Regulatory & Risk Indicator eBook

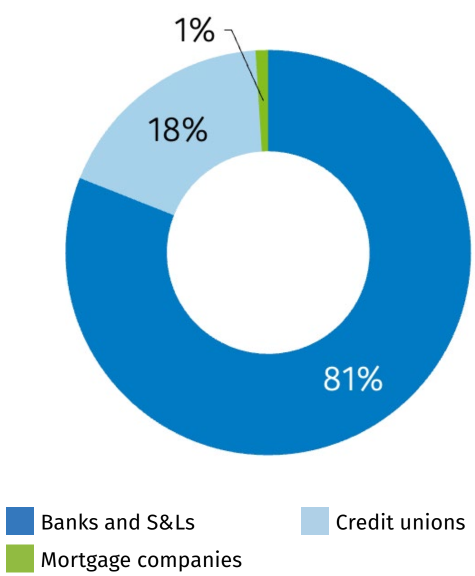
Key findings from the 2022 Wolters Kluwer Regulatory & Risk Indicator Survey

Wolters Kluwer

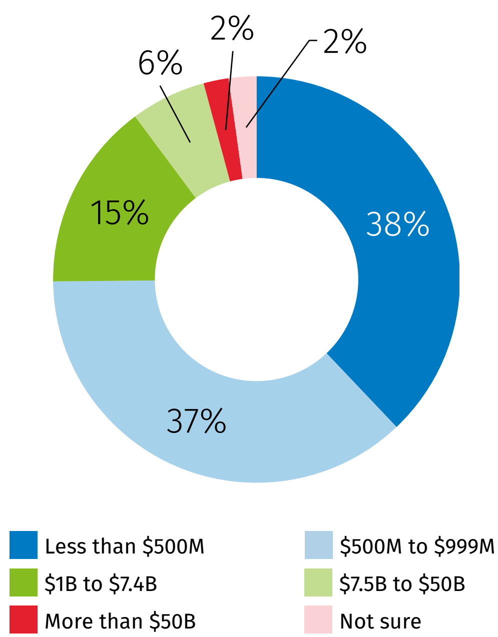
Indicator score is the pulse of the financial services industry

The Wolters Kluwer Regulatory & Risk Indicator survey provides insights into regulatory and risk trends in the U.S. banking industry. In its tenth year*, the survey takes the pulse of the U.S. banking industry by measuring trend information on regulatory and risk concerns, realized and anticipated regulatory impacts on institutions, and the level of banks', credit unions' and other financial institutions' current risk management efforts. The survey's data generates a regulatory and risk management "pain index" that signals areas that will likely require attention in the coming year.

Type of organization



Asset segment



"Our Regulatory and Risk Management Indicator is a unique industry metric that combines our leading proprietary regulatory data and analysis with direct input from a cross-section of organizations within the financial services industry on their top compliance and risk management concerns. Our Indicator provides a transparent and holistic measurement of the ongoing and emerging regulatory and risk management pressures that business leaders face in today's volatile and rapidly changing marketplace."

Steven Meirink
Executive Vice President and General Manager
Wolters Kluwer Compliance Solutions

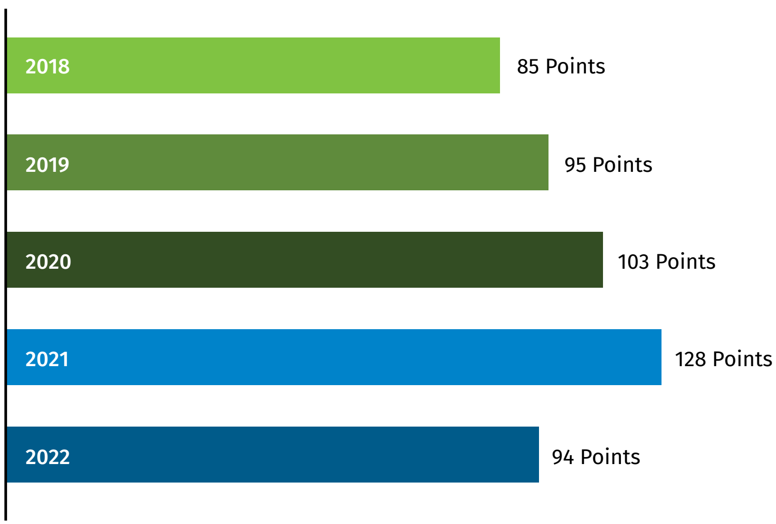
*The 2022 Regulatory and Risk Indicator survey was conducted nationwide between July 27 and September 9, 2022 and generated 328 responses.

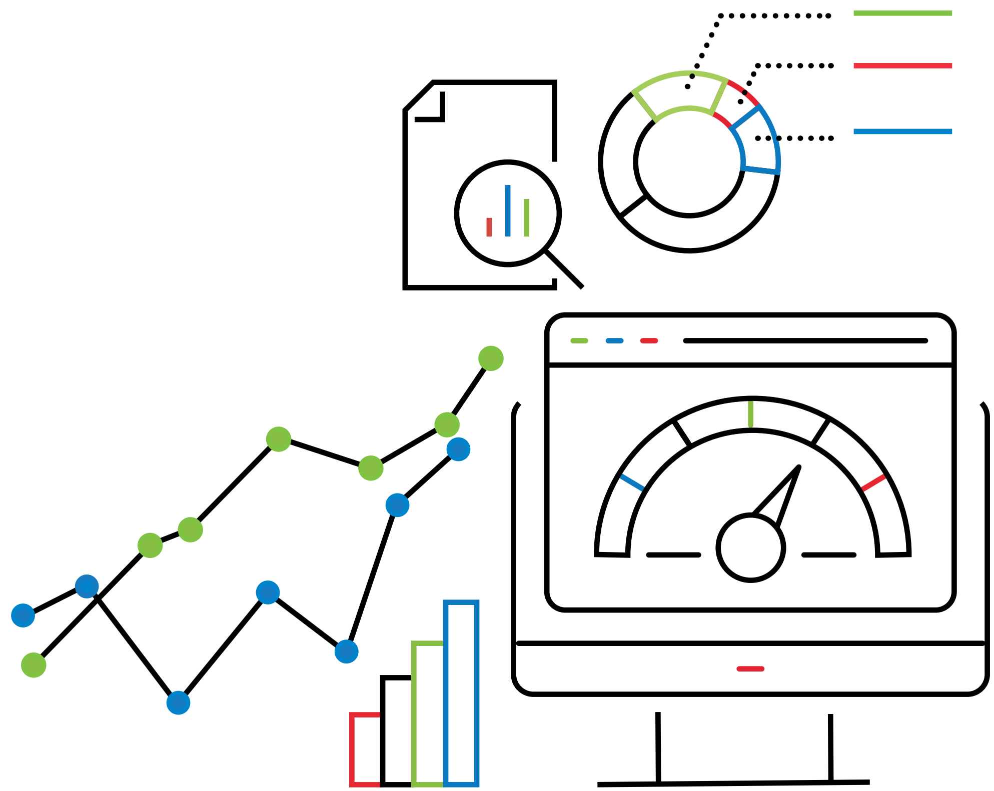
Main indicator score returns to pre-pandemic levels

This year's survey generated a Main Indicator Score of 94, representing a 34-point decline in the overall score for U.S. banks and credit unions compared to the 2021 score of 128. The Main Indicator Score is based on several factors, including the number of new federal regulations, the number of enforcement actions, and the dollar amount of fines imposed on banks and credit unions over the past 12 months, together with survey respondents' input.

While this is the first decrease in the Main Indicator Score in four years, it is consistent with pre-pandemic levels. This year's decline was driven mainly by a significant drop in the dollar amount of regulatory penalties and fines and the number of associated enforcement actions compared to 2021. However, tracking regulatory change, proving compliance to regulators, compliance with regulatory requirements, compliance management challenges, and the number of new major regulations all had increased scores over 2021.

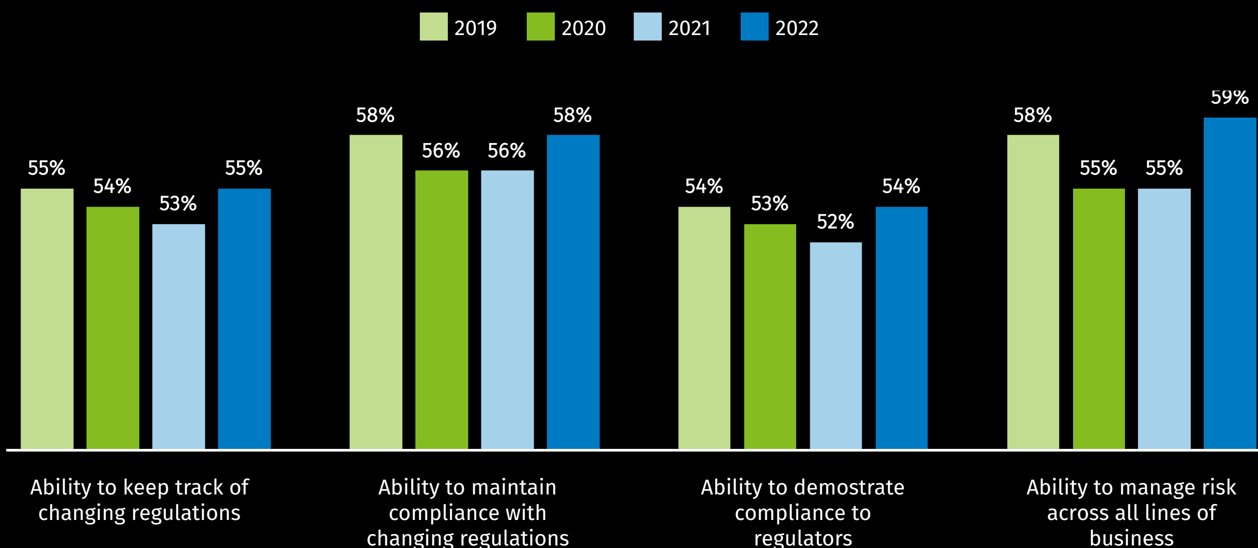
Historical Main Indicator Scores





Keeping current with changing regulations remains key concern

Keeping current with changing regulations consistently ranks as a top challenge, no matter the lender type or asset size. When asked about the overall compliance and risk areas demanding their focus, respondents identified the ability to manage risk across all lines of business as their top concern (59%). This was closely followed by the ability to maintain compliance with changing regulations (58%), the ability to keep track of regulations (55%), and the ability to demonstrate compliance to regulators (54%), all factors up by several points over last year’s survey.



Meet regulatory change with control, efficiency, and certainty

Managing the volume and complexity of regulatory changes, understanding their impact on your institution, and adapting compliance and business processes accordingly is enormously challenging.

Our [Regulatory Change Management Data Feed] contains a comprehensive library of laws, rules, regulations and guidance for US Federal, State, and Global regulatory bodies and agencies. Paired with enriched regulatory updates, it helps you expedite your review and quickly assess the impact of new and changed regulations. The Feed can be tailored specifically for the jurisdictions where you do business, so you only get what you need.

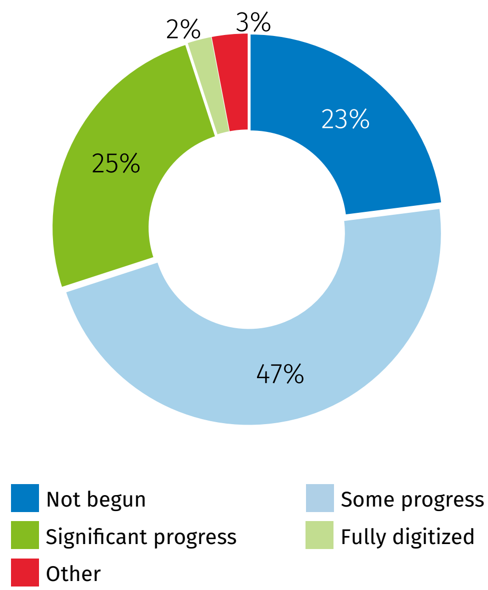
[OneSumX® for Regulatory Change Management] provides value-added regulatory content linked to your institution's risks, controls, policies, and procedures. Additionally, [OneSumX ProViso] analyzes and clusters regulations across multiple jurisdictions to automate an otherwise costly, manual, and difficult compliance management process. These technologies are augmented by a team of Wolters Kluwer compliance experts.

Digital transformation: Slow but steady growth

The global pandemic prompted an acceleration in digital transformation efforts that enabled institutions to meet rapidly changing market pressures and evolving consumer expectations. We asked this year about progress toward digital transformation in lending and the motivating considerations driving the movement toward digitization.

Nearly three-quarters of respondents indicated they have made some progress with digitizing their lending capabilities, though only 28 percent (rounding) indicate they either have made significant progress or are fully digitized. Getting behind the numbers, credit unions and institutions with assets of more than $1B were significantly more likely to have made more progress with digitizing their lending processes than other populations.

We also asked our respondents to rate the importance of a set of business and competitive drivers for their digital lending business and technology strategy for 2022 and 2023. Increasing profitability was considered the most important driver for digital lending business and technology, followed closely by enhancing customer experience and growing loan volume with new customers. If anything, adapting during the pandemic taught both institutions and consumers a lot and the survey results reflect that. Both reducing expenses and reducing fraud were the lowest rated, though still rated highly by 64 percent of respondents with a mean score in the "very important" range.



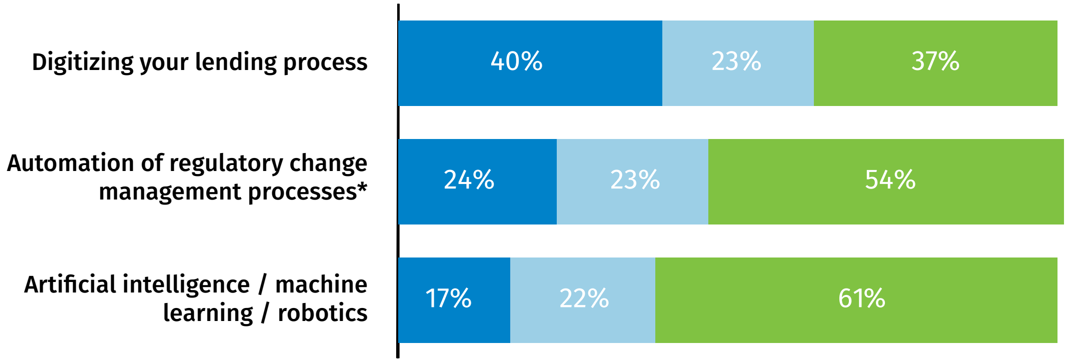
Transform your digital lending strategy end to end

We believe lending should be frictionless, secure, and trusted from the borrower to the secondary market. eOriginal®, our eAsset platform, accelerates the rate at which digital financial assets are closed, collateralized, securitized and sold into the secondary market—fueling greater capital efficiency and leverage. Our eNote and eSign solutions demonstrate that the loan documents are created with the consent of both parties. eVault enables an auditable chain throughout the lifecycle of the loan to ensure that documents have not been altered without a record of the alteration. Our OmniVault solution is the industry's first multi-asset class eVault solution

Expere® is a centralized compliance document system that seamlessly serves multiple lines of business and channels, providing a complete set of tools for creating, managing, integrating, testing and deploying documents.

Our Web-based tool iLien uses automation to replace many of the traditional manual processes that so often lead to errors, oversights, and the need to repeat steps. iLien combines automated monitoring, reporting, and UCC continuations into a single lien management solution. As a result, you can be more confident maintaining the vital perfection of your liens.

Investments in digital transformation to accelerate



**Note: numbers may not add up to 100% due to rounding.*

Looking ahead to the next 12 months, 63 percent anticipate “significant” or “some” acceleration of their organization’s digital lending processes. Forty-seven percent of respondents anticipate accelerating their investment in regulatory change management processes.

“Clearly, the banking industry increasingly recognizes the upsides in employing and more fully leveraging digital processes and automation, particularly given their impact in reducing or eliminating time-consuming and less accurate manual processes from their everyday workflows. Ultimately, embracing digital transformation can help improve the customer experience, foster inclusivity, and allow lenders to more effectively compete.”

Simon Moir
Vice President, Banking Compliance Solutions
Wolters Kluwer Compliance

Credit, cybersecurity, and compliance risk: Escalated priority anticipated

Both credit risk and compliance risk saw a significant increase. Escalated credit risk concerns may be related to the continuing effects of the pandemic and the current economic environment. Assessing borrowers' credit quality became more challenging during the pandemic because of the atypical nature of the crisis and the unprecedented public sector support available. Regarding compliance risk, it's clear throughout the survey responses that financial institutions are very concerned with their ability to appropriately identify, assess, and address the myriad of laws, rules, and regulatory changes impacting their business models.

The top five risks receiving escalated priority are shown in the below graph. Despite trending slightly downward in 2021, concern about cybersecurity increased in 2022, keeping it top-of-mind for almost three-quarters of our respondents for another year. One surprise was the four-point decline of third-party risk, given how closely related it can be to cybersecurity concerns and considering the trend in bank partnerships with fintech firms to help them provide innovative products and services to their customers.

Grow your commercial lending portfolio with confidence

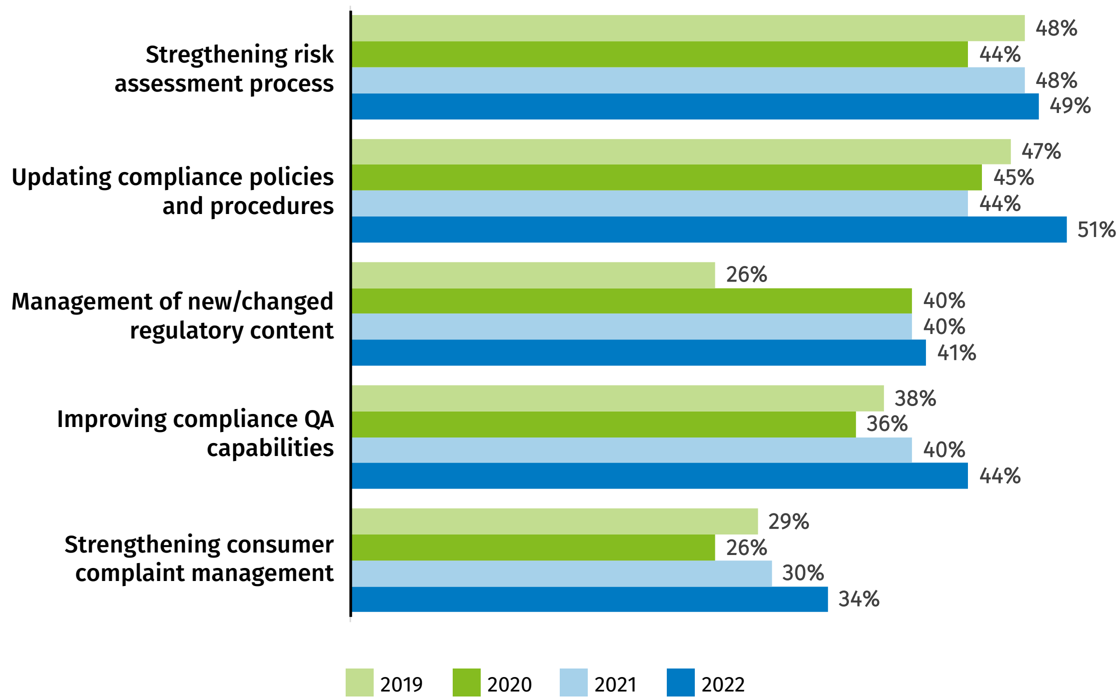
The anticipated escalation in priority for managing credit risks remains high. However, there's little mystery here as lenders rethink credit models that never anticipated the complex challenges presented by the global pandemic.

A system like **CASH Suite™** can help reduce commercial lending credit risk by evaluating potential borrowers with greater consistency through streamlined analysis and stress testing of financial statements and tax returns.

High investments in compliance program management anticipated

The top four components of a compliance management program where respondents anticipated making high investments are shown in the accompanying graph. The increased attention to these components may reflect the changes the pandemic forced on financial institutions. We saw a marked increase in new regulations that put pressure on compliance professionals and strained regulatory change management programs.

Respondents anticipating high investment in the components of a compliance management program



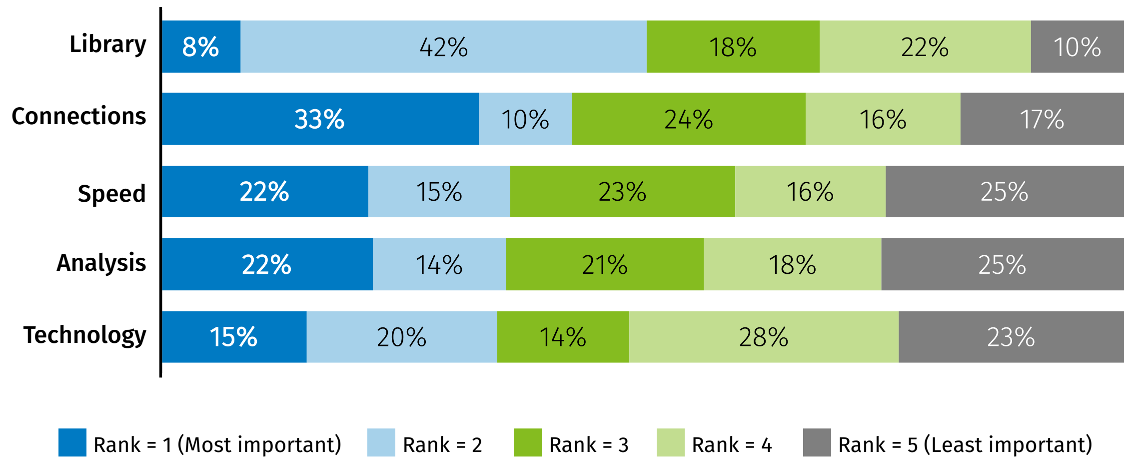
Fuel compliance program management with technology

All eyes on compliance program management and [OneSumX for Compliance Program Management] provides a solution for managing the complete breadth of your regulatory requirements, from defining policies and procedures, to creating risks and controls to board reporting. This integrated compliance management system features:

- Regulatory change management
- Compliance and ethics governance
- Compliance risk and controls assessment
- Compliance testing
- Complaint management
- Regulatory exam management

Library ranks very high as an important feature of regulatory change management process automation

When asked to rank the importance of regulatory change management process automation features, survey respondents overwhelmingly ranked the regulatory library as the most important. Other features, such as speed, connections, analysis, and technology were all weighted relatively evenly.



“In today’s fast-paced regulatory environment, understanding what laws, rules, and regulations apply to your organization and mapping that regulatory library to your internal policies, procedures, risks, controls, products, services, organizational units, and other elements of your compliance program is critical and expected, regardless of the size of the institution.”

Elaine Duffus
Senior Specialized Consultant
Wolters Kluwer Compliance Solutions

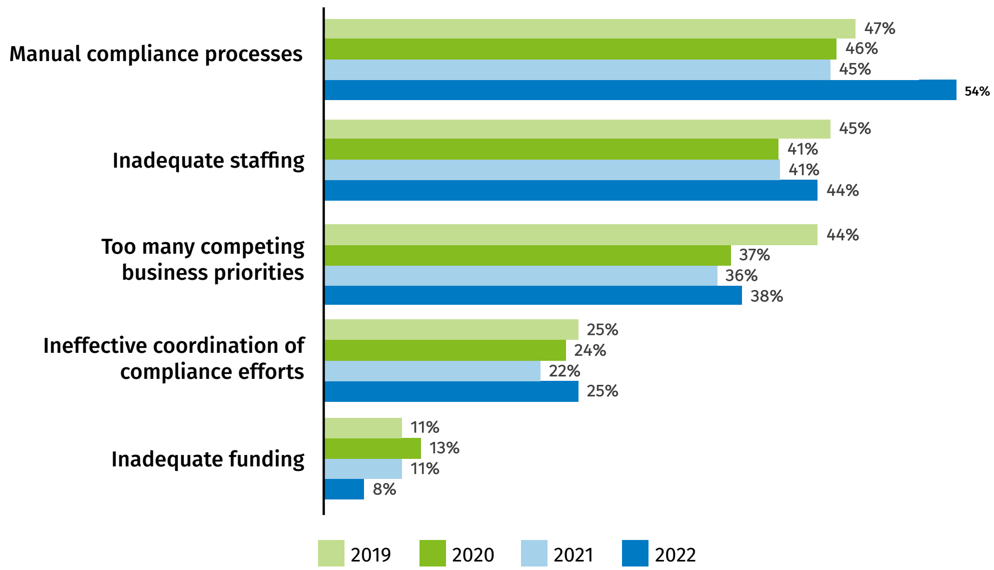
Manual processes and inadequate staffing rank high as obstacles to implementing an effective compliance program

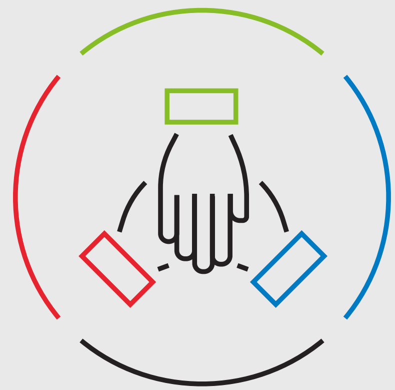
Financial institutions confirmed several challenges in implementing an effective compliance program. Our respondents cited a reliance on manual processes, inadequate staffing, and too many competing business priorities as their top roadblocks. These findings highlight the continued need to implement technology that will automate the regulatory change management process and allow compliance professionals to focus on more value-added endeavors.

Not surprisingly, inadequate staffing remains a concern. This drives the need to implement technology that will automate administrative tasks and allow compliance professionals to focus on activities that require a higher level of expertise.

Despite tremendous strides toward automation, there is still a heavy reliance on manual processes. Eighty-five percent of respondents stated they are using manual processes sometimes or often, while only nine percent are using them rarely or never.

What are your biggest obstacles to maintaining an effective compliance program?



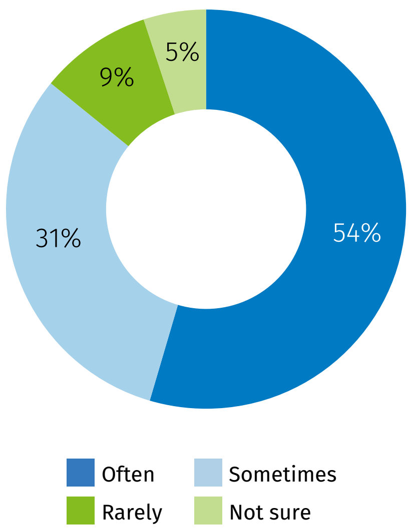


Extend your team with our consultants

With today's diminished bench strength and tough competition for specialized expertise, many institutions are bringing in experts to fill the gap for targeted engagements. Our Advisory Services team can conduct a [Compliance Management System (CMS) Review] or a [compliance risk review] focused on BSA/AML, UDAAP or [fair lending]. They can additionally assist with exam preparation or remediation.

Reliance on manual processes remains high in managing compliance despite creating obstacles

Despite tremendous strides toward automation, there is still a heavy reliance on manual processes. Eighty-seven percent of respondents are still using manual processes or spreadsheets at least some of the time for their compliance management efforts, which more than likely include tracking and maintaining new and changing regulations and collecting, analyzing, and reporting on regulatory required data.



Amp-up technology to manage risk and compliance company-wide

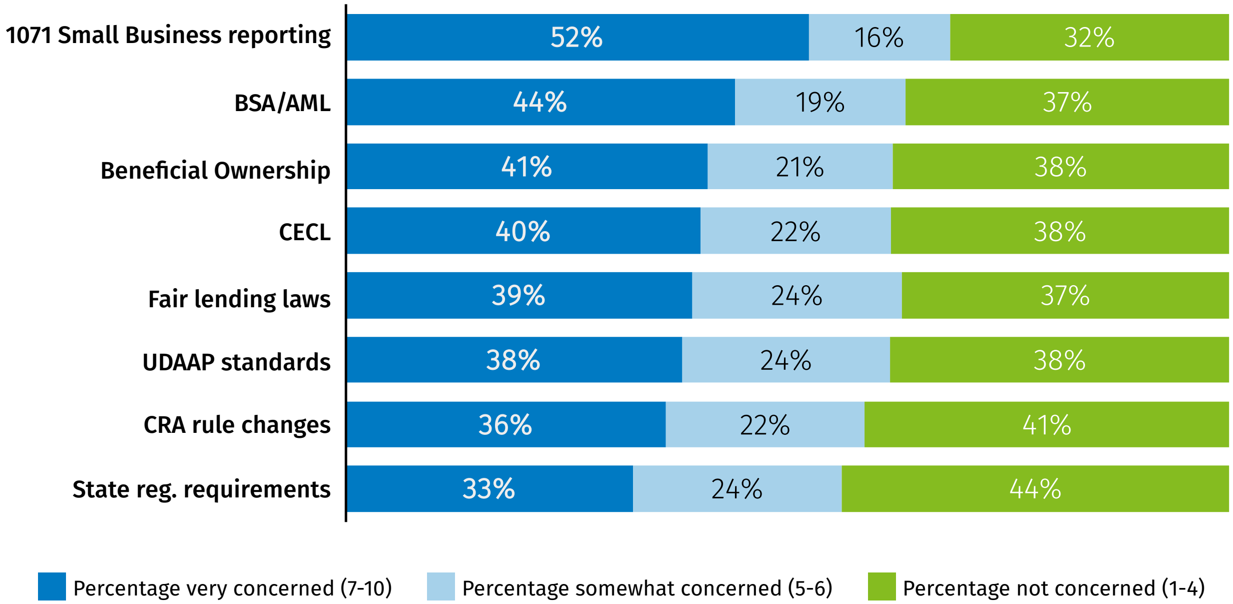
- CASH Suite
- CRA *Wiz*® SaaS
- Document Preparation Solutions:
  - Expere
  - IdsDoc
- eOriginal
- Fair Lending *Wiz*
- HMDA *Wiz*
- Lien Solutions
- OneSumX for Regulatory Change Management
- Small Biz *Wiz* (Section 1071)
- SmartSign™

"We have seen increased regulatory pressure to mature compliance program management processes through the use of artificial intelligence and automation, especially as institutions grow in size and scope. Moving away from outdated, manual processes and investing in compliance technologies yields high returns with more streamlined processes, improved data integrity and increased transparency in reporting."

Chuck Ross
Vice President and Segment Leader,
Investment Compliance
Wolters Kluwer Compliance Solutions

Concerns jump over ability to comply with key regulations

Levels of concern about key requirements and regulatory changes



"The next several years will continue to bring efforts to promote transformational change in the financial services industry, advance equality and racial justice, boost inclusion, and further strengthen the overall compliance ecosystem. Accordingly, the expectations for Compliance, Fair Lending, and CRA Officers to manage risk and lead regulatory change initiatives will continue to increase. Now is the time to prepare by conducting a comprehensive compliance, and fair and responsible banking program review and assessment."

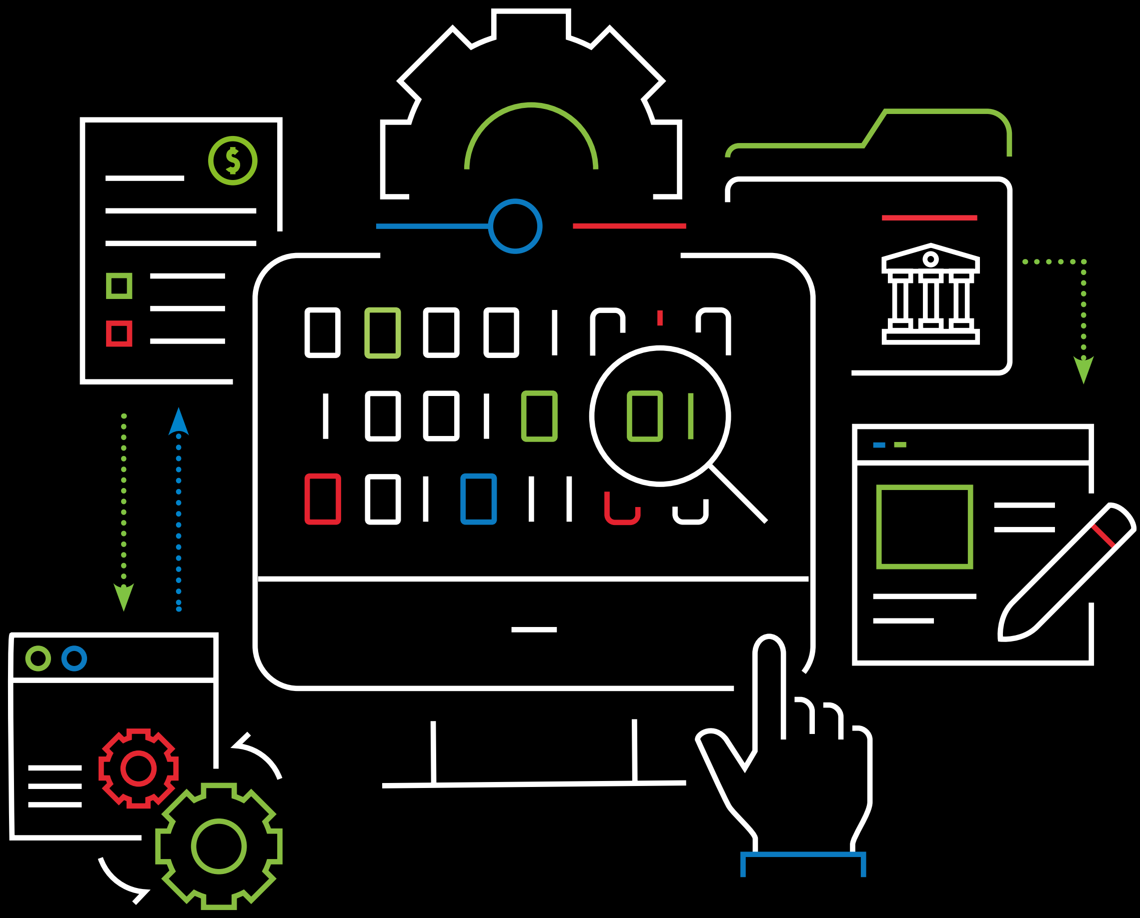
Timothy R. Burniston
Senior Advisor for Regulatory Strategy,
Compliance Solutions,
Wolters Kluwer

Ramp up now for rule changes in CRA and 1071 Small Business lending

The industry is bracing for the implementation of the CFPB's Small Business lending rule and a revised CRA rule. Consider us your trusted resource for:

- Technology solutions to capture, analyze, and report on the new and additional data
  - CRA *Wiz*
  - Small Biz *Wiz*
- Advisory services to implement policies and procedures and prepare for eventual reporting requirements and analysis

Visit our Small Business Compliance Lending Resource Center and sign up for alerts. And be sure to attend the CRA & Fair Lending Colloquium. This annual conference focusses on regulatory developments and oversight trends in CRA, HMDA, fair lending and UDAAP. Both of these rules will be on the agenda.



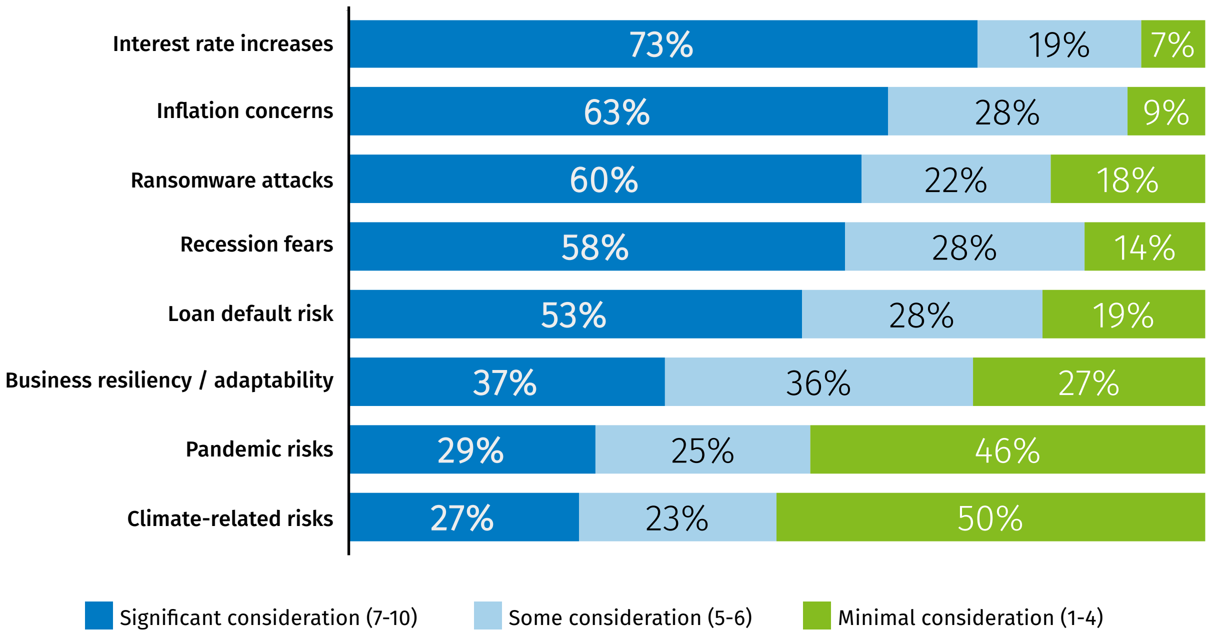
Demands of BSA/AML compliance and CECL changes require forward-looking solutions

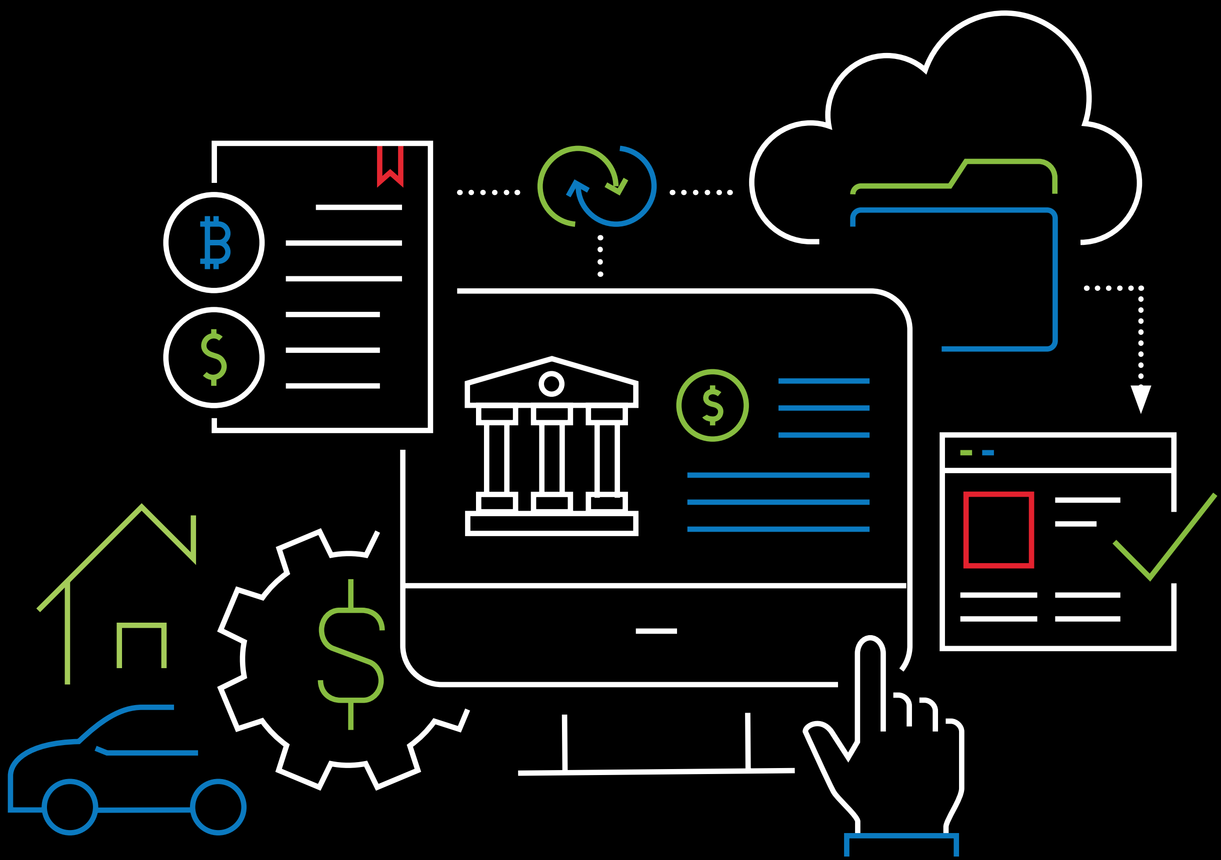
To address the challenge posed by BSA/AML confidently and proactively, institutions turn to OneSumX for Anti-Money Laundering. Our solution provides a holistic, risk-based approach to BSA/AML compliance to help meet regulator expectations. Smaller institutions rely on OneSumX for Customer Due Diligence, a web-based tool that helps you ensure compliance with Beneficial Ownership, CIP, Customer Due Diligence, and Identity Theft program requirements. Additionally, institutions of all sizes can engage our Advisory Services team to conduct a BSA/AML review, either as a standalone or in connection with a Compliance Management System (CMS) review.

Preparing for and implementing CECL compels financial institutions to think about credit risk in a more comprehensive, forward-looking way. OneSumX CECL enables financial institutions to recalibrate existing models or develop new ones, which is especially important for institutions operating across borders.

Environmental factors weigh heavily on the banking industry

We asked to what degree respondents were weighing environmental factors in their enterprise risk business planning. Interest rate increases were given the most significant consideration, with inflation, ransomware attacks, recession fears, and loan default risk rounding out the top five. Climate-related risks were rated lowest, with half of the survey respondents giving it only minimal consideration. While we may not think about climate impacts in the banking industry today, state and federal regulators are gearing up to address the many Environmental, Social, and Governance (ESG), sustainability, and climate-related financial risks.





Meet today's environmental shifts head on

Understanding the impacts of environmental factors and how they affect your organization is a continued priority. Prepare everyone in your organization and avoid surprises by harnessing the power of Wolters Kluwer solutions to address:

Loan default risk with Expere Servicing to create compliant documents needed to support investor/insurer loss mitigation programs and those required in the pre-foreclosure process.

Lien portfolio management with Lien Solutions to avoid issues such as filing in the wrong jurisdiction, inaccurate debtor name, or loss of lien position.

Repossession titling with iLien Motor Vehicle to streamline processing and managing motor vehicle titles and liens.

Change management tops list of compliance challenges despite asset size

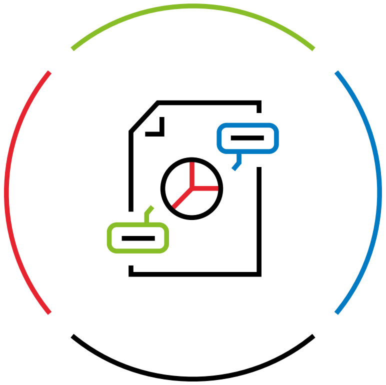
In this view, the top compliance challenges for all respondents are broken down by asset size and institution type. Nearly every banking segment cited keeping up with change and consumer protection regulations as their most pressing regulatory compliance challenges. These concerns will remain with us as the regulatory climate intensifies.

Top regulatory compliance challenges by segment

Small Banks/CUs <$500M	Medium Banks/CUs <$500-$999M	Large Banks/CUs <$1B+
Change Management (28%)	Change Management (47%)	Change Management (39%)
HMDA, Mortgage, etc. (17%)	HMDA, Mortgage, etc. (16%)	CBA (23%)
Overdrafts (13%)	Data & Technology (16%)	Data & Technology (23%)

Bank and S&Ls Overall	Credit Unions Overall
Change Management (37%)	Change Management (31%)
Data & Technology (17%)	Overdraft (17%)
HMDA, Mortgage, etc. (15%)	Data & Technology (14%)

Survey results shine spotlight on high-priority areas



Overall, the survey results show us that the environmental factors—such as higher interest rates, inflation, and concerns about recession—could undoubtedly lead to an increase in risk. And more regulatory changes are on the horizon, and they are likely to include obligations on managing climate-related financial risk.

The survey findings reinforce the importance of comprehensive compliance and risk management across the enterprise. Compliance professionals need to be vigilant about having a robust regulatory change management process that includes the following:

- An up-to-date library that provides a holistic view of the regulatory change and potential impacts
- Fully-functioning Compliance and Operational Risk Management Systems
- Updated policies and procedures that match actual practices
- Use of technology to manage risk and compliance company-wide

As compliance jobs become more complicated—and institutions face a more rigorous supervisory climate—compliance professionals must embrace technology that replaces manual processes and outdated reporting practices. Developing a disciplined, automated approach to your compliance efforts will improve the customer experience, enable you to effectively compete, and promote the inclusivity regulators require and your clients demand.

About Wolters Kluwer Governance, Risk & Compliance

Governance, Risk & Compliance is a division of Wolters Kluwer, which provides legal and banking professionals with solutions to help 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 (WKL) is a global leader in professional information, software solutions, and services for the healthcare; tax and accounting; governance, risk and compliance; and legal and regulatory sectors. We help our customers make critical decisions every day by providing expert solutions that combine deep domain knowledge with specialized technology and services. Wolters Kluwer reported 2021 annual revenues of €4.8 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 20,000 employees worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

For more information about our solutions and organization, visit **WoltersKluwer.com.**

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