



# *Regulatory & Risk Management Indicator*

U.S. Banking Industry  
December 2019

## An Overview

Wolters Kluwer's *Regulatory & Risk Management Indicator* measures 10 critical factors that help illustrate the overall level of regulatory and risk management pressures that U.S. banks and credit unions face.

These factors include bank and credit union concerns about:

- Their ability to track regulatory changes
- Complying with new and existing requirements
- Proving compliance to federal regulators
- Measuring the impact of the Home Mortgage Disclosure Act (HMDA) rules
- Assessing overall compliance challenges and obstacles to their institutions

The survey also looks at several risk management factors including:

- Evaluating the risk effectiveness of current measures in place
- Assessing risk challenges facing their institutions

For the final three factors used in calculating the Indicator formula, Wolters Kluwer measures and compares:

- The number of significant new U.S. banking regulations
- The number of enforcement actions taken against banks and credit unions by federal regulators
- The total dollar amount of federal regulatory fines levied against banks and credit unions

What follows in this report are the overall metrics of the Indicator, as well as highlights of our findings.

### Indicator Methodology

To compile the *Indicator*, Wolters Kluwer tracks 10 main factors, seven of which revolve around direct survey input from banks and credit unions on their top compliance and risk management concerns, and three of which are based on regulatory data compiled over the past 12 months by Wolters Kluwer.

## About Wolters Kluwer

Wolters Kluwer Governance, Risk & Compliance (GRC) is a division of Wolters Kluwer and provides legal and banking professionals with solutions to 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 N.V. (AEX: WKL) is a global leader in information services and solutions for professionals in the health, tax and accounting, risk and compliance, finance and legal sectors. Wolters Kluwer reported 2018 revenues of €4.3 billion. The company, headquartered in Alphen aan den Rijn, the Netherlands, serves customers in over 180 countries, maintains operations in over 40 countries and employs 18,600 people worldwide.

For more information about our Regulatory and Risk Management Indicator, please contact us at [GRC-CorporateCommunications@wolterskluwer.com](mailto:GRC-CorporateCommunications@wolterskluwer.com).

### 2019 Indicator Shows That Substantial Risk, Compliance Concerns Remain For U.S. Lenders

Notable regulatory compliance and risk challenges remain high in a number of key areas for U.S. banks and credit unions, according to results of Wolters Kluwer’s 2019 Regulatory & Risk Management Indicator survey. With 704 responses, this year’s survey generated a Main Indicator Score of 95, a 10-point increase from the 2018 score.

This year’s score was influenced by concerns about the impact of HMDA rules; cybersecurity, credit and compliance risk; and an increased level of fines. Concerns about managing increased HMDA analysis and reporting obligations jumped significantly among reporters, particularly in their ability to analyze newly collected HMDA data—moving from 21 percent in 2018 to 35 percent in 2019—and in reporting those expanded data to regulators, moving from 15 percent last year to 40 percent in 2019.

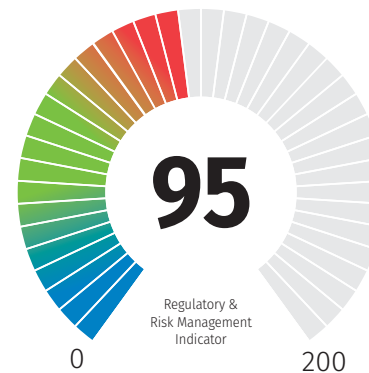
However, respondents indicated more confidence in their ability to maintain compliance, keep track of changing regulations, and demonstrate compliance to regulators, reaching the highest confidence levels in the survey’s seven years, which suggests a strengthening of compliance program management practices.

Over the next 12 months, respondents’ most pressing regulatory compliance challenges include: managing and implementing residential mortgage regulations; keeping current with changing regulations; complying with the forthcoming Current Expected Credit Loss (CECL) accounting standards; deposit account regulations; and compliance program management. Respondents also expressed a high level of concern about their ability to comply with BSA/AML requirements, fair lending laws and regulations, UDAAP standards, new URLA forms and, to a slightly lesser degree, state regulatory requirements.

Regarding the top obstacles cited in implementing effective compliance programs, 47 percent ranked manual compliance processes as a 7 or higher concern on a scale of 10, and 45 percent cited inadequate staffing, both slight increases over 2018 levels.

Forty-eight percent of respondents anticipate higher future investments in strengthening their risk assessment capabilities. Economic factors that respondents’ institutions are monitoring as potential concerns include interest rate fluctuations (87 percent), data privacy issues (85 percent), and recession fears (76 percent).

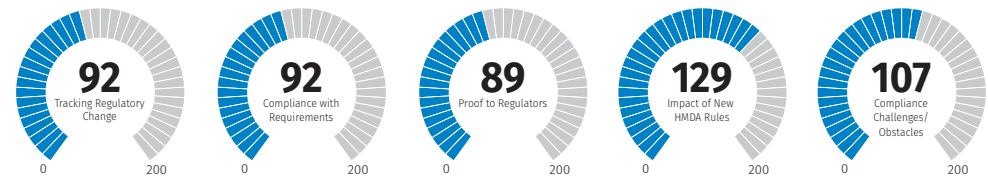
#### Main Indicator



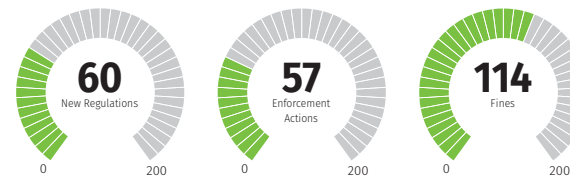
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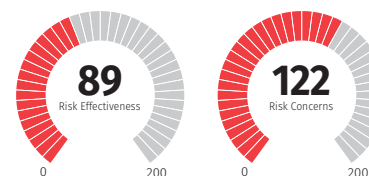
#### Compliance Factors



#### Regulatory Environment Factors



#### Risk Management Factors

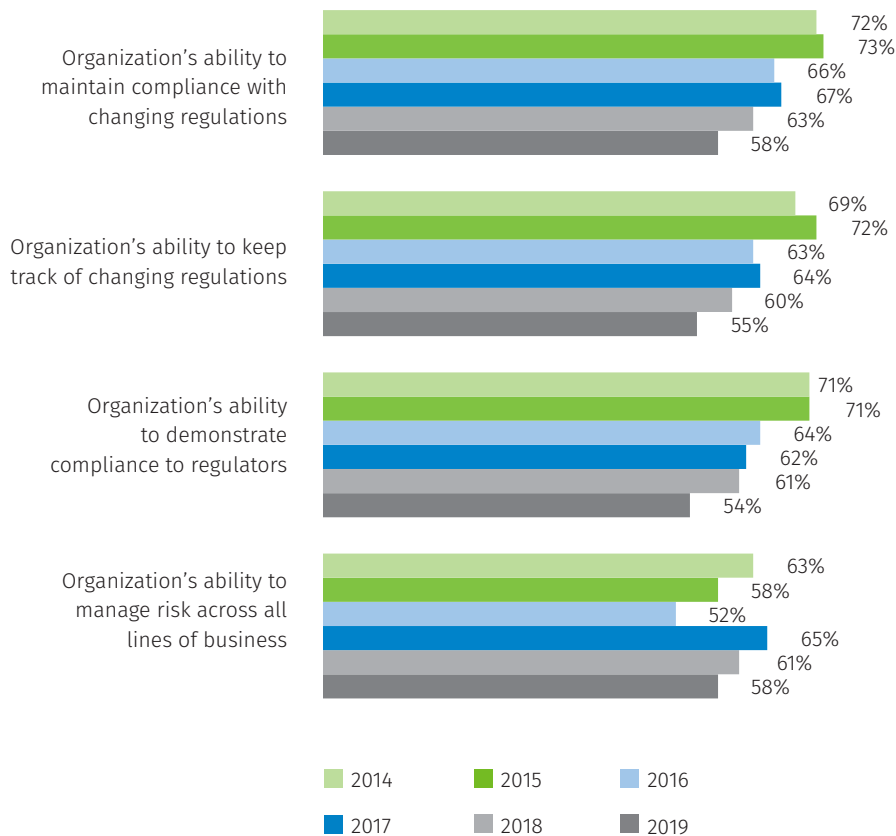


For more information, visit [WoltersKluwerFS.com/Indicator](https://www.wolterskluwerfs.com/indicator)

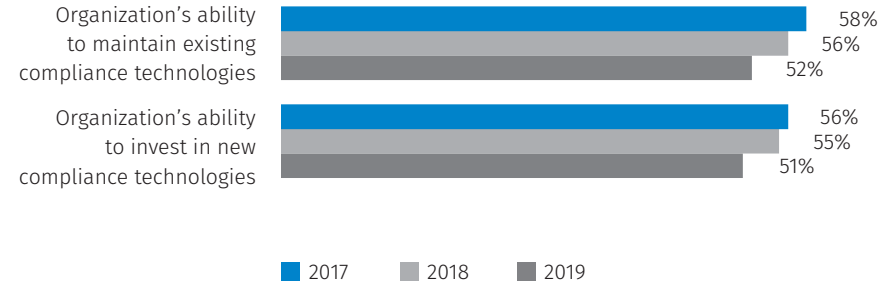
### Compliance Management Concerns Ease, but a Majority Continues to be Very Concerned

- Overall compliance concern levels dropped when compared to 2018 and most other prior years surveyed.
- Concerns relative to technology investment and compliance also dropped slightly this year.

**Overall Level of Compliance and Risk Concern (% 7 or higher)**



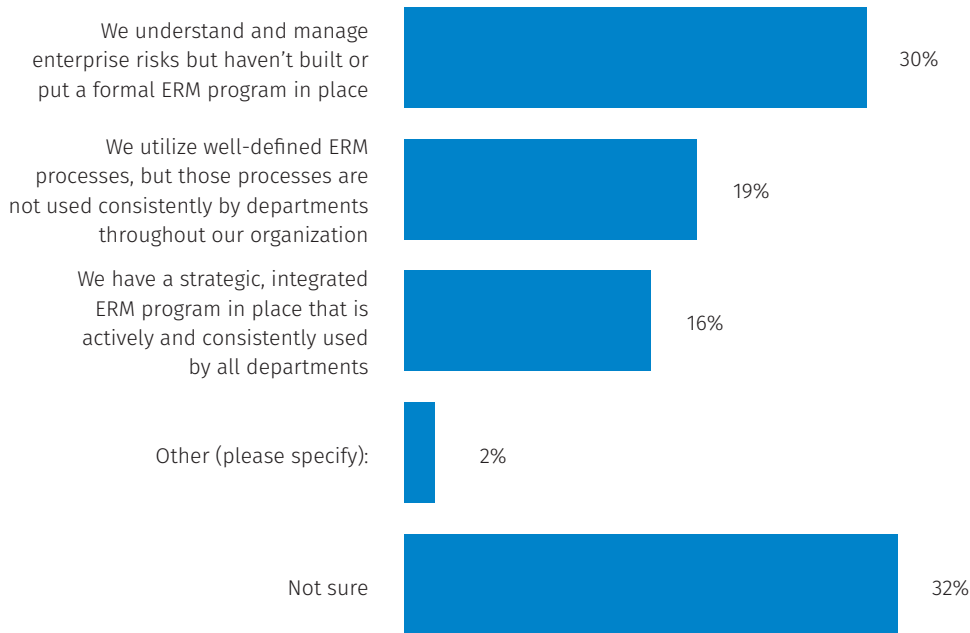
**Technology Investments (% 7 or higher)**



### Continued Variation in Risk Management Efforts; Escalated Priorities Over the Next 12 Months

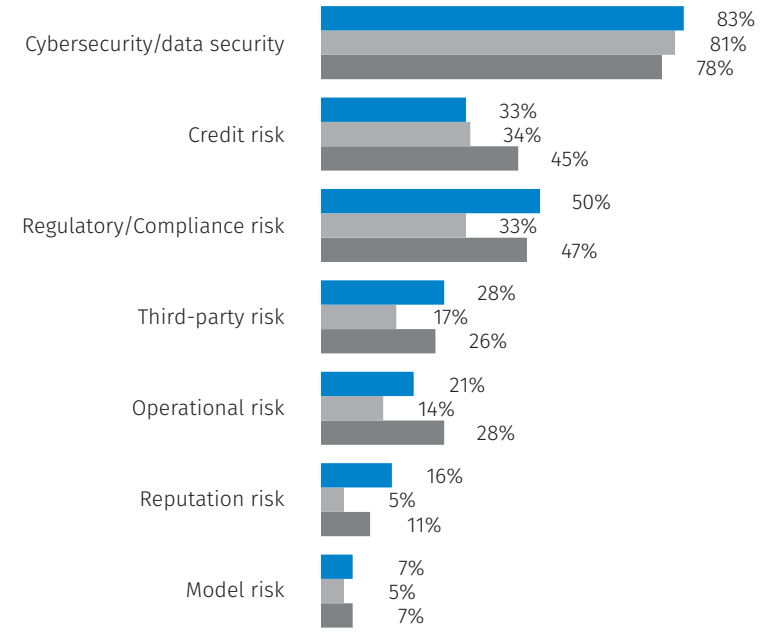
- Nearly two-thirds of respondents were able to indicate how widespread their organizations' ERM usage was, with nearly a third indicating their system is less formal.
- Just 16 percent have a strategic/integrated system in place, which is actively used across departments.
- More risk concerns were shown compared to prior years in all top escalated priorities except cybersecurity risk, which declined slightly this year but remains the most frequently cited area for escalated priority.

**Risk Management Efforts**



■ Percentage of Respondents

**Top Risks Receiving Escalated Priority Over the Next 12 Months**

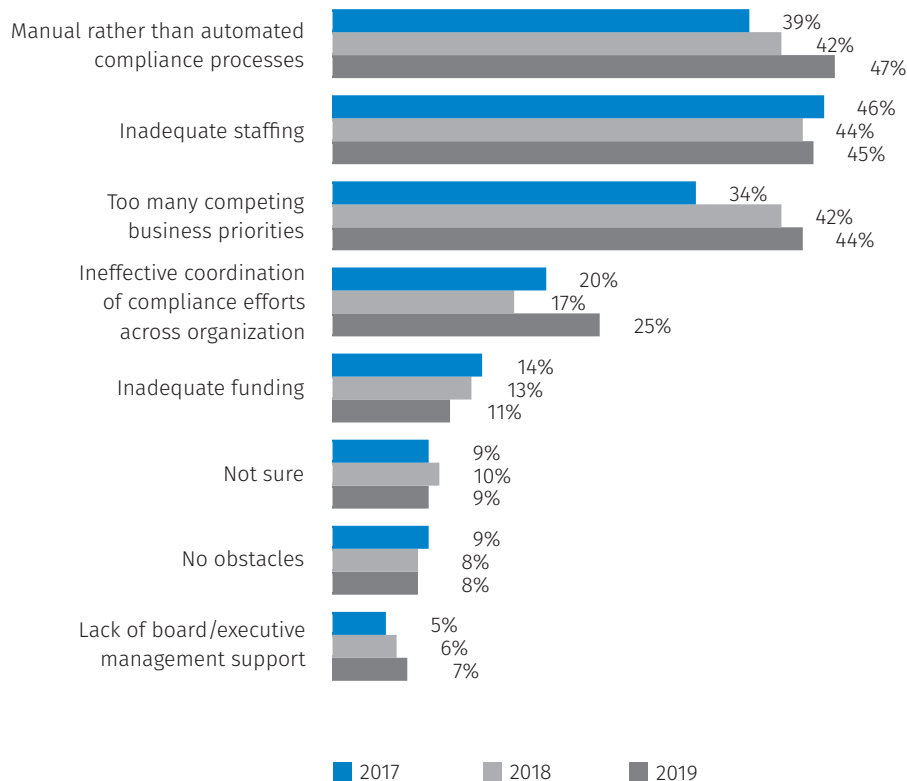


■ 2017 ■ 2018 ■ 2019

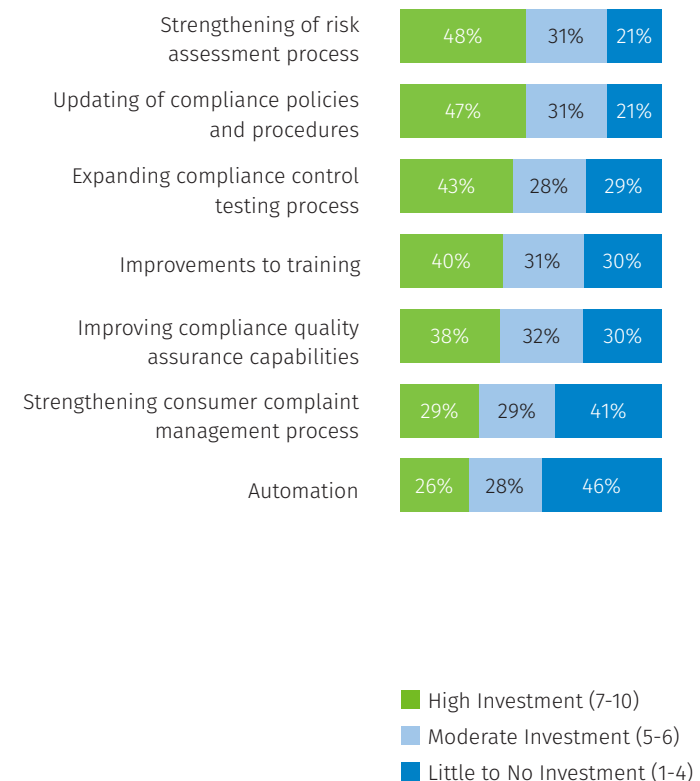
### Top Obstacles to—and Anticipated Investments in an Effective Compliance Management Program

- Respondents cited manual rather than automated compliance processes as their largest obstacle to implementing and maintaining an effective compliance program.
- This is closely followed by inadequate staffing and too many competing business priorities.
- A rigorous Compliance Management System (CMS) is comprised of several integrated elements; respondents were most likely to invest in strengthening their risk assessment and control processes, as well as in updating their compliance policies and procedures.
- They are least likely to invest in automation and strengthening their consumer complaint management process.

**Top Obstacles to Implementing an Effective Compliance Program**



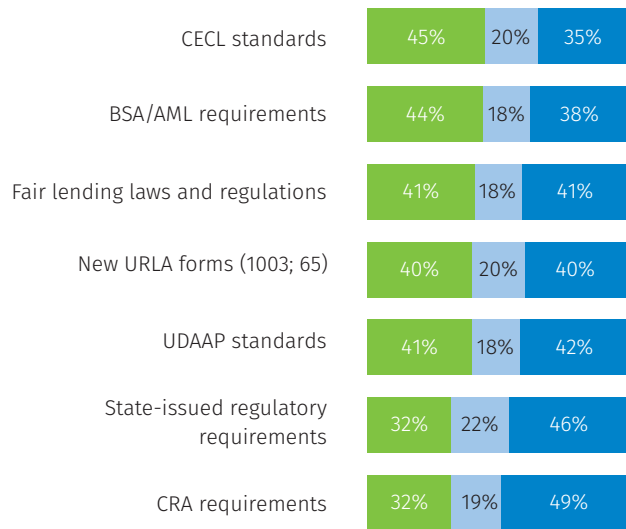
**Investment in the Components of a Compliance Management System**



### Ability to Comply: Key Factors

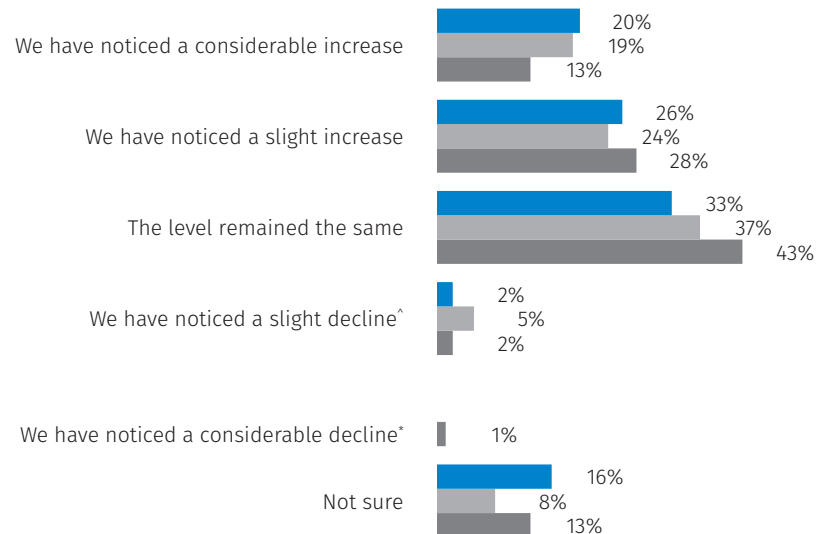
- Respondents' concern about their ability to comply was spread across a number of factors, shown below, though generally they were most concerned with their ability to comply with forthcoming CECL requirements.
- More respondents than prior years (43 percent) have indicated examiners' scrutiny of their fair lending programs has remained the same over the past year, continuing a trend over several years of more respondents seeing scrutiny remain consistent.
- While 41 percent indicate a slight or considerable increase, only three percent have noticed a slight or considerable decline in examiner scrutiny.

Concern about Organization's Ability to Comply With Various Requirements



Very Concerned (7-10) Somewhat Concerned (5-6) Not Concerned (1-4)

When thinking about your organization's compliance examinations during the past year, how would you describe examiners' scrutiny of your fair lending program?



2017 2018 2019

\* Added response option in 2019

<sup>^</sup> Altered "decline" to "slight decline" in 2019

### HMDA Data Analysis and Reporting are Among the Top Challenges

- Respondents reported a decrease in challenges related to capturing data and upgrading systems. However, there was an increase in challenges related to training staff, analyzing newly collected data and reporting under the expanded data submission process.
- Given an expanded data set, HMDA analysis and reporting were ranked significantly higher as challenges than in any prior year.

**Percentage Ranking Compliance with the HMDA Data Requirements as Challenging (Rank = 1 or 2)**

