



Regulatory & Risk Management Indicator

U.S. Banking Industry
December 2018

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 union

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 2017 annual revenues of €4.4 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.

Regulatory & Risk Management Concerns Remain High, But Ease

The latest Regulatory & Risk Management Indicator survey conducted by Wolters Kluwer shows a notable drop in the anxiety levels of U.S. banks and credit unions in managing their risk and regulatory compliance obligations, as compared to the 2017 survey results. With 582 responses, this year’s survey generated a Main Indicator Score of 85, an 18 percent decrease from the 2017 score. Moreover, concerns in the ability to maintain and track changing regulations—and demonstrate compliance to regulators—were at their lowest levels in six years of conducting the survey, but still present issues that continue to demand attention.

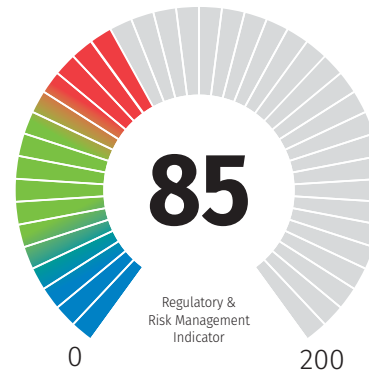
In addition to information provided by survey respondents, the calculation of the Main Indicator Score is based on several “environmental” variables, including the number of new federal regulations, number of enforcement actions, and the total dollar amount of fines imposed. Each of these values dropped during the 2018 survey period compared to prior year numbers. The combined drop in these variables influenced the final score considerably.

Although the Main Indicator Score is lower than in prior years, it is notable that risk management efforts and concerns remained fairly steady, and there is still palpable apprehension about several top issues—including cybersecurity, IT risk and credit risk—which respondents indicated will receive escalated priority in the coming 12 months.

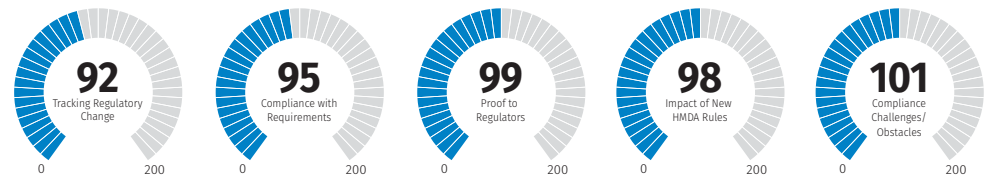
Top regulatory compliance challenges included managing/implementing changing regulations, managing Home Mortgage Disclosure Act obligations, complying with new Current Expected Credit Loss (CECL) as well as UDAAP standards, and updates to TILA RESPA Integrated Disclosure (TRID) regulations. Continued uneasiness around addressing regulatory requirements was also reflected in responses concerning examiner scrutiny of fair lending programs. Additionally, staff training and resourcing continued to be pressure points for survey respondents.

Despite the recent passage of regulatory relief legislation (S. 2155), 62 percent of respondents indicated they “do not anticipate a likely reduction” in regulatory burden.

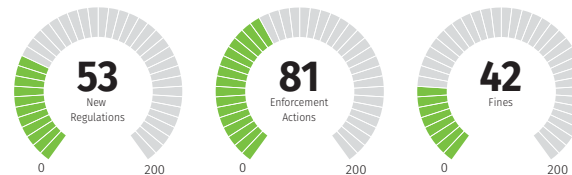
Main Indicator



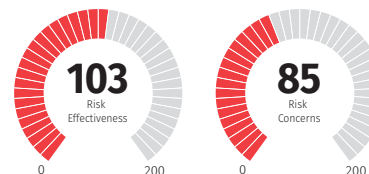
Compliance Factors



Regulatory Environment Factors



Risk Management Factors

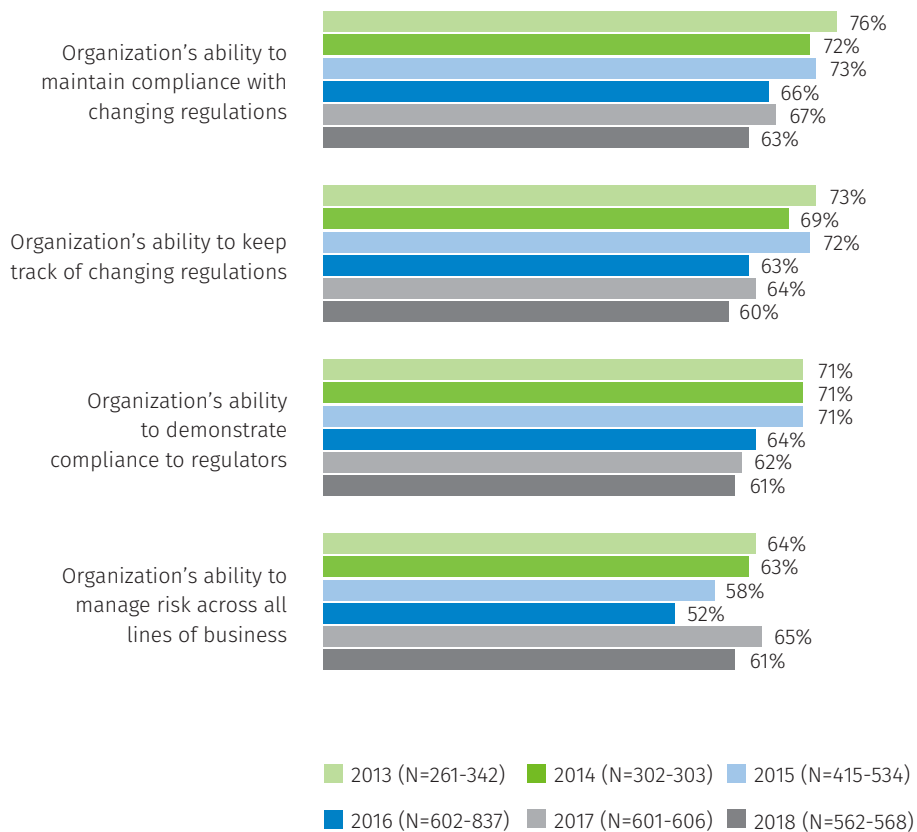


Compliance Concern Levels Show Continued Drop

Overall compliance concern levels (rated on a scale of 7 or higher on a 1-10 scale) dropped when compared to 2017, and in most categories ended at levels lower than at any time in the Indicator's six years. That said, nearly two-thirds of respondents still rank their concern levels as high.

Concerns relative to compliance technology investment dropped slightly this year.

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



Technology Investments (% 7 or higher)



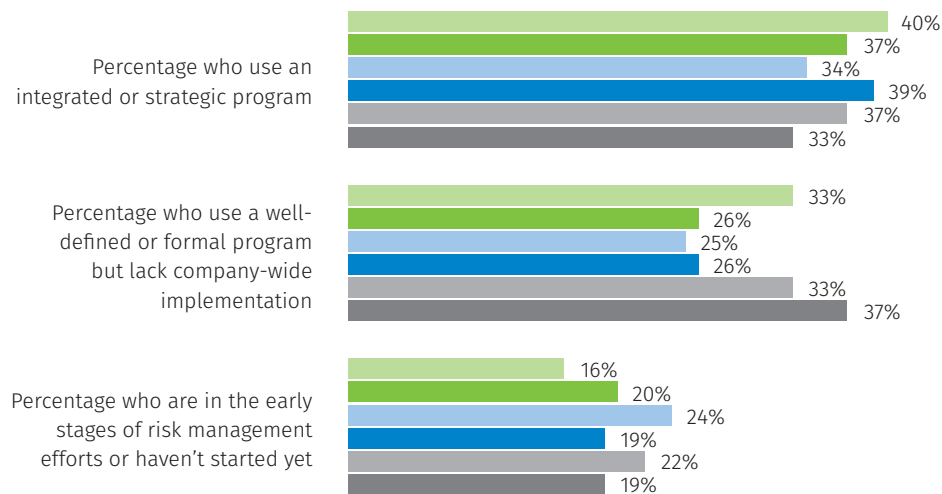
Risk Management Concerns—And Efforts—Holding Steady

Over time, the risk management efforts of survey respondents have remained at similar levels. Compared against prior survey years, we have not seen significant progress being made in the usage of well-defined, integrated, or strategic risk management programs. This year saw a slight decrease in highly structured programs, which could mean that more resources should be focused on managing risk, or it could reflect a perceived reduction in scrutiny/enforcement measures.

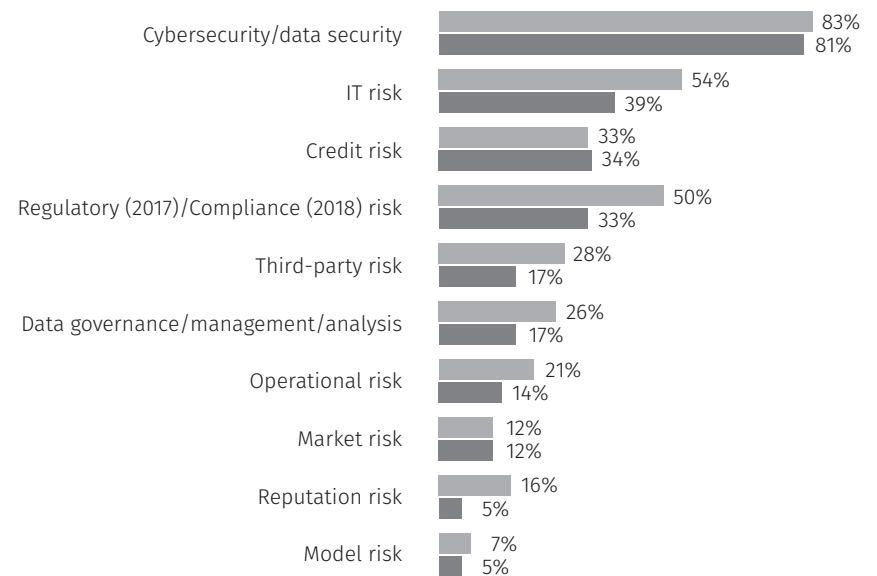
Cybersecurity again tops this year's risks list, followed by IT risk and credit risk. Eighty-one percent of the respondents indicated their organization will focus on cybersecurity risks over the next 12 months, a response down only slightly from 2017.

All priority areas declined somewhat slightly from 2017.

Risk Management Efforts



Top Risks Receiving Escalated Priority Over the Next 12 Months



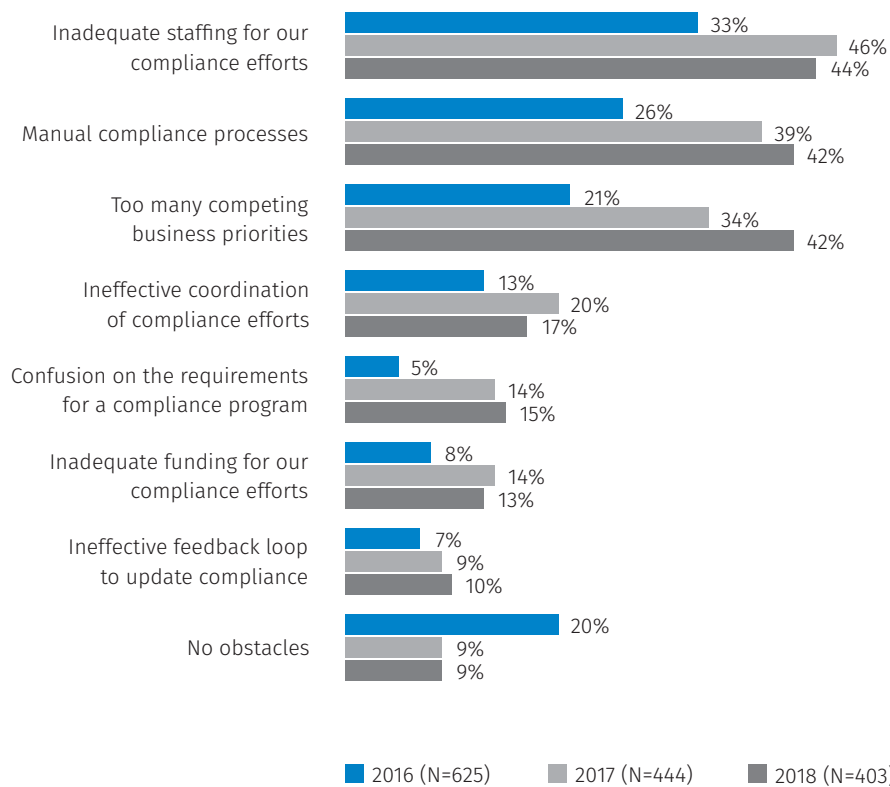
■ 2013 (N=258)
 ■ 2014 (N=224)
 ■ 2015 (N=410)
■ 2016 (N=593)
 ■ 2017 (N=416)
 ■ 2018 (N=371)

■ 2017 (N=413)
 ■ 2018 (N=366)

Compliance Management Program Obstacles—and Anticipated Investments

- Staffing for compliance, manual compliance processes, and too many competing business priorities have consistently remained top obstacles to implementing an effective compliance program.
- Respondents are most likely to make investments in strengthening risk assessment and controls and updating policies and procedures, along with training staff. However, except for compliance training, most areas show a decrease in the likelihood of investment from 2017.

Top Obstacles to Implementing an Effective Compliance Program



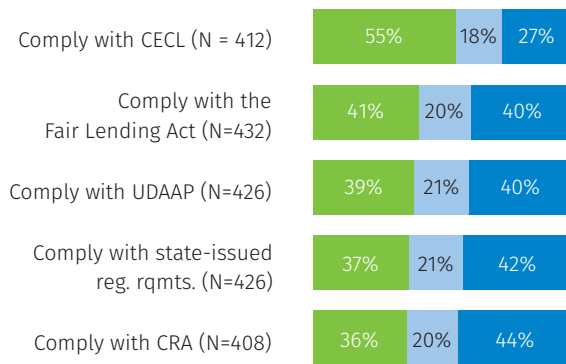
Respondents Anticipating High Investment in the Components of a Compliance Management Program



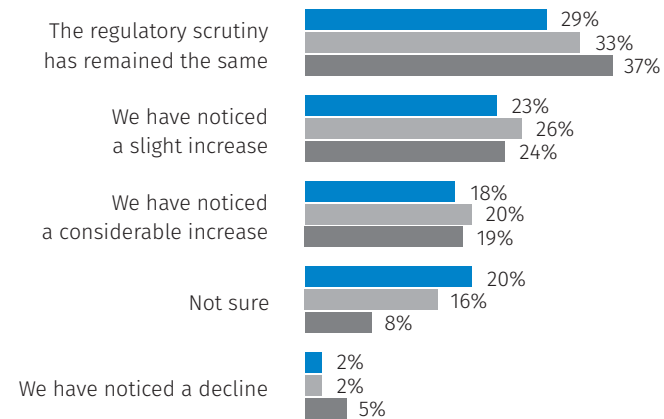
CECL and Fair Lending Requirements Top List of Challenges

- When asked about other specific challenges, the respondents indicated they are most concerned with complying with Current Expected Credit Loss (CECL) standards, with 73 percent “very or somewhat concerned,” followed by fair lending (61 percent), UDAAP (60 percent) and state-issued regulatory requirements (58 percent).
- Forty-three percent of the respondents indicated they have seen a slight or considerable increase in examiners’ scrutiny of their fair lending programs, a level slightly down from 46 percent in 2017.

Concern with Key Requirements/Challenges



Examiner’s Scrutiny of Fair Lending Programs During Recent Exam



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

2016 (N=617) 2017 (N=413) 2018 (N=400)

Coming to Terms with HMDA Compliance

- This year saw a slight uptick in the concern around accurately capturing data fields, upgrading systems and analyzing data fields when compared to 2017. However, the time/cost of implementation and training of staff both dropped significantly from the prior year.
- New this year, respondents were asked about how new reporting requirements associated with HMDA ranked. Only 15 percent of respondents ranked this as a #1 or #2 challenge.

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

