Highlights from the Wolters Kluwer 2022 Banking Regulatory & Risk Indicator Survey

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Today’s Presenters

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Regulatory & Risk Management Indicator Survey: Purposes

• 2022 marks the tenth year of “taking the pulse” of the U.S. banking industry

• The purposes of the survey are to:
  ➢ Collect trend information on the breadth and depth of regulatory/risk concerns
  ➢ Determine realized and anticipated regulatory impact on institutions
  ➢ Assess the sophistication of banks’ current risk management efforts
  ➢ Gather data inputs to calculate a regulatory and risk management pain index score, which is tracked and reported annually
  ➢ Signal areas of attention for the coming year

• This year’s survey was conducted from July 27-Sept 9, 2022
Respondent Profiles: By Type and Asset Size

Type of Organization
- **Banks and S&Ls**: 81%
- **Credit Unions**: 18%
- **Mortgage Companies**: 1%

Asset Segment
- **Less than $500M**: 38%
- **$500M to $999M**: 37%
- **$1B to $7.4B**: 15%
- **$7.5B to $50B**: 6%
- **More than $50B**: 2%
- **Not sure /NA**: 2%
2022 Indicator Survey: Key Highlights

- The **Main Indicator Score** is 94.4, which represents a reduction compared to the 2021 score of 128, but is consistent with pre-pandemic levels.

- A decrease in the amount of fines and penalties in the 2022 survey period contributed most to the change.

- Scores in other factors that make up the **Main Indicator Score** were generally consistent with the 2021 survey results. However, tracking regulatory change, proving compliance to regulators, compliance with regulatory requirements and compliance management challenges, and the number of new major regulations all had increased scores over 2021.

- The **Main Indicator Scores** over the past 5 years are as follows:
  - 85 in 2018;
  - 95 in 2019;
  - 103 in 2020;
  - 128 in 2021; and,
  - 94 in 2022
2022 Indicator Survey: Key Highlights

- **Keeping current with changing regulations** continues to rank consistently as a top challenge, no matter the lender type or size.
  - Reflects concerns about new rules on the horizon such as modernized CRA regulations and Dodd Frank Section 1071 Small Business Reporting regulations, in addition to ongoing changes to existing requirements.

- **Top obstacles** to implementing an effective compliance program:
  - Manual processes (54%);
  - Inadequate staffing (44%); and
  - Too many competing business priorities (38%).

- **Environmental Factors** including interest rate increases, inflation, ransomware attacks and recession are receiving considerable attention in enterprise risk business planning.
2022 Indicator Main Score: Based on 10 underlying factors

Compliance factors

- Tracking regulatory change: 104
- Compliance with requirements: 105
- Proof to regulators: 104
- Impact of HMDA rules: 101
- Compliance challenges/obstacles: 103

Regulatory environmental factors

- Enforcement actions: 88
- Fines: 25
- New regulations: 114

Risk management factors

- Risk effectiveness: 99
- Risk concerns: 102

Regulatory & Risk Management Indicator: (↓34 from 2021)
Comparison of 2021 v. 2022 Indicator Factor Scores
Compliance and Risk Concern—Trends

Overall Level of Compliance and Risk Concern

*Percentage Very Concerned*

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to keep track</td>
<td>55%</td>
<td>54%</td>
<td>53%</td>
<td>55%</td>
</tr>
<tr>
<td>of changing regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to maintain</td>
<td>58%</td>
<td>56%</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td>compliance with</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>changing regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to demonstrate</td>
<td>54%</td>
<td>53%</td>
<td>52%</td>
<td>54%</td>
</tr>
<tr>
<td>compliance to</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>regulators</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ability to manage risk</td>
<td>58%</td>
<td>55%</td>
<td>55%</td>
<td>59%</td>
</tr>
<tr>
<td>across all lines of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Enterprise Risk Management Efforts—Trends

Which of the following best describes your organization’s ERM program?

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand and manage risks without formal program</td>
<td>30%</td>
<td>34%</td>
<td>30%</td>
<td>34%</td>
</tr>
<tr>
<td>Use well-defined ERM but lack consistency org wide</td>
<td>19%</td>
<td>16%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>Have strategic/integrated ERM</td>
<td>16%</td>
<td>17%</td>
<td>16%</td>
<td>19%</td>
</tr>
</tbody>
</table>
From a risk management perspective, which of the following risks do you believe will receive escalated priority over the next 12 months at your organization?

<table>
<thead>
<tr>
<th>Year</th>
<th>Cybersecurity risk</th>
<th>Credit risk</th>
<th>Compliance risk</th>
<th>Operational risk</th>
<th>Third-party risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>78%</td>
<td>45%</td>
<td>47%</td>
<td>28%</td>
<td>26%</td>
</tr>
<tr>
<td>2020</td>
<td>72%</td>
<td>61%</td>
<td>40%</td>
<td>31%</td>
<td>15%</td>
</tr>
<tr>
<td>2021</td>
<td>70%</td>
<td>43%</td>
<td>43%</td>
<td>28%</td>
<td>20%</td>
</tr>
<tr>
<td>2022</td>
<td>72%</td>
<td>51%</td>
<td>51%</td>
<td>27%</td>
<td>16%</td>
</tr>
</tbody>
</table>
Investing in CMS Components — Trends

Over the next 12 months, what level of investment do you anticipate making in the following CMS components?

- Strengthening risk assessment process
- Updating compliance policies and procedures
- Management of new/changed regulatory content
- Improving compliance QA capabilities
- Strengthening consumer complaint management

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening consumer complaint management</td>
<td>29%</td>
<td>26%</td>
<td>30%</td>
<td>34%</td>
</tr>
<tr>
<td>Improving compliance QA capabilities</td>
<td>38%</td>
<td>36%</td>
<td>40%</td>
<td>44%</td>
</tr>
<tr>
<td>Management of new/changed regulatory content</td>
<td>26%</td>
<td>40%</td>
<td>40%</td>
<td>41%</td>
</tr>
<tr>
<td>Updating compliance policies and procedures</td>
<td>47%</td>
<td>45%</td>
<td>44%</td>
<td>51%</td>
</tr>
<tr>
<td>Strengthening risk assessment process</td>
<td>48%</td>
<td>44%</td>
<td>48%</td>
<td>49%</td>
</tr>
</tbody>
</table>
Obstacles to Effective Compliance — Trends

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

- Manual compliance processes
- Inadequate staffing
- Too many competing business priorities
- Ineffective coordination of compliance efforts
- Inadequate funding

<table>
<thead>
<tr>
<th></th>
<th>Inadequate funding</th>
<th>Ineffective coordination of compliance efforts</th>
<th>Too many competing business priorities</th>
<th>Inadequate staffing</th>
<th>Manual compliance processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>11%</td>
<td>25%</td>
<td>44%</td>
<td>45%</td>
<td>47%</td>
</tr>
<tr>
<td>2020</td>
<td>13%</td>
<td>24%</td>
<td>37%</td>
<td>41%</td>
<td>46%</td>
</tr>
<tr>
<td>2021</td>
<td>11%</td>
<td>22%</td>
<td>36%</td>
<td>41%</td>
<td>45%</td>
</tr>
<tr>
<td>2022</td>
<td>8%</td>
<td>25%</td>
<td>38%</td>
<td>44%</td>
<td>54%</td>
</tr>
</tbody>
</table>
Manual Processes Continue to Reign

How frequently do you use manual processes and spreadsheets – as opposed to automated technology workflow systems – as the primary means for managing regulatory compliance?

85% of percent of respondents are still using manual processes or spreadsheets sometimes or often, while only 9% are using them rarely.
Top Regulatory Compliance Challenges—by Asset Size and Type

What do you believe will be your organization’s most pressing regulatory compliance challenge over the next 12 months?

- **Small Banks/CUs <$500M**
  - **Change Management (28%)**
  - **HMDA, Mortgage, etc. (17%)**
  - **Overdrafts (13%)**

- **Medium Banks/CUs $500M-$9999M**
  - **Change Management (47%)**
  - **HMDA, Mortgage, etc. (16%)**
  - **Data & Technology (16%)**

- **Large Banks/CUs $1B+**
  - **Change Management (39%)**
  - **CRA (23%)**
  - **Data & Technology (23%)**

- **Banks and S&Ls Overall**
  - **Change Management (37%)**
  - **Data & Technology (16%)**
  - **HMDA, mortgage, etc. (15%)**

- **Credit Unions Overall**
  - **Change Management (31%)**
  - **Overdrafts (17%)**
  - **Data & Technology (14%)**
### Ability to Comply

How concerned are you with your organization’s ability to manage:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage Very Concerned (7-10)</th>
<th>Percentage Somewhat Concerned (5-6)</th>
<th>Percentage Not Concerned (1-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1071 small business rptg</td>
<td>52%</td>
<td>16%</td>
<td>32%</td>
</tr>
<tr>
<td>BSA/AML</td>
<td>44%</td>
<td>19%</td>
<td>37%</td>
</tr>
<tr>
<td>Beneficial Ownership</td>
<td>41%</td>
<td>21%</td>
<td>38%</td>
</tr>
<tr>
<td>CECL</td>
<td>40%</td>
<td>22%</td>
<td>38%</td>
</tr>
<tr>
<td>Fair lending laws</td>
<td>39%</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>UDAAP standards</td>
<td>38%</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>CRA rule changes</td>
<td>36%</td>
<td>22%</td>
<td>41%</td>
</tr>
<tr>
<td>State reg. requirements</td>
<td>33%</td>
<td>24%</td>
<td>44%</td>
</tr>
</tbody>
</table>

- **Percentage Very Concerned (7-10)**
- **Percentage Somewhat Concerned (5-6)**
- **Percentage Not Concerned (1-4)**
Examiners’ Scrutiny of Fair Lending Programs

How would you describe examiner’s scrutiny of your fair lending program?

- We have noticed a considerable increase
- We have noticed a slight increase
- The level remained the same
- We have noticed a slight decline
- We have noticed a considerable decline

<table>
<thead>
<tr>
<th>Year</th>
<th>We have noticed a considerable decline</th>
<th>We have noticed a slight decline</th>
<th>The level remained the same</th>
<th>We have noticed a slight increase</th>
<th>We have noticed a considerable increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>1%</td>
<td>2%</td>
<td>43%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>2020</td>
<td>1%</td>
<td>4%</td>
<td>42%</td>
<td>24%</td>
<td>14%</td>
</tr>
<tr>
<td>2021</td>
<td>1%</td>
<td>1%</td>
<td>41%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>2022</td>
<td>0%</td>
<td>3%</td>
<td>41%</td>
<td>24%</td>
<td>16%</td>
</tr>
</tbody>
</table>
Polling Question
#1 of 4

In considering your institution's regulatory change management program, how important is automating the upkeep of your regulatory library?

a) Very important  
b) Somewhat important  
c) Not important at all
In considering the automation of your regulatory change management program, please rank the following features as to their importance to your institution.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Rank 1 (%)</th>
<th>Rank 2 (%)</th>
<th>Rank 3 (%)</th>
<th>Rank 4 (%)</th>
<th>Rank 5 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library</td>
<td>8%</td>
<td>42%</td>
<td>18%</td>
<td>22%</td>
<td>10%</td>
</tr>
<tr>
<td>Connections</td>
<td>33%</td>
<td>10%</td>
<td>24%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Speed</td>
<td>22%</td>
<td>15%</td>
<td>23%</td>
<td>16%</td>
<td>25%</td>
</tr>
<tr>
<td>Analysis</td>
<td>22%</td>
<td>14%</td>
<td>21%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Technology</td>
<td>15%</td>
<td>20%</td>
<td>14%</td>
<td>28%</td>
<td>23%</td>
</tr>
</tbody>
</table>
In considering your institution's regulatory change management program, how important is connecting your regulatory library to other elements of your compliance program (e.g., risks, controls, policies, training, products)?

a) Very important  
b) Somewhat important  
c) Not important at all
In considering the automation of your regulatory change management program, please rank the following features as to their importance to your institution:
Nearly three-quarters of respondents indicated they have made some progress with digitizing their lending capabilities, though only 28% (rounding) indicate they either have made significant progress or are fully digitized.
## Importance of Business and Competitive Drivers for Digital Lending Business and Technology

Please rate the importance of the following business and competitive drivers for your digital lending business and technology strategy for 2022-23.

<table>
<thead>
<tr>
<th>Driver</th>
<th>Very Important (7-10)</th>
<th>Moderate Importance (5-6)</th>
<th>Low Importance (1-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing profitability</td>
<td>85%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Enhancing customer experience</td>
<td>79%</td>
<td>14%</td>
<td>6%</td>
</tr>
<tr>
<td>Growing loan volume with new customers</td>
<td>78%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Enhancing lending workflow experience</td>
<td>72%</td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td>Growing loan volume with existing customers</td>
<td>71%</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Reducing expenses</td>
<td>64%</td>
<td>27%</td>
<td>9%</td>
</tr>
<tr>
<td>Reducing fraud</td>
<td>64%</td>
<td>22%</td>
<td>14%</td>
</tr>
</tbody>
</table>
To what degree is your institution considering climate-related financial risks in your enterprise risk business planning?

a) Significant consideration
b) Some consideration
c) Minimal consideration
Environmental Factors: Implications for the Banking Industry

To what degree are you weighing these environmental factors in your enterprise risk business planning?

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Significant Consideration (7-10)</th>
<th>Some Consideration (5-6)</th>
<th>Minimal Consideration (1-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate increases</td>
<td>73%</td>
<td>19%</td>
<td>7%</td>
</tr>
<tr>
<td>Inflation concerns</td>
<td>63%</td>
<td>28%</td>
<td>9%</td>
</tr>
<tr>
<td>Ransomware attacks</td>
<td>60%</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Recession fears</td>
<td>58%</td>
<td>28%</td>
<td>14%</td>
</tr>
<tr>
<td>Loan default risk</td>
<td>53%</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>Business resiliency / adaptability</td>
<td>37%</td>
<td>36%</td>
<td>27%</td>
</tr>
<tr>
<td>Pandemic risks</td>
<td>29%</td>
<td>25%</td>
<td>46%</td>
</tr>
<tr>
<td>Climate-related risks</td>
<td>27%</td>
<td>23%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Significant Consideration (7-10) | Some Consideration (5-6) | Minimal Consideration (1-4)
Ranking Challenges in Complying with HMDA Data Requirements

Please rank the following challenges facing your organization in complying with the HMDA data collection and reporting requirements.

<table>
<thead>
<tr>
<th></th>
<th>Training staff</th>
<th>Accurately capturing data fields</th>
<th>Upgrading systems</th>
<th>Reporting under expanded data submission process</th>
<th>Analyzing newly collected data</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>44%</td>
<td>48%</td>
<td>33%</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>2020</td>
<td>53%</td>
<td>46%</td>
<td>45%</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>2021</td>
<td>50%</td>
<td>48%</td>
<td>47%</td>
<td>35%</td>
<td>21%</td>
</tr>
<tr>
<td>2022</td>
<td>49%</td>
<td>44%</td>
<td>58%</td>
<td>32%</td>
<td>17%</td>
</tr>
</tbody>
</table>
What do you believe the likelihood is of a measurable reduction in overall regulatory burden for U.S. banking institutions over the next two years?

a) Very likely  
b) Somewhat likely  
c) No change expected  
d) Somewhat unlikely  
e) Very unlikely
What do you believe the likelihood is of a measurable reduction in overall regulatory burden for U.S. banking institutions over the next two years?

- Very likely: 3%
- Somewhat likely: 8%
- No change expected: 16%
- Somewhat unlikely: 22%
- Very unlikely: 51%
Environmental factors weigh heavily:
- Interest rate increases
- Inflation and recession
- Ransomware attacks
- Low likelihood of less regulation
- Looming large scale regulatory changes
- Concerns about climate risk management

Major risk concerns include:
- Cybersecurity
- Compliance Risk
- Credit Risk
- Third Party Risk

Major compliance concerns include:
- Change management
- Evolving BSA/AML requirements
- Fair lending laws & regulations/CRA modernization/1071
- Consumer protection

All point to the need for:
- Robust regulatory change management programs – particularly an up-to-date library
- Strong Compliance and Operational Risk Management Systems
- Fully updated policies and procedures that match actual practices
- Use of technology to manage risk and compliance company-wide
- Embracing digital transformation to improve customer experience, effectively compete and promote inclusivity
Wolters Kluwer Resources

✓ Robust regulatory change management programs – including an up-to-date library
  ❑ OneSumX for Regulatory Change Management
  ❑ OneSumX for Compliance Program Management
  ❑ ProViso

✓ Strong Compliance and Operational Risk Management Systems
✓ Fully updated policies and procedures
  ❑ OneSumX Compliance and Ethics Governance
  ❑ Advisory Services and CMS Reviews

✓ Embracing digital transformation to effectively compete and embrace inclusivity
  ❑ eOriginal

✓ Use of technology to manage risk and compliance company-wide

Compliance Solutions
  ❑ CRA
  ❑ HMDA
  ❑ Fair Lending & UDAAP
  ❑ BSA/AML

OneSumX Solutions
  ❑ Reg. Change Management
  ❑ Compliance and Ethics Governance
  ❑ Compliance Testing
  ❑ Complaint Management
  ❑ Examination Management
  ❑ Compliance Risk & Controls Assessment
  ❑ Regulatory Insight
  ❑ ProViso U.S. State Obligation Management
CRA & FAIR LENDING COLLOQUIUM

JW Marriott Austin
November 12-15, 2023
Austin, Texas

Registration: www.cracolloquium.com

Live! In Person
Sponsored by the ABA & ICBA
CRCM Credits available
Pre & Post Conference Wiz Sessions
100+ regulators attending from the FDIC. CFPB, OCC, FRB & more
800+ compliance professionals
30+ insightful sessions
70+ expert speakers
2 industry awards
∞ Networking opportunities