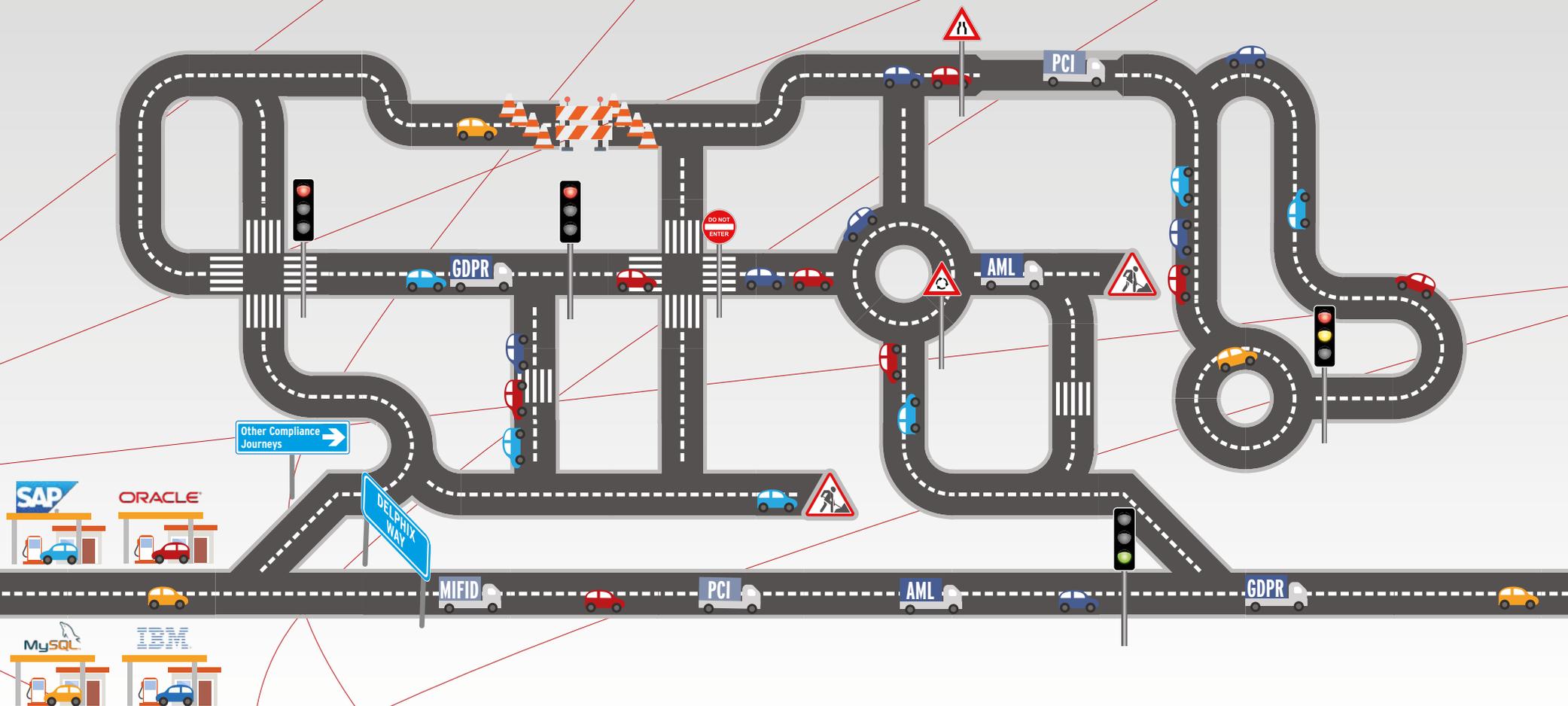# REGULATORY COMPLIANCE FOR BANKS

USING DATA TO UNBLOCK THE ROAD AHEAD

DELPHIX

BANKING COMPLIANCE

The Financial Services industry is on a testing journey. Interest rates are stuck in the slow lane, mobile apps are overtaking branches, and most banks cannot outpace the regulatory changes affecting multiple areas; from knowing their local customers, to the global challenges facing their FX, Credit and Risk lines of business.

To make matters worse, FinTech challengers are driving the international banking agenda, disrupting business models with service innovations which established banks are finding expensive to replicate. It's a zero sum game, more money spent on innovations means less available for compliance and vice versa.

This makes compliance the most serious roadblock for banks today. It's a multi-billion dollar and industry-defining challenge[1] with no let up on the horizon. In our survey of top European banking executives, their biggest fears of non-compliance are financially driven as some 53 percent say they will face fines and 51 percent say they will lose customers to rivals. It is all about the money.

For their very existence, banks across the world depend on following banking regulators' licensing rules. The road to compliance runs on data, but data is also needed for day-to-day operations and to test out innovations. Using first-time accurate data for compliance frees up funds to speed up innovative products and services. Compliance delays or even failure though means operations, as well as innovation, are stuck in a jam.

Compliance comes at some cost. Since the global financial crisis of 2008, increased regulations have
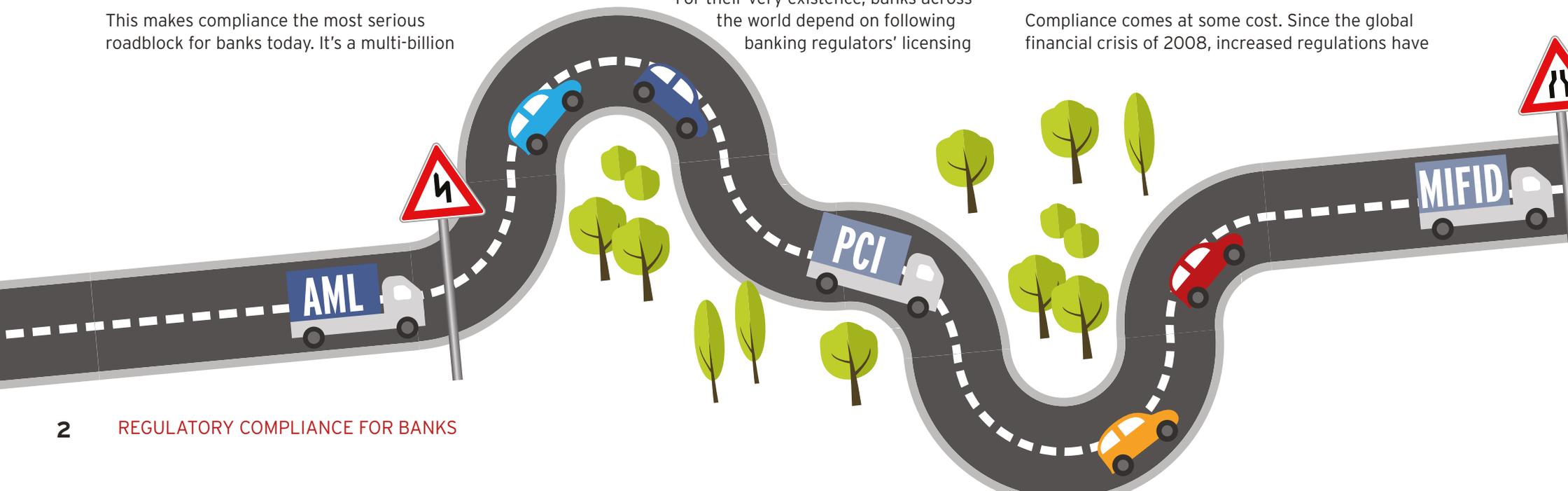
meant higher costs of compliance for banks. In Europe alone, more than 40 legislative and non-legislative measures have been proposed by the European Commission[2]. And there's more to come.

The top 20 biggest global banks have paid more than €211bn in fines[3]. Meanwhile regulatory compliance experts who can help banks steer clear of failure have seen their remuneration packages swell by 50%[4].

The way your data moves around your IT systems matters. This eBook highlights the most pressing regulatory concerns of European institutions. It sets out the route to tackling the data challenges caused by the recent and prolonged spike in regulations and suggests how to contain the cost of complying. We hope it will unblock your journey to compliance.

GDPR

KNOWING YOUR REGULATIONS

According to our survey of banking professionals, the most troublesome current regulations to comply with are; Anti-Money Laundering Directive (59 percent), Market Abuse Regulation (48 percent) and the EU-US Privacy Shield (41 percent). Looking ahead, the industry is worried about getting its reporting structure in place for EU Directive on Security of Network and Information Systems (NIS Directive) at 62 percent, the EU General Data Protection Regulation (GDPR) at 54 percent and Money Market Reform at 53 percent. Failing GDPR alone could result in fines of 4% of global turnover up to some €20 million.

Reporting, internally and externally, is core to compliance. In addition to quarterly financial reporting, banks need to report datasets across a long list of liquidity and anti-market abuse regulations while steering a course to prepare for new ones.

Efficient reporting allows the reallocation of resources for revenue growth. Poor reporting sends a signal to the regulators to widen their investigations. The risk of penalties ties up significant amounts in contingency funds – up to €8.6 billion for one global, high-street bank. This figure is nearly a sixth of the international banking centre, Luxembourg's, GDP at €51.86 billion[5].

Banks are routinely taking major risks with sensitive data. The risk of losing sensitive data along the reporting journey increases when real datasets are copied and moved to a testing environment or a reporting application.

Future regulations like GDPR may also require proof of the data integrity of personal information. Achieving this is not possible for many banks today using their existing processes. In an industry where financial penalties are highly probable and jail time scarily realistic, it's time for you to embark on a safer route.

Imagine compliance processes driven by full, fresh and secure data sets available within minutes, not months or years down the road. Grab your keys.
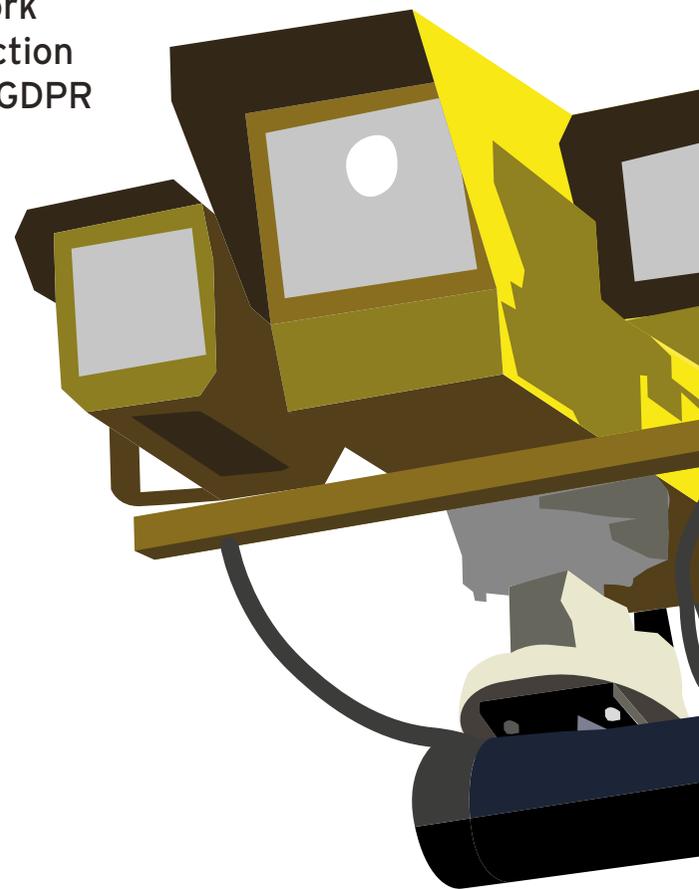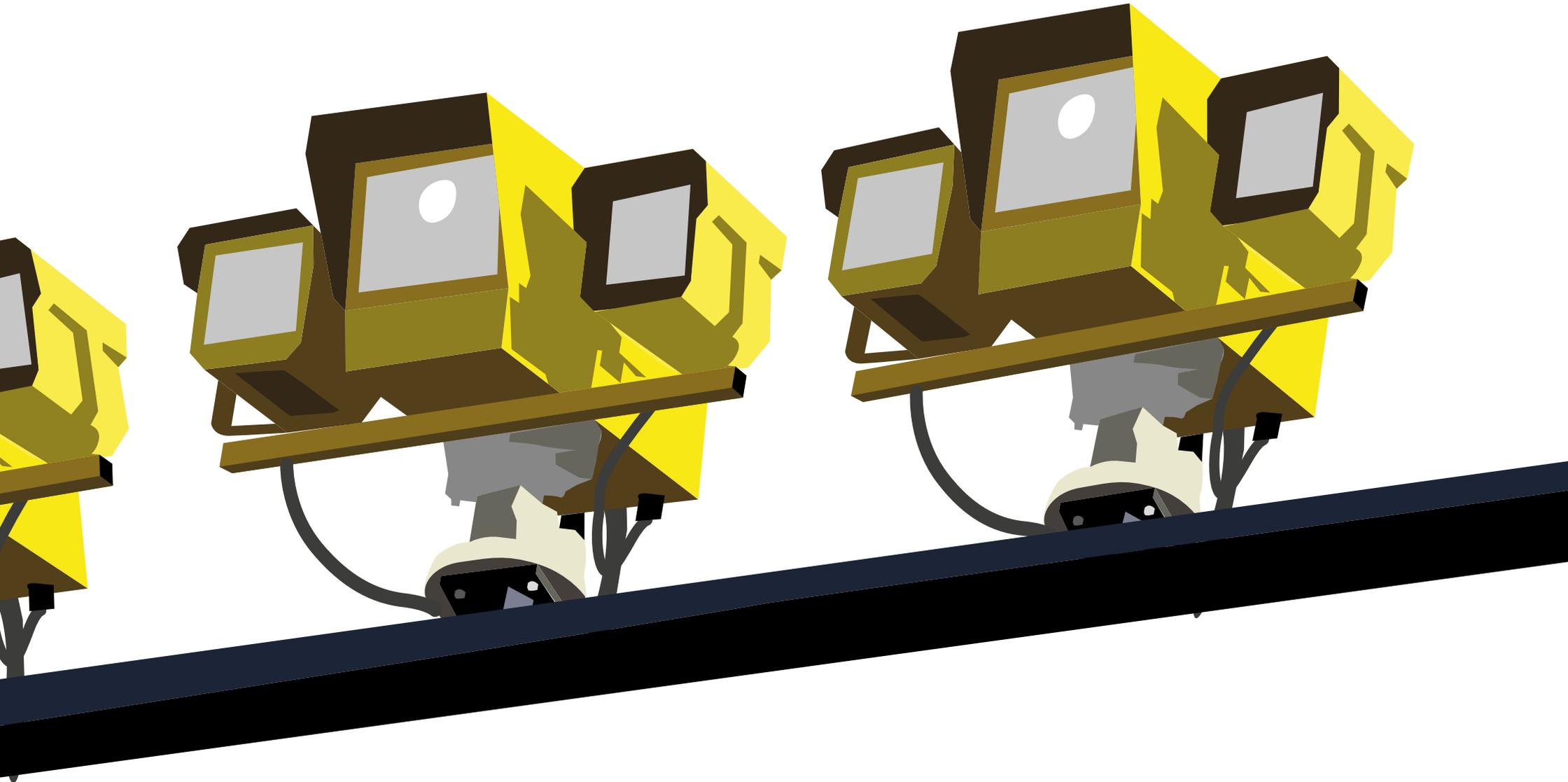
COMPLIANCE BLIND SPOTS

The volume of data submitted to regulators is accelerating. In the US, the length of the mandatory quarterly call reports has grown to 84 pages, up from 30 pages in the 1980s[6]. IT teams are in overdrive, unable to keep up with demands. Many have reached their speed limit.

Today's Compliance Officers have to command a wide range of skills, spending 61% of their time on basic tasks from monitoring to interacting with regulators[7]. Three core data issues, security, delivery and testing are faced by IT teams daily and applying the right technology can add velocity to each.

BUCKLE UP

Cyber hacks and data leaks have dented consumer trust and damaged revenues in many industries[8]. Banks are an obvious target. UK financial firms alone suffer at least 800 data breaches per year[9]. Your data should be secured from the start to the end of your journey. Bad habits mean it may not be and four out of five European Bankers (81 percent) tell us they face data security challenges in the compliance journey. Data masking is often swerved because it used to add days to IT processes. Next-generation data masking delivers security and the responsiveness you need.

SPEED UP

When regulators come knocking, your team better be ready to report. Data delivery is the biggest reporting barrier faced by European Banks as almost all (92 percent) say they face this problem. Our survey proves 36 percent of financial services professionals are at high risk of missing reporting deadlines[10]. Complex production environments and multiple copies of the same data can make reporting slow and cumbersome, while manual data delivery risks being less reliable, due to human error. Automation is the only way to go.

CHANGE UP

Roadworthy reporting applications require rigorous and continuous testing. Poor, stale data and limited environments risk missing compliance deadlines. Although seen as a lesser challenge than security and delivery, two out of five European Banks have data testing issues. It's time to kick things up a gear or two. A little simulation, or more accurately, data virtualisation, goes a long way.

**SECURITY**

DELIVERY

TESTING

BUCKLE UP

For every change to a reporting application, real data has to be copied and refreshed numerous times throughout its development and test cycle. Much of this data is highly sensitive. Yet, for adequate reporting, regulators do not always require sensitive data such as credit card details, personal addresses and phone numbers. Data provisioning is already a highly manual process, but protecting the data adds even more complexity and cost. However, there is a shortcut.

Data masking helps shield sensitive business and personal information, so even in the event of a data breach, hackers gain nothing of value. Some 59 percent of your peers in Europe find data masking troublesome and prevents real-time data from being used. Data Masking has always been a painful task adding days to the provisioning process meaning banks often opt out and risk using sensitive data. However, with the forthcoming GDPR, the legal requirement to masking sensitive data is a lot more explicit and the fines for failure astronomical.

Now, you can mask all your sensitive data without the cost and delay using new technology that combines data masking with data virtualization. This allows you to mask data just once and then deliver over and over again. Masking only once allows data to be delivered on demand where it is needed, without human intervention. Fail-safe protection means banks can deliver this data anywhere, across departments, third parties and cloud providers, to save IT costs whilst reducing compliance risk. This might be useful for nearly half of you (49 percent) who believe data masking will improve your organisation's compliance journey.
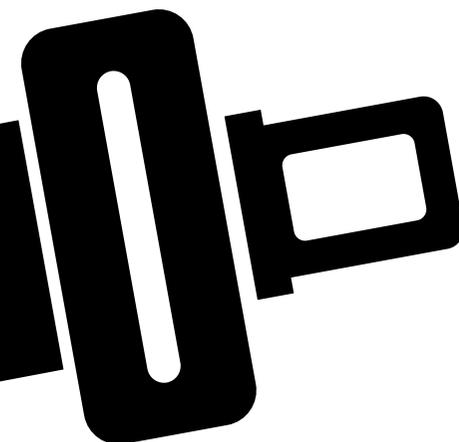
GDPR AT EUROPEAN BANK

A large Northern Europe bank had a six month project to mask all sensitive data in preparation for the new EU General Data Protection Regulations (GDPR). Masking 9,500+ data sources used by 128 applications would have taken over two years using current technology and process. Using Delphix the bank automated much of the data masking and delivery process meeting the timeline requirements and saving significant service and storage costs. Now GDPR compliant the bank can provide masked data anywhere in the business in hours, rather than days driving increased agility and innovation.

SPEED UP

So security is sorted. Over one-third of your peers (36 percent) find reporting deadlines hard to overcome. Copying and refreshing data is highly manual and creates process bottlenecks which can take multiple administrators several weeks to work through. In our survey, speeding up data delivery (46 percent) is the top capability banks crave to improve their compliance reporting. Next-generation data delivery smoothes out bumps in the road by automating the process and removing physical constraints.

This new route to compliance, known as a data virtualization engine, also lets you control your data by knowing where it is, access data from any point in time, bookmark and retrieve it to meet audit requests. Data Virtualization, as part of data delivery, puts you in the driving seat. Vroom vroom.

ANTI-MONEY LAUNDERING AT GLOBAL BANK

In 2012, one of the world's largest high-street banks was caught facilitating money laundering and requested by a regulator to present a report to show how this large-scale crime happened. Failure to do so meant their operating license was under threat. They had to act fast.

Creating a report of this kind used to take 17 days and the bank contemplated telling the regulator it could not be done in time. With next-generation data delivery, time of reporting was reduced to just 25 hours – a reduction of 94%. By instantly creating virtual databases mirroring physical ones, the bank was able to make and distribute data swiftly to reporting teams.
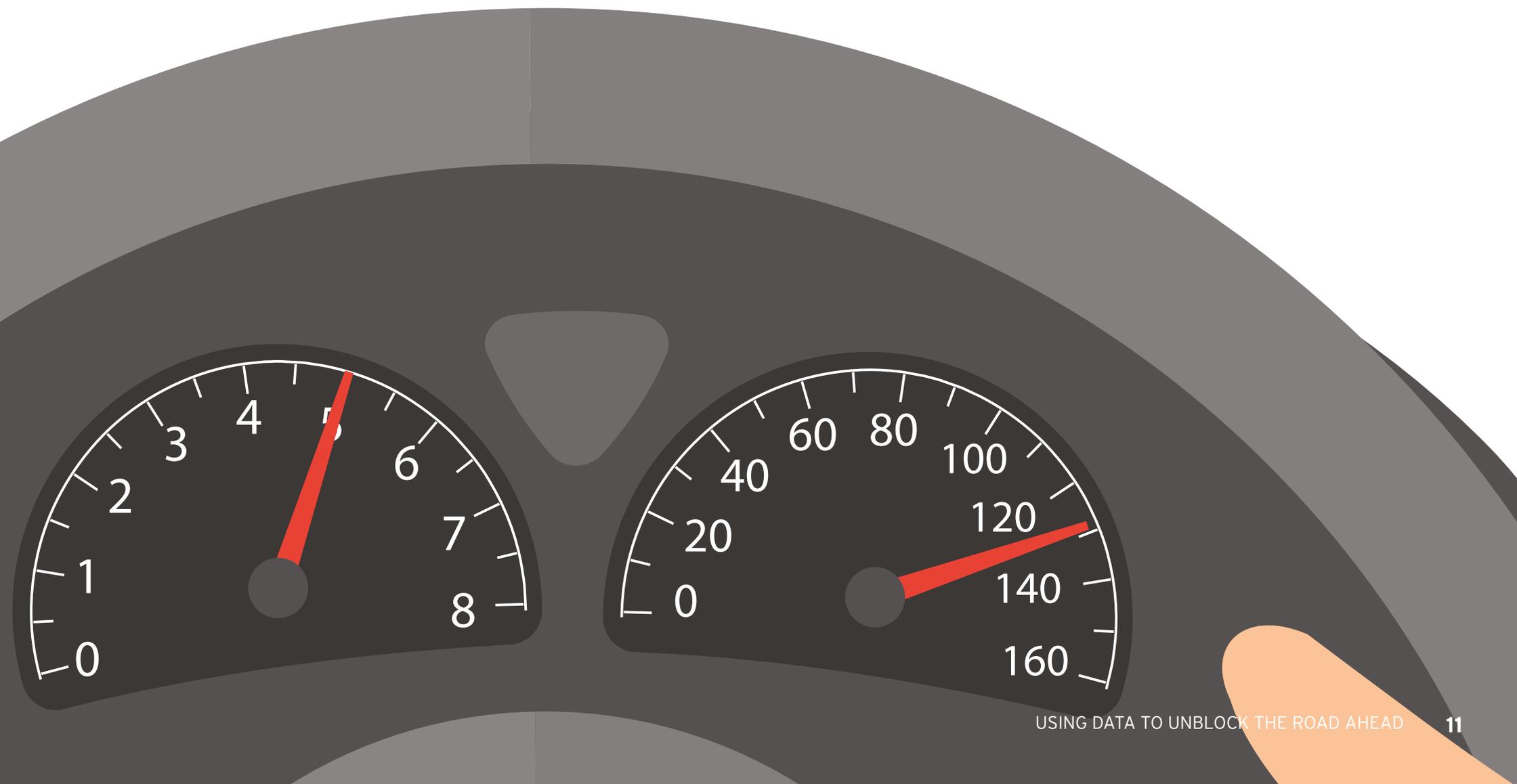
CHANGE UP

In a recent European Banking Authority stress test across 51 banks, some 82 percent of European banks failed. The results showed a three-year economic shock would set banks back €226 billion of capital[11]. Such compliance failure can have serious consequences. Today regulators can even restrict banks' share buybacks and payouts to shareholders[12]. A new route to compliance beckons.

Creating multiple testing environments boosts efficiency but rapidly increases storage costs. Budgets are tight and doing more testing with less resources is the second biggest capability (34 percent) banks want today during the compliance journey. That demand was closely followed by the need to use real-time copies of data for testing, nearly one-third (31 percent) of European Banks agree in our survey. Testing with subsets or stale data bypasses this problem but sacrifices quality. This is not the strategic solution to compliance your team needs.

Robust testing requires non-production environments to be set up exactly the same way as the production environment they test. This means all the different data sets need to be synchronised and rigorously version-controlled. This is not straightforward.

Data virtualization empowers you to test more, without taxing production systems so your team can go faster and maintain quality. Testers and analysts have their own copies of real-time and archive data and work in parallel only on their own subset relevant to the immediate reporting task. This speeds up the detection of errors and ultimately speeds up the journey to compliance.

DODD-FRANK AT LARGE EUROPEAN BANK

Data virtualization has helped several global banks respond to the data testing demands of regulations such as Dodd-Frank and European Market Infrastructure Regulation (EMIR). One large European bank used data virtualization to meet its Dodd-Frank reporting requirements. By maintaining a complete up-to-date transaction repository, reporting environments are available on-demand. This allows reporting within 15 minutes of a trade execution, while also clearing messaging backlogs and eliminating reporting failures.

THE JOURNEY AHEAD

The journey to compliance has many roadblocks. Copying and moving ever-increasing amounts of data for regulatory reporting has become riskier and more difficult. At the same time, banks are under immense pressure to innovate faster against the disruptive influence of new challenger banks. All are competing for the same IT resource. Compliance reporting can take some of the world's biggest and resource-rich organisations months to complete. These timeframes are disappearing in the back mirror. It's time to speed up.

Data virtualization has helped some of the world's biggest banks report faster and more accurately. Data masking has evolved too and no longer needs to be manually repeated over and over again. This leaves your team the time to focus on value-added work such as data interpretation and analysis. It also means data breaches are less of a concern.

Banks should embrace future regulatory demands because they lead to higher customer satisfaction and profitability. If your data security, delivery and testing are done right you are nearly on the home stretch.

Great compliance needs great data. This can be achieved even if your budget is limited. To find out more about how the Financial Services industry benefit from Delphix's data expertise, there are two routes you can take:

All other routes →

DELPHIX DATA VIRTUALIZATION

Delphix specializes in data delivery. Our suite of next-generation data masking and data virtualization offerings put banks in the driving seat of regulation. Securely delivering data where and when it is needed for testing, reporting and compliance, frees up IT resources. With Delphix on-board, banks can drive innovation and overtake Challengers even as the regulatory burden rises to meet customer and market expectations.

B1G D4T4
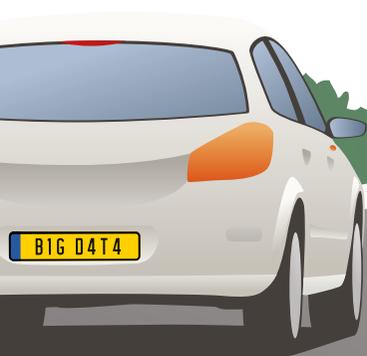
WANT TO KNOW MORE?
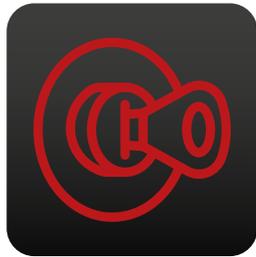
Fancy a test drive? Try our virtualization engine for free here

https://www.delphix.com/products/free-trial-request

Ready to go? Master compliance reporting by arranging a consultation with our experts.

https://www.delphix.com/contact-us

1. http://www.ft.com/cms/s/0/e1323e18-0478-11e5-95ad-00144feabdc0.html#axzz4GkeYoKWj

2. http://ec.europa.eu/finance/general-policy/policy/map-reform/index_en.htm#row1

3. http://www.ibtimes.co.uk/20-global-banks-have-paid-235bn-fines-since-2008-financial-crisis-1502794

4. https://next.ft.com/content/8c9bdac4-8281-11e2-843e-00144feabdc0

5. http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?year_high_desc=false

6. http://www.housingwire.com/articles/35929-why-are-there-almost-no-new-banks-since-the-crisis

7. https://risk.thomsonreuters.com/content/dam/openweb/documents/pdf/risk/report/cost-compliance-2016.pdf

8. http://www.belfasttelegraph.co.uk/business/news/talktalk-halts-customer-exodus-after-cyber-attack-but-broadband-base-9000-lower-34898411.html

9. http://www.thisismoney.co.uk/money/saving/article-3108908/Data-breaches-banks-financial-firms-double-two-years.html

10. Delphix Vanson Bourne Survey 2016

11. http://www.reuters.com/article/us-eu-banks-tests-idUSKCN1092EA

12. http://www.ft.com/cms/s/0/9a018afe-3e37-11e6-9f2c-36b487ebd80a.html#axzz4GB56rYkA

DELPHIX

68 King William St,
London
UK EC4N 7DZ

delphix.com