

CAPCO

DATA GOVERNANCE AND MANAGEMENT FROM A REGULATORY PERSPECTIVE



In today's digital world, data continues to be an increasingly valuable and sought-after asset. The power of data will grow as technology advances and more innovative business use cases are defined: inform business decisions, understand consumer behavior, and define corporate strategy, to name a few. It is no wonder that **data will continue to be king** as the world moves beyond analog solutions toward digitizing everything around us. As a result, data has grown to be a key focal point for regulators as new and often unforeseen risks emerge for corporations and civilians alike. This has led to enforced regulatory measures calling for organizations to introduce proper data governance to mitigate risk. Developing mature data governance practices, while maintaining compliance within an everchanging regulatory landscape, is essential for the successful and sustainable advancement of data-driven digital solutions in financial services.

Regulators, such as the Office of the Comptroller of the Currency (OCC) and U.S. Federal Reserve, are closely assessing data management practices across the financial services industry and enforcing increasingly lofty standards to prevent data-related incidents. This will have lasting consequences on institutions and their customers. Regulators are particularly keen to see financial institutions: 1. Adopt modern solutions to strengthen data controls, 2. Redesign data infrastructure, and 3. Implement processes that would support strong data governance and minimize risk – and in particular, risk caused by necessary manual adjustments. In one example, the absence of these measures at a large financial institution resulted in a significant \$400 million OCC fine and a mandate to prioritize a resolution to fill existing data management gaps.¹

Regulators, such as the OCC, are closely assessing data management practices of financial institutions and enforcing high standards of data governance processes, including data Controls and data Infrastructure that can act without manual intervention.

Regulatory fines over data governance gaps are not an isolated incident and are becoming more prevalent. A financial institution's ability to support the advanced infrastructure required for successful and efficient data management has not kept up with the pace at which large volumes of data are being generated. The EDM council, a global association providing resources to elevate data management practices as a business priority, has dedicated resources to understanding where these gaps lie. According to a 2020 EDM Council Industry Benchmark survey, most financial services institutions have had data management operations in place for fewer than three years. The EDM council created an industry framework to define the scope of required capabilities for a sustainable, mature data management discipline, known as the Data Management Capability Assessment Model (DCAM).² In 2020, participating financial services institutions received an average DCAM score of 3.16 out of 6.00, due to immature processes. This low maturity within the industry leads to increased regulatory scrutiny and increased risk, while also hindering firms' ability to fully realize the benefits of data in their businesses.

The financial services industry is slow to adopt data governance processes. In a 2020 EDM Council Industry Benchmark assessment, the industry scored low 3's (out of 5) on all DCAM benchmark categories including strategy, program and funding, architecture, Data Quality Management, Data Governance, and Data Control Environment.

Ultimately, with effective Data Management in place, firms will have the opportunity to improve data quality, which can lead to unlocking new business opportunities, improving efficiency, and providing better customer experiences and services.

1. Ennis, Dan. "Citi fined \$400M over risk management, data governance issues," Banking Dive. October 2020.

2. EDM Council. "DCAM: The Data Management Capability Assessment Model," EDM Council.

MAINTAINING REGULATORY COMPLIANCE

To avoid the sharp eyes of regulators, firms must stay ahead of regulations and develop satisfactory data governance processes before issues arise. By understanding the general guidelines enforced by regulators, such as implementing formal measures to mitigate risk, awareness of lineage and interconnectivity between systems, and resilient architecture,³ financial institutions can bolster their data governance practices beyond the minimum standard.

Significant effort is required to enact such a transformation in the data practices of financial institutions.

The regulatory landscape is constantly changing, and while there is no crystal ball to foresee what future requirements will arise, the aim is to establish sustainable data governance processes timely, so the regulatory assessments of tomorrow will be less painful.

Engagement Highlight:

Capco partnered with a Tier I Investment bank to establish a comprehensive, firmwide data governance organization, influenced by requirements from BCBS, CCAR, IHC, FINMA, Strategic Regulatory & Internal Management Reporting and Financial Crime. Initially, the firm lacked a firmwide governance structure, formal role accountability, and a common data vocabulary across the enterprise. Capco led the client to the following outcomes by the engagement: the firm had centralized data management to visualize end-to-end data lineage across divisions, improved efficiency, established sustainable data policy and methodology, and maintenance programs to satisfy regulatory requirements.

3. Office of the Comptroller of the Currency. "Fall 2021 Semiannual Risk Perspective, From the National Risk Committee," Office of the Comptroller of the Currency. <https://www.occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-fall-2021.pdf>

* Ponemon Institute LLC. "The True Cost of Compliance with Data Protection Regulations," Globalscape. December 2017. <https://static.helpsystems.com/globalscape/pdfs/guides/gs-true-cost-of-compliance-data-protection-regulations-gd.pdf>

WHAT IS 'GOOD' DATA GOVERNANCE?

Data governance is multifaceted and requires an end-to-end perspective of existing processes to effectively improve data quality and mitigate data-related risk. Steps include, but are not limited to:

- Understanding data movement and lineage between systems
- Developing uniform, widely accepted, and followed data processes, policies, and procedures which govern how data is used throughout the organization
- Defining and assigning data ownership across data domains and elements.
- Establishing data controls to enforce minimum quality standards
- Building and implementing architecture and tooling solutions to enable such capabilities.

Data governance is multi-faceted and requires not only a deep understanding of end-to-end processes to implement viable technical solutions, but also firmwide cultural shifts.

Beyond technical implementation, firms must often undergo a cultural shift to change the way employees treat data, promote an understanding of the importance of data, and ensure that everyone is committed to uplifting the fundamental principles of data governance in their daily work. Data quality and literacy is

everyone's responsibility and is not isolated to designated data owners and consumers.

The establishment of minimum data standards outlined in policies and procedures will guide a clients through the end-to-end journey all the way through establishing regular revalidation processes to ensure continuous quality assurance. A deep understanding of existing firm processes and culture and subsequent design data policies and procedures that satisfy regulatory requirements is necessary. This unique engagement approach ensures a true capture of the full data landscape and helps build comprehensive data governance processes.

Embarking on a data governance transformation, be it from net zero or starting with existing processes, is a major transformation. It includes promoting cross-divisional collaboration for increased insights, increasing efficiency and data quality, establishing firmwide policies, and enabling processes for continued maintenance. This all helps mitigate inherent, data-related risks, and satisfied complex regulatory standards. Additionally, clients benefit from improved quality of data allowing data to be leveraged for a better understanding of their customers and potential new business opportunities (e.g up-selling, cross-selling, new offerings, etc.). As regulators continue applying pressure to the industry to bolster their data management maturity, firms have a responsibility to start these conversations internally and begin maturing their data governance processes.

Engagement Highlight:

Over the course of 18 months, Capco partnered with a Global Tier I Investment Bank to articulate data policy and associated procedures to standardize global data governance practices. The Capco team collaborated with Data teams across 10 business areas to define minimum standards for processes that can be applied across all areas. The policy was Board approved and shortly after, the firm saw significant increase in the use of the centralized data management tool and improvements to data quality.

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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