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KPMG Perspectives

Data insights: Regulation's silver lining

TURN the pages of virtually any major financial-services regulatory document, and the word “data” features highly. Banks, capital markets and other institutions are tasked with collecting, calculating and submitting hundreds of thousands, and possibly millions, of data points a month to regulators, with serious consequences for any errors or misleading conclusions.

Not only must reports be accurate, comprehensive and in a specified format, but, increasingly, regulators are demanding evidence of the source, or “traceability”, of the data to verify its credibility. Satisfying these various requirements is a major headache, especially for those organizations with complex structures and disparate systems, where data is typically stored in a range of formats and must be pulled together manually.

With a host of different types of reports covering data associated with risk (e.g., credit exposures), finance, customer transactions, capital (e.g., trading details), treasury (e.g., liquidity levels), profit and loss accounts, and human resources (HR), there is inevitably a significant overlap between different sets of regulatory requirements, and potential duplication involved in preparing submissions.

Governance is another hot topic. In the United Kingdom, the Senior Managers and Certification Regime (SM&CR), coming into effect in March 2016, introduces a new level of responsibility for senior individuals within finan-

cial firms that will become personally accountable for breaching regulations or causing serious damage to their institution. This regime, which could well be replicated in other countries, will put additional pressure on data quality.

Embracing a new data culture

OVER the past few years, financial institutions have devoted much time, energy and money to develop processes for producing regulatory reports. Although some have managed to consolidate and rationalize their technology infrastructure, others have built systems in a piecemeal fashion as a reaction to each new directive. And, with many reports still prepared manually on spreadsheets, the pressure to meet deadlines is intense, especially when multiple regulations have similar submission dates.

What's more, the regulatory world never stands still, so amendments to existing requirements, or new initiatives, can put additional demands on existing systems.

Given the high degree of commonality between different regulations, now could be an ideal moment to establish standardized ways of managing data for every type of requirement. By investing in middle and back-office systems, and building an enterprise-wide platform for data, organizations can “do it once and do it right” with a single data warehouse, rather than creating separate processes to satisfy each regulatory body. An integrated view of data across

products should lead to more consistent, accurate reporting, with clear sources that can be traced instantly.

System upgrades can also involve joint ventures or alliances, or even acquisitions of specialist technology firms.

However, the potential for data lies way beyond mere compliance. Rather than being seen as a burden, the push to meet regulatory demands can instead be viewed as an opportunity to harness the power of data to improve the quality of decisions and enhance the business. By valuing data as a genuine resource, companies can embed governance standards and build a “data culture”, with the support of technology.

Everyday decisions on trading, investment, risk management and loans can be transformed by the availability of powerful information that is more current, more complete and more accurate, enabling faster responses to queries and sales opportunities, and better risk management.

Chief data officers (CDOs), as data custodians, are in a unique position to lay the foundations for sophisticated data-management strategies and coordinate information across the organization. With overall responsibility for data governance and quality, they can help raise analytic capabilities within finance, risk and business units, and link different functions, such as sales, marketing, risk management, customer service and HR, utilizing the skills of centralized data-aggregation specialists. CDOs are not

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purely internally focused, and should also be part of a bank's efforts to better understand customer needs by overseeing the way that customer data is collected and used.

Once companies have a common, standardized approach to data, there are further opportunities for automation through robotics, which can speed up processing times, raise accuracy and cut costs.

Raising the game operationally and commercially

REGULATION can be a catalyst for improved data management, analysis and reporting, offering some remarkable insights. Organizations with a strong data culture and a systematic approach to reporting and analysis will gain a closer understanding of customer behavior; identify market trends earlier; and compare the performance of business units, teams and individuals.

For example:

- By better understanding financial risk exposures, sources of income and customer bases of their trading desks, capital markets firms can now be compliant with the Volcker Rule and compare desks with one another to evaluate both the relative profitability, as well as the risks they're carrying—something they had previously struggled to achieve.

- The quality data that has been reconciled with finance and produced to meet the Basel Committee of Banking Supervision (BCBS) 239 requirement can also be used to improve cross-selling, thanks to accurate models that predict customer propensity to buy. Costs should also come down, through lower operation-

al losses (as a result of making better decisions on loans and other risks) and reduced capital requirements.

Retail banks are making all kinds of new discoveries about their customers, such as direct correlations between account-balance levels and the propensity to buy new products. During a standard regulatory exercise, one bank found that it had relationship managers in certain regions, and thus did not need to spend further resources in these branches.

Advanced data insights offer more complete and up-to-the-minute knowledge, which enables capital markets firms to optimize portfolio composition and carry out trades faster. And, all financial services companies should benefit from faster analysis and more efficient modeling, which improve targeting and pricing, credit and liquidity models, and capital planning.

Global regulatory impact of data

FOR global banks, especially those with regional operations in Europe, Asia and the Middle East, risk data aggregation has become a laborious task of aggregating risk data and positional/transactional data across various jurisdictions with the intent of complying with global, as well as local-regulations with the same goal. This is especially relevant in Asia, where regulators are moving to an increasingly stringent risk-based capital framework. A variety of institutions look at BCBS 239 as a technology challenge, whereas institutions that have a leg up view the issue as enabling a risk infrastructure that is quasi-real

time with a scenario-based risk analytical engine. This infrastructure would feed into the front line and business-decision framework, where traders and the likes factor in funding costs, capital and liquidity implications, while factoring in counterparty and credit risk decisions. This becomes even more imperative when considering trade-booking strategies for global banks in an era where capital is scarce and, ultimately, king.

Seeking out the silver lining

IN a world of shrinking margins, there is a temptation to view regulation as just another tiresome and costly inconvenience. As banks, capital markets and other institutions strive to establish a culture of compliance, they should see this as part of the journey to build a wider data culture. By embracing data under the stewardship of a CDO or equivalent, they can benefit from accurate, timely and insightful analysis that not only meets regulators' demands, but also informs key business decisions, to provide a real competitive edge.

The article was taken from KPMG's publication, entitled "Data insights: Regulation's silver lining" by Atul Subbiah of KPMG China, Sandeep Kurne and Grant Willmott from KPMG in the US.

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