Regulatory Reporting

A PwC approach for smaller banks

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Radical changes ahead for regulatory reporting

Imagine this. In 2025, the Monetary Authority of Singapore (MAS) will grant amnesty to all banks in Singapore on regulatory reporting, if these banks give the Authority full access to their databases of transactional and client confidential data. Sounds scary, doesn't it?

While no bank we've spoken to has agreed to this radical move, we think that banks, whether small, medium-sized or large ones, need to be ready for the changes in regulatory reporting. It might also be good to consider if regulatory reporting is even needed in the future.

In July 2019, we were part of a panel that discussed how small and medium-sized banks can better address technology and regulatory challenges in this fast-changing landscape, with reference to the revised reporting standards of the MAS 610 requirement that will come into effect October 1 next year. MAS 610 represents a significant increase in the granularity of the data required for reporting, increasing from the current 4,000 to the 300,000 data points.

Emerging trends in the industry

As we have observed, regulators around the world are becoming more specific in what they are asking for. The MAS has taken a leaf out of the hat of the European Central Bank (ECB), where they are asking for the data elements at an atomic and data transactional level in a data model, for instance. In ECB, what it is doing is beyond just issuing banks notices on making revisions. It will issue banks a notice in a machine readable format that allows banks to layer upon their data warehouse and it will then extract the information directly. It cuts away the need for the interpretation of information because it tells the regulator exactly what it is. That's eliminating the expertise that needs to reside within the bank and leaving it with MAS to determine what they need.

These are some other key trends in the industry we have noted in the last few years:

Alignment of regulatory and internal drivers

- What regulators are demanding is actually what banks want
- Beyond mandatory compliance, banks are building true business cases

Significant enhancement of key capabilities

- Data governance foundation
- Data standards
- Data quality
- Master and reference data
- Information architecture

Formal data authority and ownership

- Formal CDO appointments
- Chartered governance bodies
- Risk / Finance alignment & design authorities
- Business ownership of data

Significant strategic investment

- Data infrastructure & architecture
- Cloud solutions
- Aggregation, reporting and analytics

Enhanced data control frameworks

- End to end controls
- Integrity / reconciliation
- Independent Attestation
- Reduction in the use of EUCs

Culture change

- Structured training
- Tone from the top communications
- Accountability and Meaningful incentives

Regulators in Asia and globally are not only focusing on what data should be provided but also the processes and infrastructure that support regulatory submissions. This includes the adoption of data governance throughout the enterprise to enhance the controls, processes and quality of the data throughout its entire lifecycle from collection to aggregation, transformation and calculation.

The growing scrutiny over data is evident across multiple regulators in Southeast Asia.

One has taken the lead to enforce BCBS 239 requirements on its list of domestic systemically important banks, another has issued a similar guideline for banks to adopt (although not enforced), and yet another has just formally issued a questionnaire to enquire on the state of data governance maturity in certain significantly important banks.

A change in the approach of solutions

The changes by regulatory bodies and trends observed over the years illustrate the need for banks to find more effective solutions. In our conversations with different banks, some have asked if the MAS 610 requirement will be removed. In our opinion, it is unlikely that the regulator will take away this requirement. What banks should be focusing on, instead, is the need to look at practical, strategic solutions rather than relying on manual solutions.

In the past, a lot of the smaller and medium-sized banks would execute more manual processes leveraging Microsoft Excel, and these were effective then.

Now, because of time and increased regulatory pressure, it will not be wise to implement manual solutions that are prone to human error and control risks. When under pressure, there will be tactical solutions in place, and tasks tend to be done in a manual fashion which puts a lot of pressure on the bank's regulatory team. What banks should do is to get the right individuals to produce the data accurately at one point in time, and also ensure that the aggregation and transformation processes are carried out smoothly.

The (costly) move to cloud?

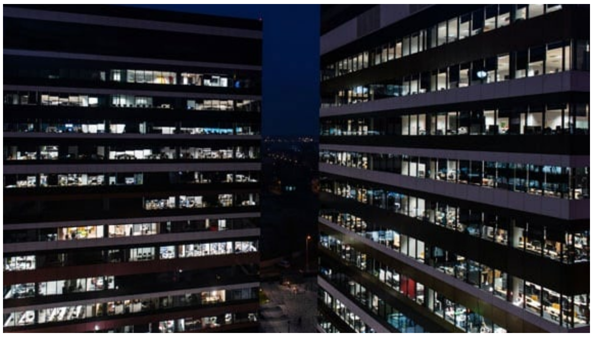
During the session, a short poll was done to find out if participants who represent some small and medium-sized banks will run some of their regulatory reporting processes on a cloud-based infrastructure in two years. The majority indicated that they will not do so and one reason is data security.

In Singapore, this reluctance to move to cloud can be attributed to conservatism where some banks might be playing it cautious due to the lack of confidence in cyber security practices in keeping up with the rapid expansion of cloud services. Considering that many organisations around the world are embracing the move to cloud and since Singapore is one of the top financial hubs globally, banks will need to embrace the adoption of cloud services while at the same time, improve their capabilities in mitigating cybersecurity risks.

In August this year, the Association of Banks in Singapore announced the updated guidelines for banks on using cloud services. These new guidelines, which are revised quite substantially since the guide was first published in June 2016, outline the best practice recommendations to allow for the safe adoption of cloud outsourcing. As such, small and medium-sized banks here can look to understand best practices in vendor management, guidance for due diligence assessment and key controls that need to be implemented. They can then assess which of these can be pragmatically adopted, taking into account their risk appetite, their resource constraints and their commercial ambitions.

Elsewhere in Southeast Asia, we are noticing that banks we work with in Vietnam are moving away from reactive approaches and going towards preventive measures. These banks choose to go on a digital journey, bearing in mind that the move is not due to a regulatory push as a main driver. As part of their digital journey, they see the benefits of having proper data governance that will enhance their overall infrastructure to have better access to more accurate and timely information and which will ultimately be a key driver for any digital initiatives. As this is rooted by a need within the organisation to be competitive, the scope is normally more comprehensive, the solutions are more strategic and the drive is much more passionate.

Besides concerns of data security, we note that one factor influencing banks in the decision to go digital is cost.



As with all small and medium enterprises, smaller banks are struggling to build up financial muscle. During the discussion, another question was posed to the audience on whether smaller banks will use a grant from MAS to make additional investments in technology, if such a grant was given by the Authority. Unsurprisingly, most participants said yes. Perhaps then, what this indicates is the need for a stronger financial push from MAS in the digital journey.

But, does digital have to be an expensive journey if we look at it from a long-term lens?

To be clear, not all banks are hindered by short-term costs and some banks do recognise that making technological investments is necessary for regulatory compliance, as it can produce business benefits in a few areas. This includes lower operational costs, among them enhanced transparency around internal business processes, reduction in staff allocated to reconciliation of multiple data sources, and leveraging valuable information for management reporting that will lead to better strategic decision-making.

Looking regionally for inspiration

As small and medium-sized banks continue to look for ways to meet regulatory standards, it will be wise to look beyond Singapore. We would advise on collaborating with counterparts across the region in terms of the type of data required at different levels. Beyond that, it will also be crucial to look at it from the customer lens.

Banks need to look at the entire spectrum of the end-to-end data, in terms of the movement of the data from the beginning of a transaction all the way through to the report. If they are able to streamline the whole process, the benefit is the ability to perform quicker customer analytics to respond to customer needs even quicker. Some of the global banks shared with us that as a result of streamlined data flow over a more harmonious architecture, they are able to look at credit card applications and approvals in less than three minutes. One of the local banks here actually reduced their loan application process from 14 days to three days. In another case in Australia, through data sharing, the bank and the service provider are both mutually able to obtain further insights on customer buying behaviour and have more targeted marketing campaigns.

In conclusion…

Data governance is not just about policies. It is not just assigning someone to be responsible for the collection and use of the data. In fact, it is about a culture of collecting the right data the first time round, using the least resources and bearing minimal risks.

Whether driven by regulatory mandate or by internal business needs, banks are starting to demonstrate the real business value of investment in better data governance and architecture in the form of cost savings, capital optimisation, and digital enablement.

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