An Overview

Wolters Kluwer’s annual Regulatory & Risk Management Indicator measures eight critical factors that help illustrate the overall level of regulatory and risk management pressures that U.S. banks and credit unions face.

These factors include bank and credit union concerns about: 1) their ability to track regulatory changes; 2) complying with new and existing requirements; 3) proving compliance to federal regulators; 4) preparing for new Home Mortgage Disclosure Act (HMDA) rules; and 5) how effective banks and credit unions feel they are at managing overall risks to their institutions.

For the final three factors used in calculating the Indicator formula, Wolters Kluwer measures and compares: 6) the number of significant new U.S. banking regulations; 7) the number of enforcement actions taken against banks and credit unions by federal regulators; and 8) the total dollar amount of federal regulatory fines levied against banks and credit unions.

What follows in this report are the overall result metrics of the Indicator as well as highlights of our findings, including banks’ and credit unions’:

- Overall compliance and risk management concerns
- New HMDA rule readiness concerns
- The compliance function’s in-house standing and prominence
- Risk management and escalated priorities in 2017

Indicator Methodology

In September 2016, Wolters Kluwer surveyed more than 800 banks and credit unions on their most pressing regulatory and risk management concerns. We used the resulting measurements, along with the changes we monitored over the prior 12 months in the financial regulatory environment, to develop the latest Indicator, comparing this year’s responses against those from 2015.
Regulatory and Risk Management Concerns Hold Steady

With a record 846 responses, this year’s survey generated a Main Indicator score of 100. This key index reflects no change from the prior year’s overall survey score, but it follows three years of consecutive, notable increases. Still, challenges remain amid an environment of increasing regulatory fines and major new regulations, as well as concerns over effectively implementing significant regulatory changes such as the new HMDA rules.

For more information, visit www.WoltersKluwerFS.com/Indicator.
An Encouraging Trend in Compliance and Risk Management Readiness

From four years of survey results, compliance as well as risk concern levels have dropped, especially within the past year. Levels are at their lowest in four years, with the percentage of those “very concerned” about keeping track of changing regulations having dropped the most. And 39 percent of respondents reported their institution is on the path to having an integrated/strategic enterprise-wide compliance risk approach, jumping five percentage points from 2015 scores. The diminution in anxiety levels this year is encouraging, suggesting that banks and credit unions feel they are more effectively managing their risk and regulatory requirements despite a regulatory climate that has not eased.

### Overall Level of Compliance and Risk Concern

<table>
<thead>
<tr>
<th>Percentage very concerned with organization’s ability to</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>maintain compliance with changing regulations</td>
<td>66%</td>
<td>73%</td>
<td>72%</td>
<td>76%</td>
</tr>
<tr>
<td>demonstrate compliance to regulators</td>
<td>64%</td>
<td>71%</td>
<td>71%</td>
<td>71%</td>
</tr>
<tr>
<td>keep track of changing regulations</td>
<td>63%</td>
<td>72%</td>
<td>69%</td>
<td>73%</td>
</tr>
<tr>
<td>about managing risk across all lines of business</td>
<td>52%</td>
<td>58%</td>
<td>63%</td>
<td>64%</td>
</tr>
</tbody>
</table>
New HMDA Rules: “Informal Discussions Underway”

Overall concern levels for the HMDA data collection requirements have continued to drop since we first measured the effects of this major pending regulation. In 2014, 73 percent voiced high concern over the rule's impact on the organization, compared with 59 percent today. Nevertheless, overall concern about HMDA readiness remains high, with 64% citing “accurately capturing the data” as their chief concern. There was a five percent rise compared to 2015 scores in concern expressed over training staff.

Which of the following statements best describes your organization’s current efforts related to analysis of the expanded HMDA data set?

<table>
<thead>
<tr>
<th>Efforts Related to HMDA Data Analysis</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have begun informal discussions but have not yet started a formal planning process for HMDA data analysis</td>
<td>42%</td>
<td>42%</td>
</tr>
<tr>
<td>Not sure</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>We have formed a planning group and are mapping out our data analysis approach in light of the pending new HMDA requirements</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>The new HMDA regulations are not really on our organization’s radar yet</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>We have formed a planning group and are collecting sample HMDA data points to assess ways in which they might be analyzed</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Percentage Ranking the HMDA Data Collection Tasks as Most Challenging (i.e. ranking as either a #1 or #2 challenge)

- Accurately capturing data fields: 64% (2015) vs 63% (2016)
- Training staff: 31% (2015) vs 27% (2016)
- Upgrading systems: 27% (2015) vs 21% (2016)
- The time/cost of implementing: 23% (2015) vs 23% (2016)
Compliance a Growing Discipline

With a reporting structure in which the chief compliance officer reports directly to either the president/CEO (42 percent) or the Board (30 percent), compliance has the ear of senior leadership in nearly three-quarters of all institutions surveyed. And well over half (59 percent) of respondents indicated that their compliance departments “proactively participate in key business decisions.” Yet challenges remain, with one-third (33 percent) citing “inadequate staffing” and another 26 percent identifying “manual process” as obstacles to implementing an effective compliance program.

### Compliance Department Role for Major Business Decisions

- Collaborates proactively on major decisions: 59%
- Sometimes collaborates on major decisions: 21%
- Not sure: 12%
- Does not collaborate on major decisions: 5%
- Other: 4%

### Obstacles to Implementing an Effective Compliance Program

- Inadequate staffing: 33%
- Manual processes: 26%
- Too many priorities: 21%
- No obstacles: 20%
- Not sure: 15%
- Ineffective coordination: 13%
- Lack in-house resources: 11%
- Inadequate funding: 8%
Risk Management

While a number of organizations remain in early stages of their risk management initiatives, a large group is well on its way to a more robust, enterprise-wide effort, with 39 percent using an integrated or strategic program, and another 26 percent having a well-defined or formal program. Looking forward the next year, cybersecurity continues as the top risk, followed by regulatory change management and, in a tie, third-party risk and fair lending.

### Top Risks Over the Next 12 Months

- **Cybersecurity**: 70% (2016) 66% (2015)
- **Regulatory change management**: 38% (2016) 49% (2015)
- **Third-party risk**: 34% (2016) 30% (2015)
- **Fair lending**: 34% (2016) 29% (2015)
- **Credit risk**: 28% (2016) 25% (2015)
- **UDAAP**: 18% (2016) 18% (2015)

### Risk Management Efforts

- **Percentage who use an integrated or strategic program**: 39% (2016) 34% (2015)
- **Percentage who use a well-defined or formal program but lack company-wide implementation**: 26% (2016) 25% (2015)
- **Percentage who are in the early stages of risk management efforts**: 19% (2016) 24% (2015)
About Wolters Kluwer

Whether complying with regulatory requirements or managing financial transactions, addressing a single key risk, or working toward a holistic enterprise risk management strategy, the Wolters Kluwer Governance, Risk, and Compliance division works with customers worldwide to help them successfully navigate regulatory complexity, optimize risk and financial performance, and manage data to support critical decisions. Wolters Kluwer GRC provides risk, compliance, finance and audit solutions that help financial organizations improve efficiency and effectiveness across their enterprise.

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