



Regulatory & Risk Management Indicator

U.S. Banking Industry
December 2020

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

Governance, Risk & Compliance (GRC) 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 (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 2019 annual revenues of €4.6 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 19,000 people worldwide.

For more information about our Regulatory and Risk Management Indicator, please contact us at GRC-CorporateCommunications@wolterskluwer.com.

2020 Indicator Survey: Regulatory Compliance and Risk Challenges Persist

Wolters Kluwer's 2020 Regulatory & Risk Management Indicator survey shows that regulatory and risk management concerns of U.S. banks and credit unions increased compared to 2019's findings, as a number of factors continue to drive industry anxieties upward. With 665 responses, this year's survey generated a Main Indicator Score of 103, an eight-point increase over last year. The 2020 score was influenced by concerns over managing regulatory change, mortgage-related regulations, and CARES Act requirements.

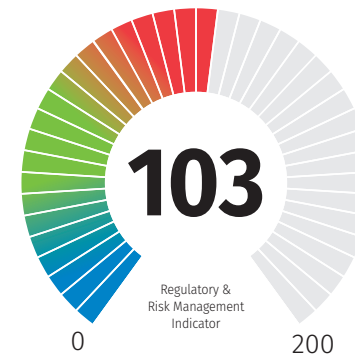
Top risk management priorities for 2021 include cybersecurity, credit risk and compliance risk, with concerns about credit risk jumping 16 percentage points from 2019's survey. Respondents, however, expressed their highest levels of confidence in the past four years regarding their organizations' ability to manage risk across all business lines.

COVID-19 weighed heavily on respondents' minds: 86 percent view the pandemic as a significant or moderate factor in their organizations' enterprise risk planning. Other areas of high concern include loan default risk (85 percent), business resilience and adaptability (79 percent), and recession fears (78 percent).

Over the next 12 months, respondents' most pressing regulatory compliance challenges include keeping current with and managing regulatory changes, pandemic impacts, mortgage-related regulations and employee staffing. Respondents also expressed a high level of concern about their ability to comply with BSA/AML requirements, fair lending laws and regulations, CECL standards and possible beneficial ownership rule changes.

Of top obstacles cited in implementing effective compliance programs, 46 percent ranked manual compliance processes as a "7" or higher concern on a 10-point scale, and 41 percent cited inadequate staffing, both slight declines from 2019 levels. Perceptions of regulatory scrutiny of fair lending programs remained relatively unchanged, with 42 percent indicating that the level has remained the same. Asked about prospects for reduced regulatory burden the next two years, respondents revealed greater pessimism, with 56 percent citing the likelihood of regulatory relief as either "somewhat unlikely" or "very unlikely" compared to 45 percent in 2019.

Main Indicator



Indicator Methodology

The Indicator tracks 10 main factors, seven of which involve direct input from survey respondents on compliance and risk management concerns, and three that are based on regulatory data compiled over the past 12 months by Wolters Kluwer.

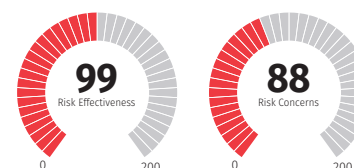
Compliance Factors



Regulatory Environment Factors



Risk Management Factors



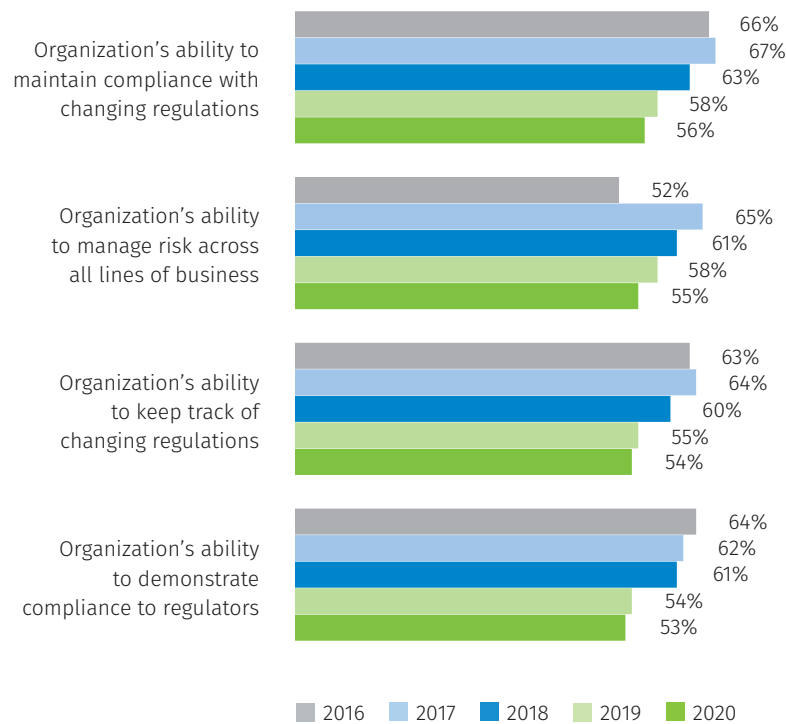
Primary drivers of the increase over 2019's score of 95 are concerns about new regulations, managing regulatory change, and growing credit risk.

For more information, visit WoltersKluwerFS.com/Indicator

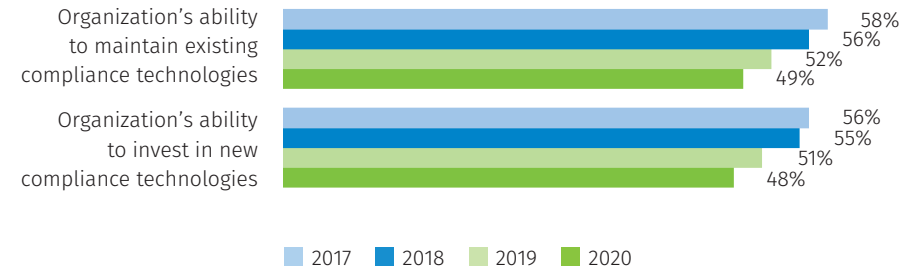
Compliance Concerns Lessen Slightly; Overall Anxiety Remains High

- Continuing trends from prior survey years, levels of concern declined across the board versus 2019, dropping between one to three percent.

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



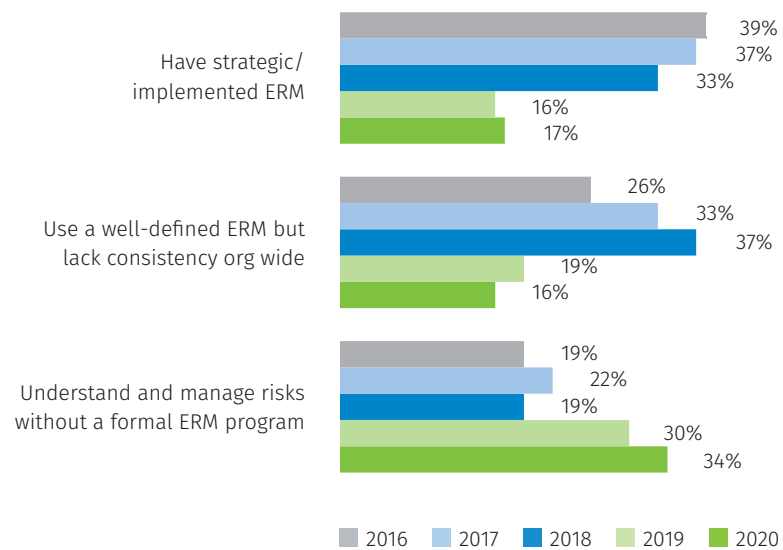
Technology Investments (% 7 or higher)



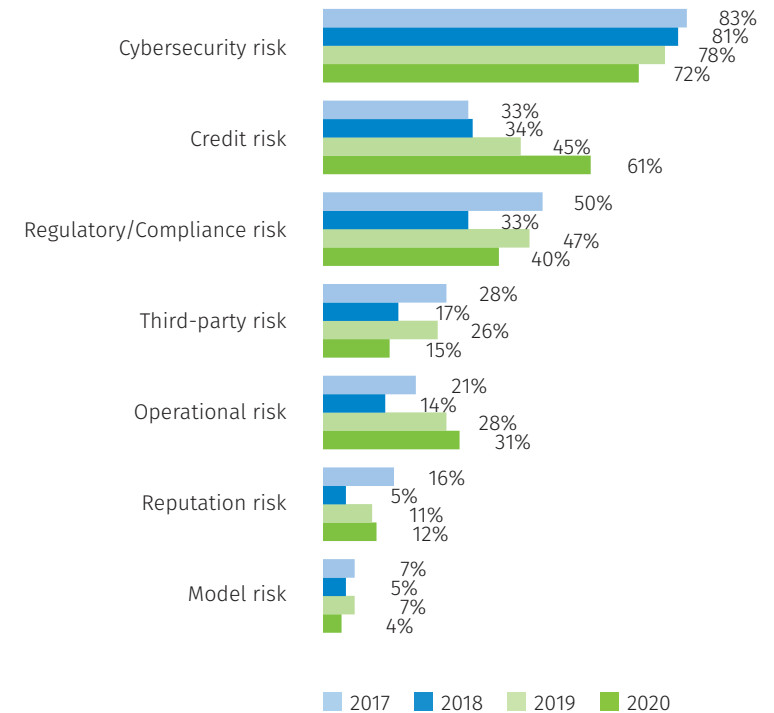
Risk Management Efforts Vary; Credit Risk a Heightened Priority

- There was a slight increase in the percentage of respondents indicating that they do not use a formal enterprise risk management program this year compared to prior years.
- Expectations of escalation in priority for credit risk jumped nearly 16 percent from 2019, while most other areas dropped slightly or remained close to 2019 levels.

Risk Management Efforts



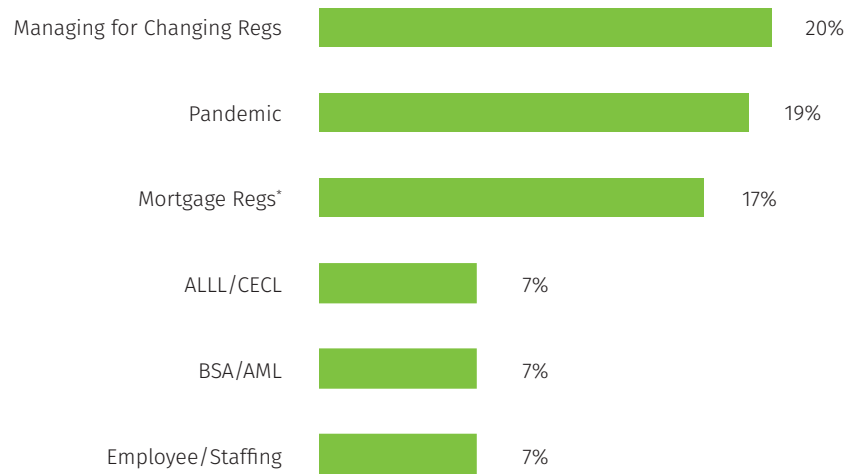
Top Risks Receiving Escalated Priority Over the Next 12 Months



Managing Regulatory Change Persists as Top Challenge

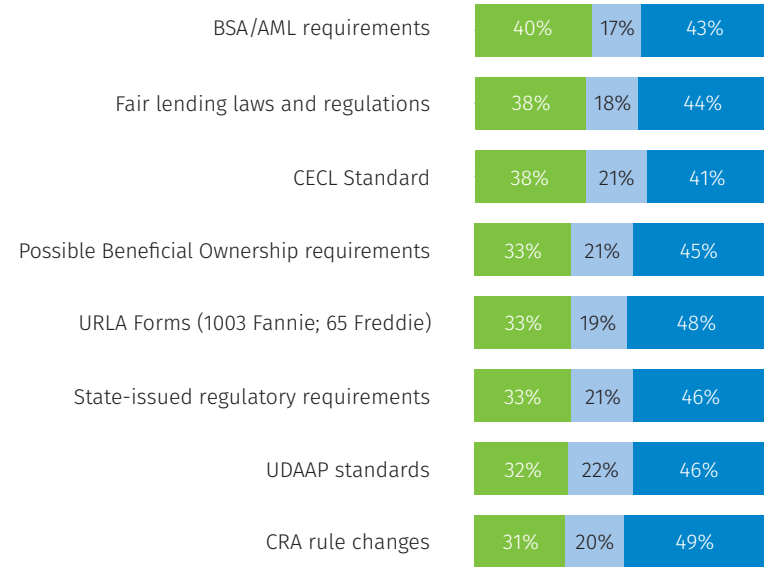
- Managing for changing regulations emerged as a top challenge in write-in comments, followed closely by pandemic-related issues and mortgage regs.
- Bank Secrecy Act/Anti-Money Laundering, fair lending laws, and the CECL standard were the regulations about which respondents expressed the most concern, when asked to rank a list of factors.

Top Regulatory Compliance Challenge



* HMDA, URLA, Fair Lending, TRID, etc.

Concern about Organization's Ability to Comply With Various Factors

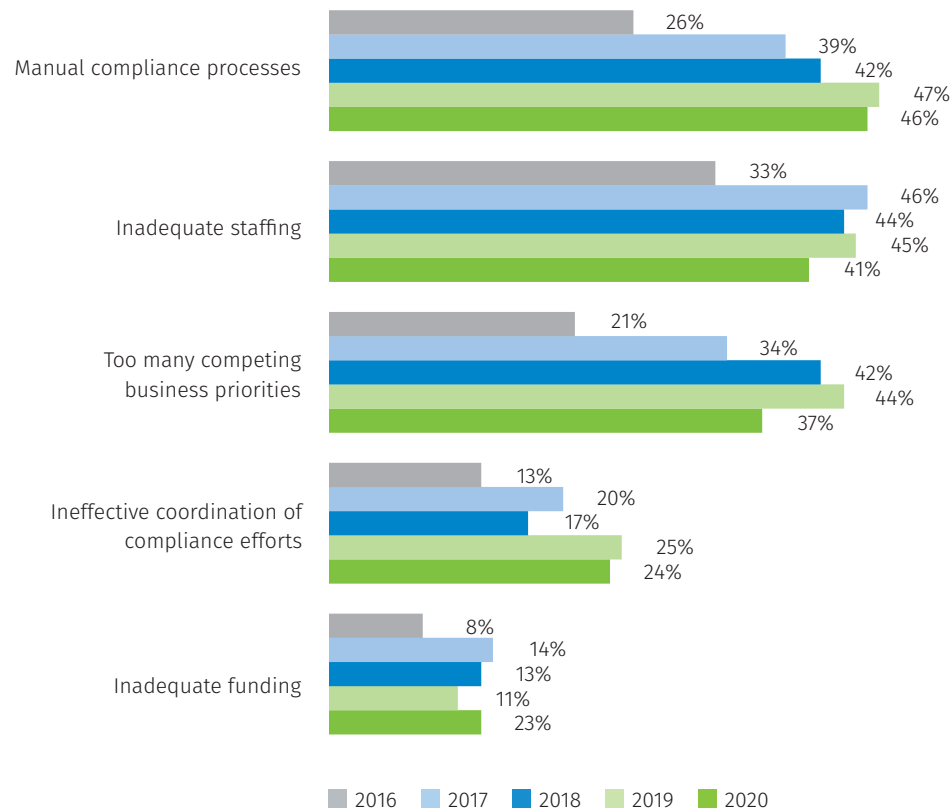


Very Concerned (7-10)
Somewhat Concerned (5-6)
Not Concerned (1-4)

Top Obstacles to Effective Compliance Management

- Top obstacles to implementing an effective compliance program declined somewhat between 2019 and 2020, with the exception of inadequate funding, which was cited as a top obstacles 2% more often this year.

Top Obstacles to Implementing an Effective Compliance Program



COVID-19 Among Top Environmental Concerns for Banking Organizations

- The pandemic is weighing heavily on the minds of respondents; 63 percent indicated it is a significant consideration at the time.
- Other areas of high concern include loan default risk and recession fears.

Degree to which Respondents Are Weighing Environmental Factors

