

From data risk to regulation ready

Compliance challenges facing financial services institutions in the UK and Ireland





Introduction

The UKI financial services industry operates within a dynamic environment, shaped by continuously evolving regulatory requirements. Regulators play a crucial role in upholding market integrity, protecting consumers, and ensuring financial stability. Their mandates encompass a wide range of areas, from anti-money laundering (AML) and prudential supervision, to environmental, social and governance (ESG) disclosures.

Compliance with evolving regulation often comes at the cost of efficiency

For financial services institutions, this requires constantly adapting to meet the increasing demands from regulators enforcing current rules. At the same time, they must **anticipate the onset of new regulations and codes** of practice, some of it from overseas, such as the California Consumer Privacy Act (CCPA).

As new regulatory frameworks and standards come into force, compliance teams must be able to respond effectively. The alternative is to risk public censure, stiff financial penalties, and loss of organisational reputation. But compliance with evolving regulation should not come at the cost of efficiency.

To explore the regulatory pressures facing financial services institutions, InterSystems and FStech surveyed more than 100 financial services professionals in the UK and Ireland. The findings, presented in this report, delve into the critical role of data management in navigating challenges and transforming them into strategic advantages.

Key findings



33%

of respondents said the **number of disparate systems and data sources** is one of the most challenging aspects of regulatory compliance and reporting.



38%

of those surveyed view **poor risk modelling and analytics** as significant challenges.



38%

of respondents said **consumer protection regulations** are the biggest area of regulatory concern for their organisation.



100%

of respondents admit they are **facing data challenges** in relation to compliance and reporting.



20%

of financial institutions surveyed are **examining or implementing the smart data fabric** to obtain the harmonised data they need for compliance and risk management.

Identifying the data challenges

In financial services, regulatory compliance depends on organisations having the right data and analytics. **But with so much data and complex regulation, the task of obtaining precisely the right detail for reporting is more time-consuming than ever.** According to the survey, this challenge is universal among financial services institutions. 100% of respondents admit they are facing data challenges in relation to compliance and reporting.

What are the top data management challenges facing FSIs?

Poor risk modelling and analytics **38%**

The number of data sources and systems **33%**

Data latency **29%**

A third of respondents (33%) said the number of data sources and systems they deal with is one of the major difficulties. Even more (38%) were ready to admit poor risk modelling and analytics are problems. Nearly three-in-ten (29%) said data latency is a challenge in their organisation.

100% of respondents admit they are facing data challenges in relation to compliance and reporting

We know financial institutions run mission-critical operations on legacy systems. Many date from distant mergers and acquisitions and are connected with “bespoke” interfaces. Data is in different places and formats which significantly impacts efficiency, but also poses a risk for compliance reporting. **Firms must deploy substantial resources to reconcile and harmonise data before they can analyse it for compliance.** The survey revealed that one-quarter of FSIs (25%) are prevented from fully integrating data required for compliance, from both inside and outside the organisation, due to disparate systems.



The results show many firms still rely heavily on manual processes, which consumes significant time and human capital on tasks that could be automated. **More than half of respondents (52%) said they spend 10 hours or more completing compliance tasks manually in an average week - half of these organisations spend over 15 hours.** Nearly a quarter of respondents (24%) said manual processes are barriers to integrating and connecting all the diverse data they need to use.

Perhaps unsurprising given the extensive manual effort currently required, fewer than one-in-five (19%) institutions have highly automated reporting systems in place. Accuracy and consistency suffer from manual data collation as well as use of time and resources. **More than two-fifths of respondents (43%) confessed manual data processing holds back most of their departments’ tasks - including those at a senior level - whilst improved accuracy and reducing errors is expected to be the biggest benefit to any newly implemented tech solution.** With challenges plenty, organisations are open to significant risk.

Why it matters

These difficulties have many potential consequences:



New regulations turn up the pressure

When asked where these difficulties with data are causing most concern, **38% of respondents cited consumer protection regulations such as Consumer Duty, mandatory authorised push payment (APP) fraud reimbursement scheme, Fair Lending and US Consumer Financial Protection Bureau rules.**

GDPR and data privacy rules such as the California Consumer Privacy Act were cited by 33%, followed by KYC and customer due diligence requirements. But the regulatory concerns encompassed virtually all the current and imminent regimes including the UK Green Taxonomy, International Sustainability Standards Board and Basel IV.

Financial services organisations need to be able to harness their data for all regulation. **Consumer Duty regulation and the APP scheme have stringent requirements for accurate, transparent, and secure data handling.** Effective data governance becomes all the more important.

More broadly, poor risk modelling injects unreliability into the financial system as a whole. **Financial services institutions using poor quality data may inadvertently make choices that lead to inadequate capital planning or underestimations of default risk that expose them and their partners to significant jeopardy.**

Managing the risks

In financial services, firms must constantly reassess risk, so they can seize opportunities as soon as they arise while minimising the potential for adverse outcomes.

Yet with risk management encompassing a broad spectrum, from credit and market risks to data governance and technology, the task is formidable. **Risk teams must ensure their organisation remains secure and compliant, especially in times of uncertainty.** It is hardly surprising there are high levels of frustration at the inadequacies of the systems and data they use.

What are the most critical compliance priorities?

Improving risk management

48%

Increasing automation

31%

Connecting data from inside & outside the organisation

30%

Improving risk management was by some margin the most frequently cited compliance priority (48%) for the organisations surveyed. **These respondents grasp the dangers reputationally and financially in compliance failures, but also recognise they must do something to strengthen their performance and provide greater resilience during periods of uncertainty.** Increasing automation and connecting data from inside and outside the organisation were also important priorities (31% and 30% respectively).



The familiar difficulty of siloed data remains one of the main obstacles preventing organisations from meeting their risk management aims, according to the research.

Improvements in risk management come from real-time monitoring. For banks and lenders, real-time monitoring detects the anomalies that indicate fraudulent activity with credit cards. Investment banks and asset managers use real-time monitoring to stay within risk parameters, protecting the organisation from high-risk market activity or market fluctuations.

Problems with data latency stand in the way of institutions achieving real-time monitoring. Effective data governance is also vital. It underpins the reliability of data through well-defined data lineage, imposition of controls and clear lines of ownership.

More advanced risk management comes from the newer technologies of AI and machine learning (ML) which enable pre-emptive management of risk through predictive analytics. **These models use historical data to look forward, forecasting risks and pinpointing compliance vulnerabilities.**

Transforming compliance with a new approach

All organisations agree that a new approach involving advanced technologies, will form part of its future compliance strategy (100%).

A third of respondents (31%) said their organisation is prioritising being ready for future compliance regulations, such as generative AI or ESG, as part of their

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compliance strategy in the next 12 months but are split over the right approach to deal with these unknowns. Whilst 37% feel more staff will be required and headcount investment is being planned for, a significant portion (26%) are turning to a smart data fabric architecture.

AI models forecast compliance risks, enabling financial organisations to act fast and avoid regulatory breaches and compliance failures.

Explainable AI gives clarity to regulators and stakeholders about how the model works.

ML algorithms also automate data collection, validation and reconciliation, which vastly saves time and increases accuracy.

Natural language processing takes the pain out of analysing complex regulatory documents, identifying the most pertinent sections, deciphering complex language and providing correlations with reporting requirements.

Automation achieved by the integration of AI and ML into workflows strengthens compliance in:



Consent management and completion of privacy impact assessments (PIAs). Automation streamlines what would otherwise be time-consuming processes, taking care of consent approval tracking, opt-outs and compliance with data privacy regulation. AI tools analyse data flows and generate PIA reports.



Data retention. Automation ensures retention policies work without fail, ensuring timely data deletion to save costs and mitigate risks around retaining unnecessary information.



Security. Automation scans workflows, detecting anomalies and triggering alerts for faster incident responses and swift mitigation.



The significance of unified data

New solutions abound in compliance but almost all depend on having clean, timely and trustworthy data. This is the essential fuel for all effective advances that organisations currently want. **A unified data strategy will consolidate data sources, take care of automation, and provide the real-time insights required.**

This approach does not replace systems but sits above them, seamlessly connecting all data sources, applications and analytics tools

Unified data is elusive when organisations have no solution to the challenges of disparate legacy systems and heavily siloed data. A new approach to data architecture is circumventing these obstacles – the smart data fabric. **A fifth of financial institutions surveyed are examining or implementing it because it will deliver the harmonised data that organisations need for compliance and risk management in a much more demanding world.**

This approach does not replace systems but sits above them, seamlessly connecting all data sources, applications and analytics tools. The fabric enables AI and ML to access data that is consistent, validated and harmonised, regardless of its original format.

It enhances the accuracy of AI and ML models – leading to improved decision-making. **Scalability and the ability to integrate new sources make it highly scalable and adaptable.**

Within a unified data strategy, software that enables a data fabric architecture will:

- 1 Provide a centralised platform** for collecting and storing consistent data for reporting purposes.
- 2 Enforce strict data governance** to ensure excellence in management and adherence to security, privacy and ethical standards, along with demonstrable lineage for compliance.
- 3 Reduce risk by enhancing control over data** to achieve accuracy, completeness and traceability – important attributes in compliance.
- 4 Integrate easily with reporting ecosystems.** The fabric will simplify integration and relieve compliance teams of many tasks to ensure timely submissions to regulators.
- 5 Adapt quickly to new rules and formats.** Teams can swiftly accommodate new reporting formats, templates or rules.

Conclusion

The smart data fabric is rapidly emerging as a pivotal data management approach in many industries, but especially in financial services. As the foundation of a unified data strategy, it offers a comprehensive, highly agile approach that overcomes the limitations of traditional approaches that are holding back financial organisations in their efforts to streamline compliance and risk management. It both supersedes and complements other approaches such as data warehouses, data lakes and reduces reliance on ETL pipelines.

The survey findings indicate why financial services institutions need the data fabric approach for their compliance and risk management. They continue to struggle with data, suffer from poor risk modelling and analysis, and have to extract clean and standardised data from disparate systems.

Manual methods are rife, not only hindering existing processes, but limiting the ability for organisations to grow due to the increase of data volume this would create. At the same time, new rules come into force requiring more reporting and existing regulation becomes more complex and more demanding.

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Financial organisations want to employ new technologies, but uptake is partly held back by challenges with data. The time has arrived for each organisation to put together a well-crafted unified data strategy underpinned by the smart data fabric architecture. **This will streamline compliance, remove inefficiencies and future-proof each organisation in a highly dynamic regulatory universe.**

To learn more about how your organisation can transform its approach to data compliance, get in touch with us.





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