Regulatory & Risk Management Indicator

U.S. Banking Industry
December 2019
An Overview

Wolters Kluwer’s Regulatory & Risk Management Indicator measures 10 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:
- Their ability to track regulatory changes
- Complying with new and existing requirements
- Proving compliance to federal regulators
- Measuring the impact of the Home Mortgage Disclosure Act (HMDA) rules
- Assessing overall compliance challenges and obstacles to their institutions

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

What follows in this report are the overall metrics of the Indicator, as well as highlights of our findings.

About Wolters Kluwer

Wolters Kluwer Governance, Risk & Compliance (GRC) is a division of Wolters Kluwer and provides legal and banking professionals with solutions to ensure compliance with ever-changing regulatory and legal obligations, manage risk, increase efficiency, and produce better business outcomes. GRC offers a portfolio of technology-enabled expert services and solutions focused on legal entity compliance, legal operations management, banking product compliance, and banking regulatory compliance.

Wolters Kluwer N.V. (AEX: WKL) is a global leader in information services and solutions for professionals in the health, tax and accounting, risk and compliance, finance and legal sectors. Wolters Kluwer reported 2018 revenues of €4.3 billion. The company, headquartered in Alphen aan den Rijn, the Netherlands, serves customers in over 180 countries, maintains operations in over 40 countries and employs 18,600 people worldwide.

For more information about our Regulatory and Risk Management Indicator, please contact us at GRC-CorporateCommunications@wolterskluwer.com.
Notable regulatory compliance and risk challenges remain high in a number of key areas for U.S. banks and credit unions, according to results of Wolters Kluwer’s 2019 Regulatory & Risk Management Indicator survey. With 704 responses, this year’s survey generated a Main Indicator Score of 95, a 10-point increase from the 2018 score.

This year’s score was influenced by concerns about the impact of HMDA rules; cybersecurity, credit and compliance risk; and an increased level of fines. Concerns about managing increased HMDA analysis and reporting obligations jumped significantly among reporters, particularly in their ability to analyze newly collected HMDA data—moving from 21 percent in 2018 to 35 percent in 2019—and in reporting those expanded data to regulators, moving from 15 percent last year to 40 percent in 2019.

However, respondents indicated more confidence in their ability to maintain compliance, keep track of changing regulations, and demonstrate compliance to regulators, reaching the highest confidence levels in the survey’s seven years, which suggests a strengthening of compliance program management practices.

Over the next 12 months, respondents’ most pressing regulatory compliance challenges include: managing and implementing residential mortgage regulations; keeping current with changing regulations; complying with the forthcoming Current Expected Credit Loss (CECL) accounting standards; deposit account regulations; and compliance program management. Respondents also expressed a high level of concern about their ability to comply with BSA/AML requirements, fair lending laws and regulations, UDAAP standards, new URLA forms and, to a slightly lesser degree, state regulatory requirements.

Regarding the top obstacles cited in implementing effective compliance programs, 47 percent ranked manual compliance processes as a 7 or higher concern on a scale of 10, and 45 percent cited inadequate staffing, both slight increases over 2018 levels.

Forty-eight percent of respondents anticipate higher future investments in strengthening their risk assessment capabilities. Economic factors that respondents’ institutions are monitoring as potential concerns include interest rate fluctuations (87 percent), data privacy issues (85 percent), and recession fears (76 percent).
Compliance Management Concerns Ease, but a Majority Continues to be Very Concerned

- Overall compliance concern levels dropped when compared to 2018 and most other prior years surveyed.

- Concerns relative to technology investment and compliance also dropped slightly this year.

Overall Level of Compliance and Risk Concern (% 7 or higher)

- Organization's ability to maintain compliance with changing regulations
  - 2014: 66%
  - 2015: 63%
  - 2016: 58%
  - 2017: 62%
  - 2018: 64%
  - 2019: 63%

- Organization's ability to keep track of changing regulations
  - 2014: 72%
  - 2015: 73%
  - 2016: 63%
  - 2017: 65%
  - 2018: 64%
  - 2019: 58%

- Organization's ability to demonstrate compliance to regulators
  - 2014: 71%
  - 2015: 71%
  - 2016: 62%
  - 2017: 54%
  - 2018: 61%
  - 2019: 55%

- Organization's ability to manage risk across all lines of business
  - 2014: 72%
  - 2015: 69%
  - 2016: 69%
  - 2017: 65%
  - 2018: 64%
  - 2019: 60%

Technology Investments (% 7 or higher)

- Organization's ability to maintain existing compliance technologies
  - 2014: 55%
  - 2015: 56%
  - 2016: 56%
  - 2017: 52%
  - 2018: 51%
  - 2019: 55%

- Organization's ability to invest in new compliance technologies
  - 2014: 58%
  - 2015: 56%
  - 2016: 58%
  - 2017: 56%
  - 2018: 52%
  - 2019: 56%
Continued Variation in Risk Management Efforts; Escalated Priorities Over the Next 12 Months

- Nearly two-thirds of respondents were able to indicate how widespread their organizations’ ERM usage was, with nearly a third indicating their system is less formal.

- Just 16 percent have a strategic/integrated system in place, which is actively used across departments.

- More risk concerns were shown compared to prior years in all top escalated priorities except cybersecurity risk, which declined slightly this year but remains the most frequently cited area for escalated priority.

**Risk Management Efforts**

- **We understand and manage enterprise risks but haven’t built or put a formal ERM program in place**
  - 30% of respondents

- **We utilize well-defined ERM processes, but those processes are not used consistently by departments throughout our organization**
  - 19% of respondents

- **We have a strategic, integrated ERM program in place that is actively and consistently used by all departments**
  - 16% of respondents

- **Other (please specify):**
  - 2% of respondents

- **Not sure**
  - 32% of respondents

**Top Risks Receiving Escalated Priority Over the Next 12 Months**

- Cybersecurity/data security: 83% (2019), 81% (2018), 78% (2017)
- Credit risk: 33% (2019), 34% (2018), 45% (2017)
- Regulatory/Compliance risk: 50% (2019), 33% (2018), 47% (2017)
- Reputation risk: 16% (2019), 5% (2018), 11% (2017)
- Model risk: 7% (2019), 5% (2018), 7% (2017)
Top Obstacles to—and Anticipated Investments in an Effective Compliance Management Program

- Respondents cited manual rather than automated compliance processes as their largest obstacle to implementing and maintaining an effective compliance program.
- This is closely followed by inadequate staffing and too many competing business priorities.

A rigorous Compliance Management System (CMS) is comprised of several integrated elements; respondents were most likely to invest in strengthening their risk assessment and control processes, as well as in updating their compliance policies and procedures.

- They are least likely to invest in automation and strengthening their consumer complaint management process.

### Top Obstacles to Implementing an Effective Compliance Program

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Manual rather than automated compliance processes</td>
<td>39%</td>
<td>42%</td>
<td>47%</td>
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<tr>
<td>Inadequate staffing</td>
<td></td>
<td></td>
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<tr>
<td>Too many competing business priorities</td>
<td>34%</td>
<td>42%</td>
<td>44%</td>
</tr>
<tr>
<td>Ineffective coordination of compliance efforts across organization</td>
<td>20%</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Inadequate funding</td>
<td>14%</td>
<td>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Not sure</td>
<td>9%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>No obstacles</td>
<td>9%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Lack of board/executive management support</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
</tr>
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### Investment in the Components of a Compliance Management System

- Strengthening of risk assessment process: 48% (High), 31% (Moderate), 21% (Little to No)
- Updating of compliance policies and procedures: 47% (High), 31% (Moderate), 21% (Little to No)
- Expanding compliance control testing process: 43% (High), 28% (Moderate), 29% (Little to No)
- Improvements to training: 40% (High), 31% (Moderate), 30% (Little to No)
- Improving compliance quality assurance capabilities: 38% (High), 32% (Moderate), 30% (Little to No)
- Strengthening consumer complaint management process: 29% (High), 29% (Moderate), 41% (Little to No)
- Automation: 26% (High), 28% (Moderate), 46% (Little to No)
Ability to Comply: Key Factors

- Respondents’ concern about their ability to comply was spread across a number of factors, shown below, though generally they were most concerned with their ability to comply with forthcoming CECL requirements.

- More respondents than prior years (43 percent) have indicated examiners’ scrutiny of their fair lending programs has remained the same over the past year, continuing a trend over several years of more respondents seeing scrutiny remain consistent.

- While 41 percent indicate a slight or considerable increase, only three percent have noticed a slight or considerable decline in examiner scrutiny.

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**Concern about Organization’s Ability to Comply With Various Requirements**

- **CECL standards**: 45% Very Concerned, 20% Somewhat Concerned, 35% Not Concerned
- **BSA/AML requirements**: 44% Very Concerned, 18% Somewhat Concerned, 38% Not Concerned
- **Fair lending laws and regulations**: 41% Very Concerned, 18% Somewhat Concerned, 41% Not Concerned
- **New URLA forms (1003; 65)**: 40% Very Concerned, 20% Somewhat Concerned, 40% Not Concerned
- **UDAAP standards**: 41% Very Concerned, 18% Somewhat Concerned, 42% Not Concerned
- **State-issued regulatory requirements**: 32% Very Concerned, 22% Somewhat Concerned, 46% Not Concerned
- **CRA requirements**: 32% Very Concerned, 19% Somewhat Concerned, 49% Not Concerned

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**When thinking about your organization’s compliance examinations during the past year, how would you describe examiners’ scrutiny of your fair lending program?**

- **We have noticed a considerable increase**: 20% Very Concerned, 19% Somewhat Concerned, 13% Not Concerned
- **We have noticed a slight increase**: 26% Very Concerned, 24% Somewhat Concerned, 28% Not Concerned
- **The level remained the same**: 33% Very Concerned, 37% Somewhat Concerned, 43% Not Concerned
- **We have noticed a slight decline**: 2% Very Concerned, 5% Somewhat Concerned, 2% Not Concerned
- **We have noticed a considerable decline**: 1% Very Concerned, 16% Somewhat Concerned, 13% Not Concerned
- **Not sure**: 8% Very Concerned, 16% Somewhat Concerned, 13% Not Concerned

- * Added response option in 2019
- * Altered “decline” to “slight decline” in 2019
HMDA Data Analysis and Reporting are Among the Top Challenges

- Respondents reported a decrease in challenges related to capturing data and upgrading systems. However, there was an increase in challenges related to training staff, analyzing newly collected data and reporting under the expanded data submission process.

- Given an expanded data set, HMDA analysis and reporting were ranked significantly higher as challenges than in any prior year.

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**Percentage Ranking Compliance with the HMDA Data Requirements as Challenging (Rank = 1 or 2)**

- Accurately capturing data fields: 64% (2017), 60% (2018), 62% (2019), 48% (2016)
- Upgrading systems: 40% (2017), 36% (2018), 39% (2019), 33% (2016)
- Training staff: 45% (2017), 39% (2018), 31% (2019), 44% (2016)
- Analyzing newly collected data: 20% (2017), 16% (2018), 21% (2019), 35% (2016)
- Reporting under expanded data submission process: 15% (2017), 16% (2018), 21% (2019), 40% (2016)