risk data in order to improve their resolvability. Because individual stewards are responsible for the integrity of the data they oversee, empowering them with data management tools can help them to ensure compliance, without the need for ad-hoc trackers and codes.

Experian Pandora empowers your data stewards to enforce the integrity of the data they oversee.

Check it out

Get executive sponsorship

If you want your data management program to succeed, it's crucial that you get executive buy-in from the beginning. This includes getting the Chief Information Officer (CIO), Chief Risk Officer (CRO), and the Chief Data Officer (CDO) on board with your plans. Depending on the size of your financial institution, the line of approval might even extend to the Chief Executive Officer (CEO).

Having higher-level organizational support is necessary to implement the types of systemic changes necessary for a comprehensive data management strategy, like investing in new systems or hiring additional headcount. In addition, you will need to have IT budget allocated to your data management program, and having executive sponsorship will help you to secure that.

From a regulatory perspective, C-level executives want to ensure that the company remains in compliance so that shareholder confidence is not negatively affected. Although your CEO will likely be removed from the tactical projects around achieving compliance, by demonstrating how your data management program is a vital aspect of the compliance process, you can more easily gain executive support.

Focus on data quality

In an industry where an estimated 26 percent of customer data goes bad every year, remaining in compliance is an ongoing challenge for financial institutions. Contact information can go bad for a number of reasons, most notably when a customer changes their address, surname, or telephone number. This can make communication tricky, and it increases the risk that confidential customer information (like bank account numbers or account balances) could be delivered into the hands of a perfect stranger.

It's not just current customer data that banks need to worry about, either. They must also put systems in place to ensure that new data entering the organization is accurate and fit for purpose. We recently surveyed 112 professionals in the finance industry, and 53 percent of them said that the biggest reason for inaccurate contact data is human error. By using email, address, and telephone validation in call centers and online, they can prevent incorrect contact information from ever entering a database. In addition, all staff in these positions should be trained on data quality practices in order to achieve information excellence.

53% of financial organizations say that the biggest reason for inaccurate contact data is human error.

From a regulatory perspective, banks have a responsibility to maintain accurate and complete records for all of their customers. Regulatory requirements such as Foreign Account Tax Compliance Act (FATCA) mandate financial institutions aggregate customer information from a variety of sources and compare that information against government databases to determine persons who have indicia of US status. This includes gathering such information as a US place of birth, a current US mailing address, or a current US telephone number.

Break down data silos

If you want to leverage your data as an asset, breaking down data silos is a necessary step. Data silos, in particular, present a significant challenge when you consider that many government and industry regulations mandate that information be easily accessible and reportable to regulators. If you cannot easily pull customer information from separate systems into a consolidated report, you could be leaving the door open for noncompliance penalties.

As part of Know Your Customer (KYC), financial institutions need to achieve a consolidated, single customer view (SCV) of their clients, and data management is necessary to provide that level of detail. This also involves comparing that consolidated customer information against trade embargoes, financial sanctions, politically exposed persons list, and other watch lists to ensure that clients are cleared to do financial business with US organizations.

According to our research, 37 percent of financial institutions maintain high-quality contact records to create a SCV. However, many banks still struggle to aggregate customer data from disparate sources. For instance, identifying customers who have a checking account and a mortgage within the same bank can present challenges for those institutions without a data management strategy in place.

37% of financial institutions maintain high-quality contact records to create a single customer view.

But how do you begin the process of tearing down the walls of your hundred-year old house? In order to break down the data silos within your financial institution, you'll need to invest in the necessary infrastructure and systems that will enable you to standardize the data. By profiling and cleansing the information in your databases, you'll be able to ensure consistency and flag any records that are potentially incorrect. Once your data is standardized, you can begin to work across databases and combine information from disparate datasets more easily.

Measure ROI and performance

In order to have a successful data management program, you have to be able to quantify your results. How you determine ROI depends on your organization's priorities, but keeping up with regulations and avoiding penalties is a sure way to put value on your program. Regulatory fines can run into the millions of dollars, so being able to avoid these fines is a significant accomplishment. In addition, as public news of regulatory infractions can affect stockholders' confidence, avoiding such moments can have far a greater impact on the organization's long-term performance.

Not only is your data management program saving the company from fines and serious legal consequences, but you can also measure the time savings you've achieved by implementing the right software for your data stewards.

By making your staff more effective at their jobs, your team can spend less time on manually aggregating data from various sources and cleaning up reports. This is time that can be invested back into the business to do higher-level activities, such as data analysis.

Whatever your organization's priorities are, set performance metrics and measure your ROI. Doing this will ensure that you have a strong business case to continue receiving executive sponsorship.

Conclusion

Financial institutions today have a long road ahead of them when it comes to meeting regulations. It seems every year new rules are added and existing ones become more complex. At the heart of most regulations, however, good data management practices are essential. By following these guidelines, you'll be able to improve your organization's data quality, create a single customer view, break down data silos, empower your employees, and build a business case around your long-term data management strategy.

With the right processes and infrastructure in place, you can ensure your company is able to leverage its data as an asset, whether that's to generate a report for regulators or, simply, to understand your customers better.

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