FStech & InterSystems Research Report

From risk to resilience:

Is your data regulation ready?

FStech In collaboration with InterSystems Creative data technology

Introduction

As financial services organisations navigate a dynamic and complex regulatory landscape, they are also faced with the challenge of harnessing the exponential growth of data – often sat in disparate internal and external systems – which is ultimately needed to meet the regulator's requests.

Regulatory compliance and risk management responsibilities compel firms to prioritise data management as part of their strategy, particularly when it comes to integrating and connecting data across an organisation and its external sources to provide a unified view. However, complicated technology, poor data quality, manual processes, and legacy systems can all prove a barrier to providing the regulators with the information they need. Ultimately, failing to adhere to the rules and standards expected of them can lead to hefty penalties and long-term reputational damage.
Having the right technology in place can help firms achieve better, data-driven decision making – bridging data silos and providing real-time access with one view of the data – with some firms looking to new, advanced technologies as part of their regulatory compliance strategy.

Methodology

FStech and InterSystems conducted a survey of over 100 financial services professionals in the UK and Ireland to explore the data challenges and opportunities for firms as they navigate an ever-changing regulatory landscape.

*Where numbers do not add up to 100%, it is because they are multiple choice or not all respondents answered the question.

Contents

1. What are the top data challenges your organisation is experiencing in relation to regulatory compliance and reporting? **[select top three]**

Poor risk modelling and analytics was highlighted as the top challenge, with nearly two fifths of respondents selecting this option. In regard to regulatory reporting, insufficient risk modelling can lead to a range of challenges, including the production of unreliable data. This can result in regulatory authorities questioning the accuracy of reports, while firms also risk undermining investor confidence.

Meanwhile, poor risk modelling and analytics can reveal weaknesses in governance structures, including the lack of a robust 'third line of defence' in risk management, which is crucial for ensuring accurate reporting. Firms may also rely on manual processes to reconcile data from poor risk models, which is time-consuming, prone to errors, and can result in delays or inaccuracies in reporting.

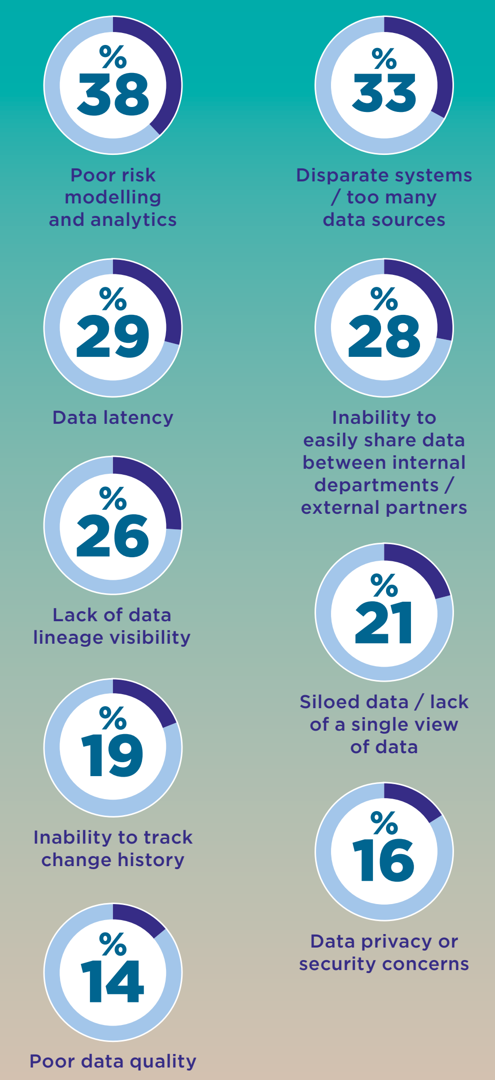
A third of financial services providers said that struggling with disparate systems or too many data sources was a top three concern. These data hurdles could mean that companies are producing reports that have inconsistent formats, missing fields, and conflicting definitions. At the same time, data silos created by disparate systems can hinder collaboration when it comes to compliance, with one department unaware of what the other is doing.

Too many data sources or disparate systems can additionally cause latency and delays, which was also chosen as a top-three data challenge by nearly 30 per cent of respondents. The lag between data creation and availability hinders reporting ability and real-time insights become elusive, which ultimately jeopardises decision-making.

The right technology can connect a firm to live data sources and provide business intelligence analysis reporting based on real-time data across multiple sources in order to minimise latency. This is important for firms as timely data is critical to enable real-time decision making in a fast-paced industry where data delays can lead to missed opportunities or suboptimal decisions.

By integrating multiple models through a common data scheme, firms can combine various models without the complexities of data preparation and conversion. This allows for a broader analytical approach and more comprehensive risk assessments, while a unified approach to data can also break down silos within an organisation, ensuring that different departments all work with the same data set.

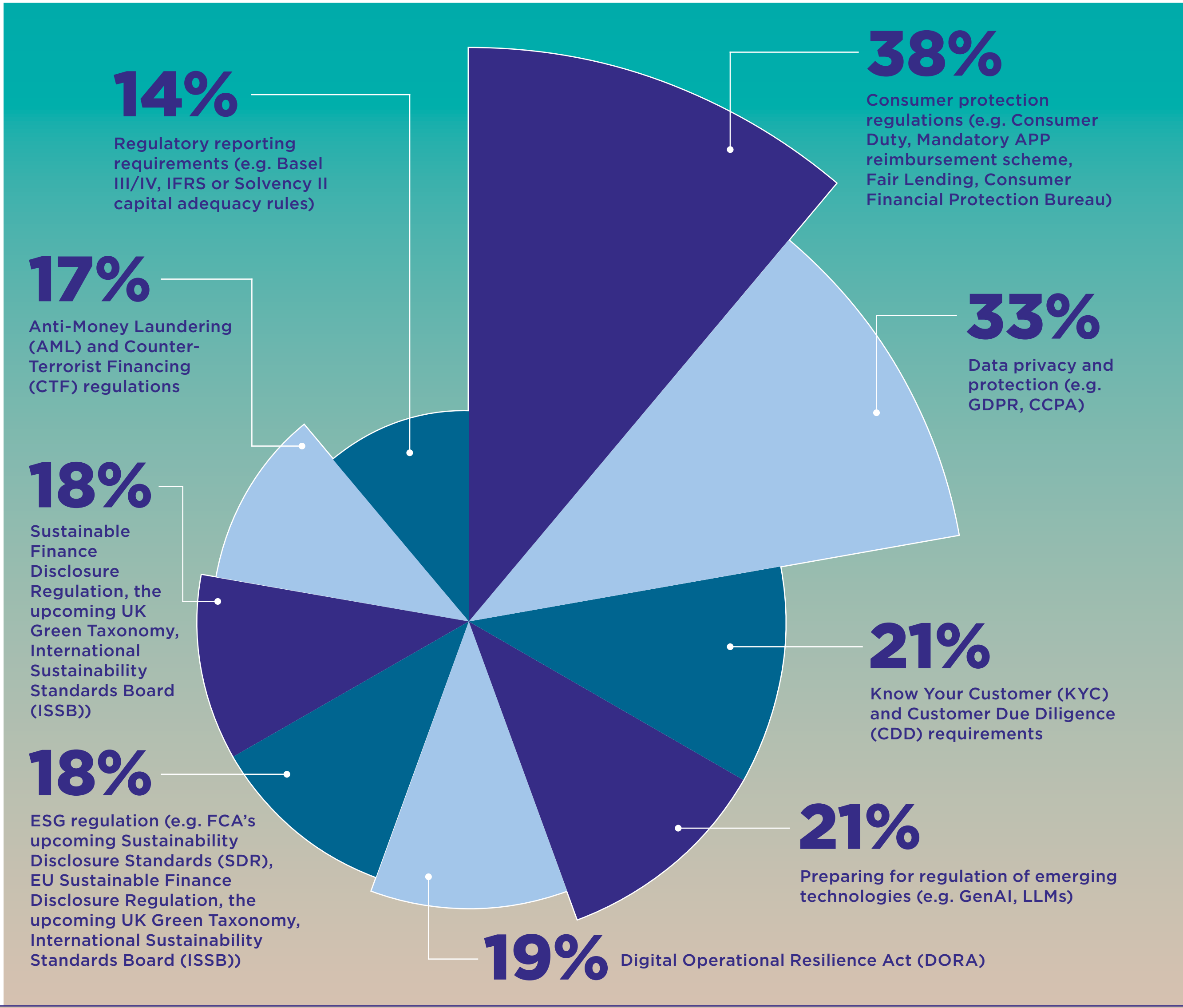
The unification of data plays a crucial role in both enhancing risk modelling and tackling disparate data sources. It harmonises models, breaks down silos, and ensures data consistency – all crucial for robust and accurate regulatory reporting.



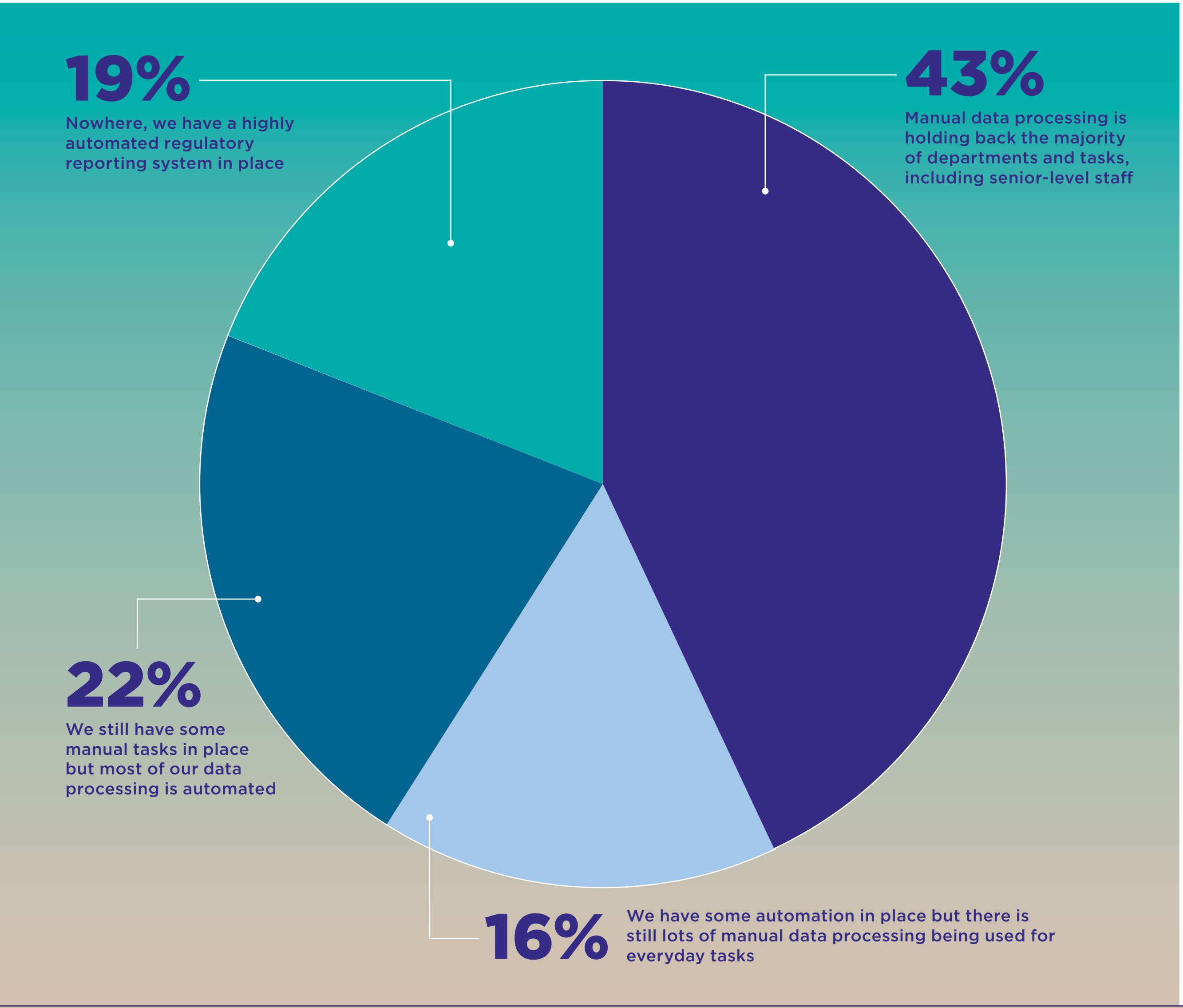
2. Which of the following areas of regulation are the biggest concern for your organisation due to data management challenges? **[select top three]**

With firms still getting to grips with the Consumer Duty after it was launched last summer and the Mandatory APP reimbursement scheme yet to come, it's unsurprising that consumer protection regulations were highlighted as the top concern for FSIs regarding data management challenges. But it is crucial that firms are able to provide the right data to meet these emerging standards – not only because these rules are high on the agenda for the regulators but also to ensure they are providing the best experience for their customers. By rolling out the right data strategy, firms can begin to take charge of their data and ultimately harness these regulations to their advantage by building trust and delivering a seamless journey for the consumer.

Insights earlier in the report demonstrate that many financial services providers are struggling with disparate systems, data latency, and sprawling data sources, which could be in part driving the third of respondents who are still struggling with data privacy and protection rules. Regulation like GDPR is ultimately about processing personal data transparently, which can be a challenge if firms are unable to effectively manage data across different platforms, geographies, or departments, with proper controls and data tracking in place to ensure compliance with these privacy regulations.



3. Where is manual data processing or a lack of automation holding back your organisation when it comes to regulatory reporting? **[select the most appropriate answer]**



The results demonstrate that the vast majority of respondents are struggling with manual data processing when it comes to regulatory reporting, with over two-fifths saying that this is holding back most of their organisation's departments and tasks, including senior-level staff, and a further 16 per cent using lots of manual data processing for everyday tasks. Not only is manual data processing often an arduous task, it is also prone to human error. This means that firms must include additional checks on the data or risk inadvertently delivering incorrect information to the regulators when submitting reports.

Automation of data processing can help financial services firms become more efficient, accurate, cost-effective, and competitive in an increasingly fast-paced market. It can also speed up the process; enable scalability by allowing firms to handle more data without an increase in resources or costs; provide better risk management and decision-making; boost market responsiveness; and allow firms to successfully meet their regulatory compliance duties by maintaining precise records and generating reports.

4. How much time on average do you spend each week doing manual data processes for regulatory compliance-related tasks? **[select the most appropriate answer]**

The results demonstrate that the highest proportion of respondents are spending the longest period of time on manual data processing when it comes to regulatory compliance-related tasks – with a combined 52 per cent of respondents spending more than 10 hours every week on this task.

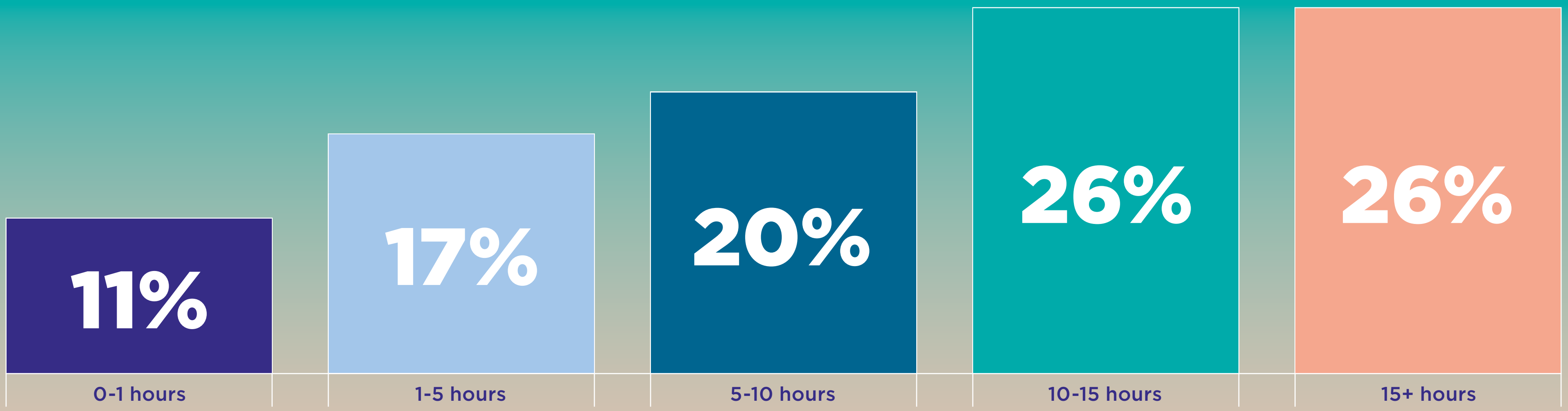
These results demonstrate a significant opportunity for FSIs to reallocate time towards activities that not only enhance individual productivity but also contribute to the firm's wider strategic goals.

Manual processes are much slower than automated ones, which means that firms that don't roll out automation could risk delays in responding to regulatory requests. Excessive time spent on manual tasks also means less time is available for analysing data and preparing comprehensive responses to regulatory inquiries.

Additionally, manual data processing can result in an increased error rate, which can lead to inaccuracies in data shared with the regulators. Further to this, inefficiencies, lack of agility, data quality issues, and financial costs are all challenges associated with a lack of automation when it comes to data processing.

Ultimately, reliance on manual processes for regulatory compliance can significantly impede a firm's ability to respond effectively and efficiently to the regulators. This can have implications for the firm's operational performance, risk profile, and overall competitiveness.

By implementing the right data management technology, firms can automate regulatory compliance-related tasks and make the process across discovery, validation, cataloguing, preparation, and monitoring more efficient by reducing errors and wasted time and resources.

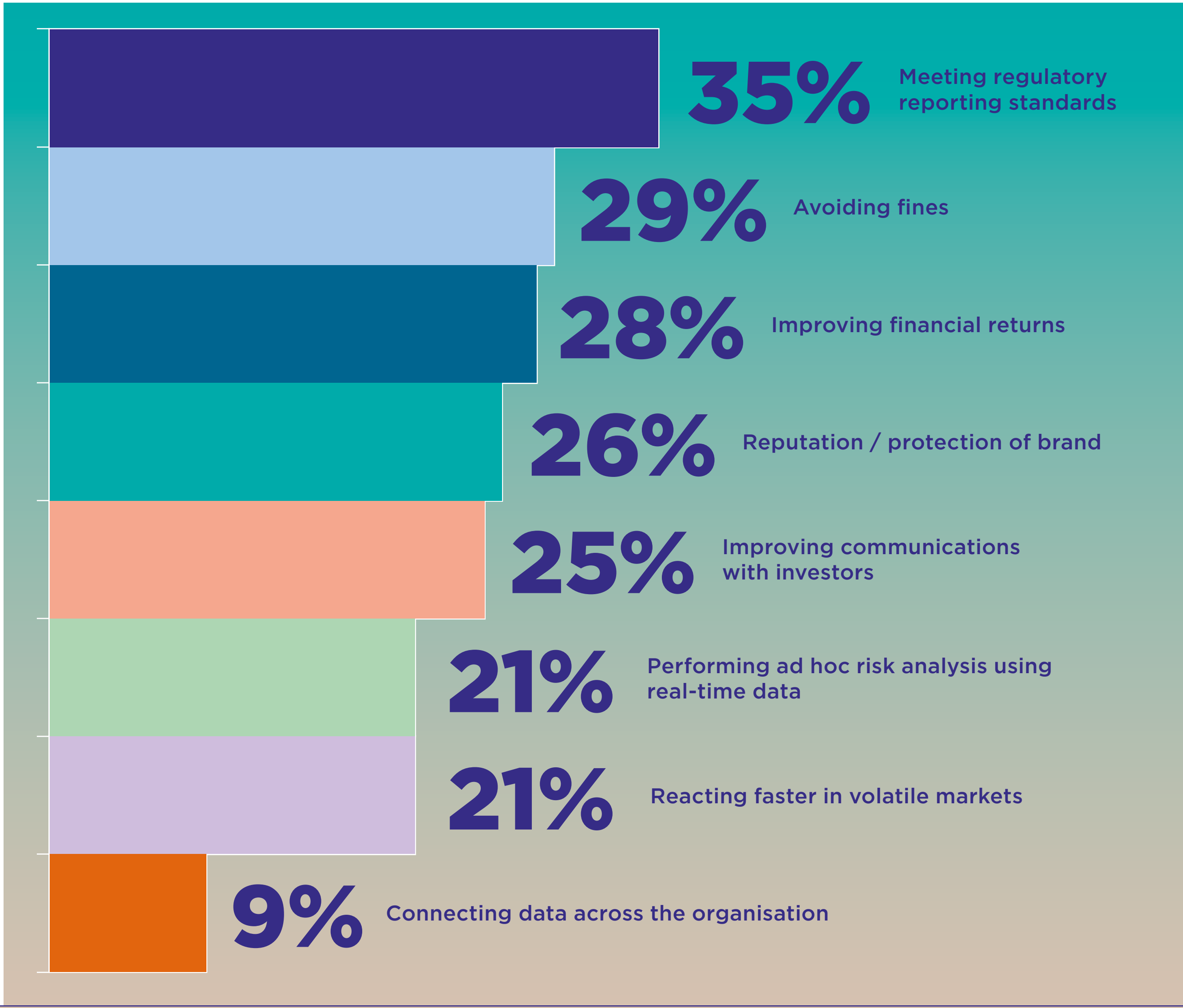


5. What are the most important risk management priorities for your organisation currently? **[select top three]**

Given that regulatory scrutiny appears to be intensifying – with new regulations such as the Consumer Duty likely having an impact on firms' risk frameworks, as well as other considerations like ESG coming to the fore – it is not a surprise that by far the top priority for FSIs when it comes to risk management is meeting regulatory reporting standards, with over a third selecting this option.

Avoiding fines and protecting brand reputation were chosen by 29 per cent and 26 per cent respectively; both key for financial services providers who want to steer clear of anything that could have a negative impact on customer perception or the balance sheet. Increasing regulatory scrutiny and public awareness around misconduct is also likely driving firms to prioritise these areas.

Despite being a core business objective, improving financial returns came in third place. This hints that firms may be prioritising short-term regulatory compliance over long-term profitability amidst heightened scrutiny.



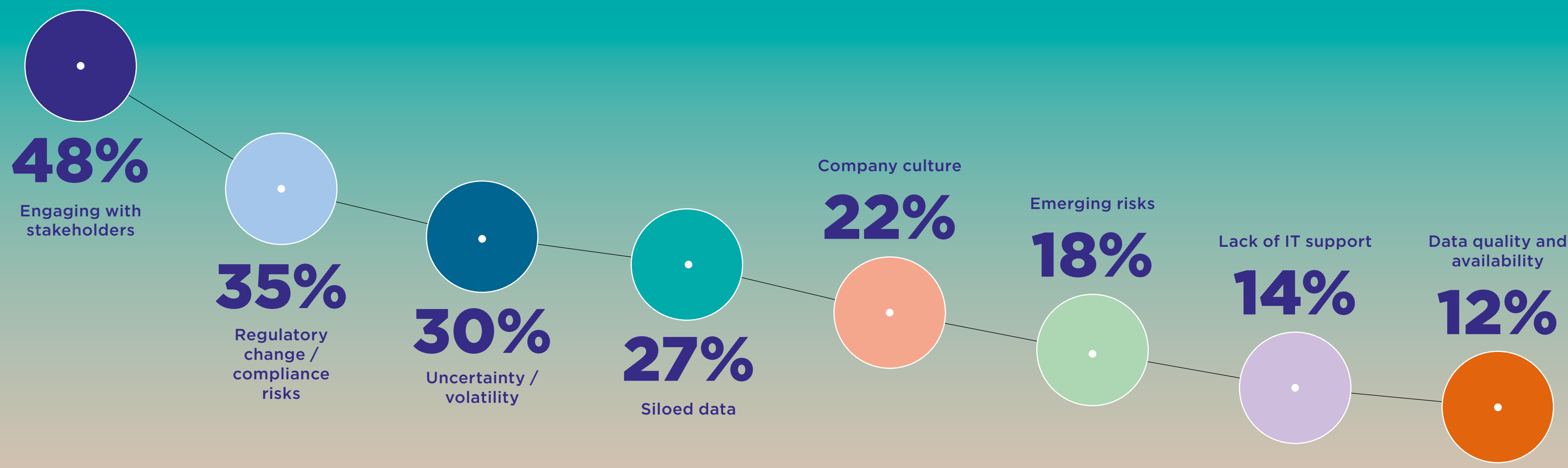
6. Are there any challenges within your organisation that are preventing you from meeting your risk management priorities? **[select top three]**

With nearly half of respondents revealing that they are struggling to engage with stakeholders, the results demonstrate that the biggest barrier to meeting risk management priorities is cultural rather than technical. This challenge could be linked to broader industry trends like the fast pace of technological disruption, changing regulations, shifting customer expectations, and evolving competitive landscapes, which can ultimately make stakeholder alignment more difficult. Perhaps there is a lack of cross-functional collaboration or siloed thinking at hand, while risk or compliance teams could also be struggling to effectively communicate increasingly complex issues to leadership.

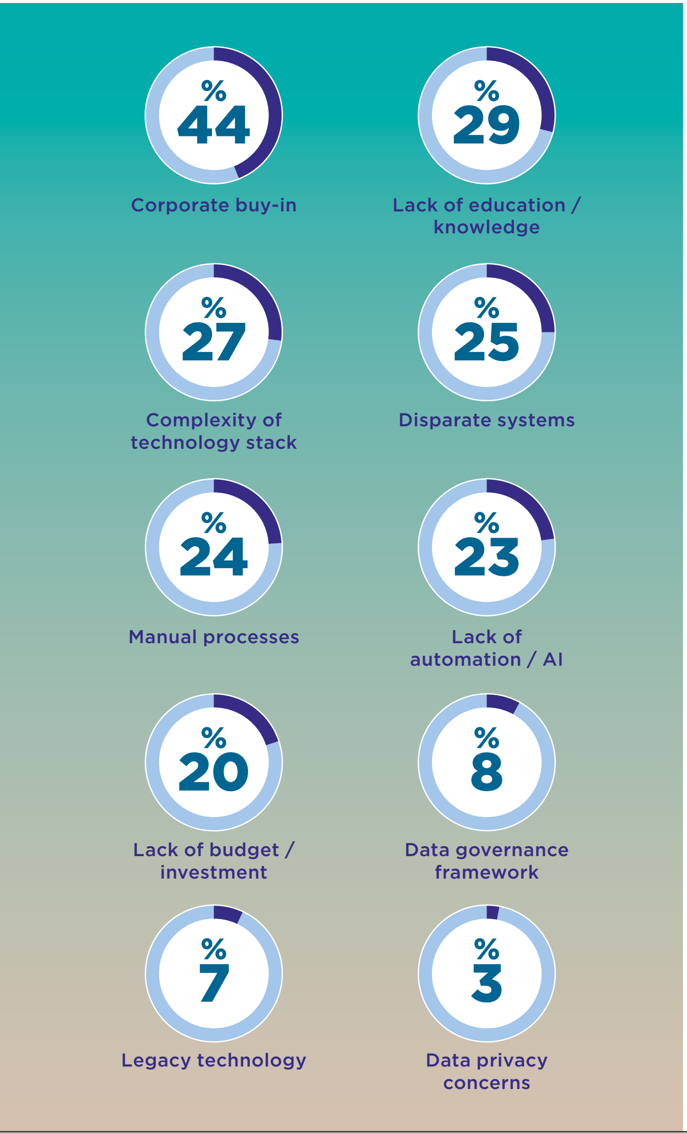
Finding ways to effectively communicate and build good relationships with stakeholders is crucial to risk management because they are pivotal to identifying potential risks, opportunities and impacts. Firms can begin to do this through several targeted methods such as stakeholder mapping; identifying needs and expectations; regular updates; and communication plans.

Regulatory change and uncertainty in the market were also highlighted as top hurdles to meeting risk management priorities, chosen by 35 per cent and 30 per cent of respondents respectively. With so much change happening in financial services, from emerging technologies like GenAI to evolving regulation, it's unsurprising to see that these are ongoing obstacles for many firms.

Data silos are once again highlighted as a top challenge, with more than a quarter of respondents selecting this option, this time relating directly to their risk management priorities. Having a more holistic view of data can help to improve efficiencies, decision-making and accountability, whilst also mitigating against potential risks.



7. What are the top barriers to fully integrating and connecting data, from inside and outside your organisation, for regulatory compliance and reporting purposes? **[select top three]**



Mirroring barriers highlighted earlier in the report relating to risk management, it appears that the top hurdles for financial services professionals when it comes to integrating and connecting data across sources for regulatory compliance purposes are also cultural rather than technical.

Corporate buy-in was chosen by the highest proportion of respondents, at more than two-fifths, with this figure perhaps a result of organisational silos, a legacy culture, or a lack of digital transformation leadership. These challenges could be addressed through a number of key measures, including finding ways to effectively demonstrate ROI; assigning executive sponsors; identifying marketplace differentiation angles to convince leadership of the wider value of connecting data both internally and externally; and creating a data culture by communicating the importance of good data management.

Ultimately, compliance teams must be able to clearly demonstrate the business case and thought processes behind the integration of data. Those that do get the green light to unify their data sources can benefit from breaking down silos across departments for better outcomes when it comes to regulatory reporting.

The figures do show that there are some ongoing technical obstacles for financial services providers at the moment, with 27 per cent of respondents revealing they are struggling with the complexity of their technology stack. This barrier could be addressed by modernising existing systems using interoperable technology such as a smart data fabric which can connect them together and unify data.

Implementing this could also tackle disparate systems and manual processes when it comes to linking and integrating data for regulatory compliance and reporting, both of which have once again been highlighted as key challenges for around a quarter of FSIs.

8. Which of the following advanced technologies is your organisation exploring or implementing as part of its regulatory compliance strategy? **[select all that apply]**

It's interesting to see that all FSIs who answered this question are exploring some kind of advanced technology as part of their regulatory compliance strategy.

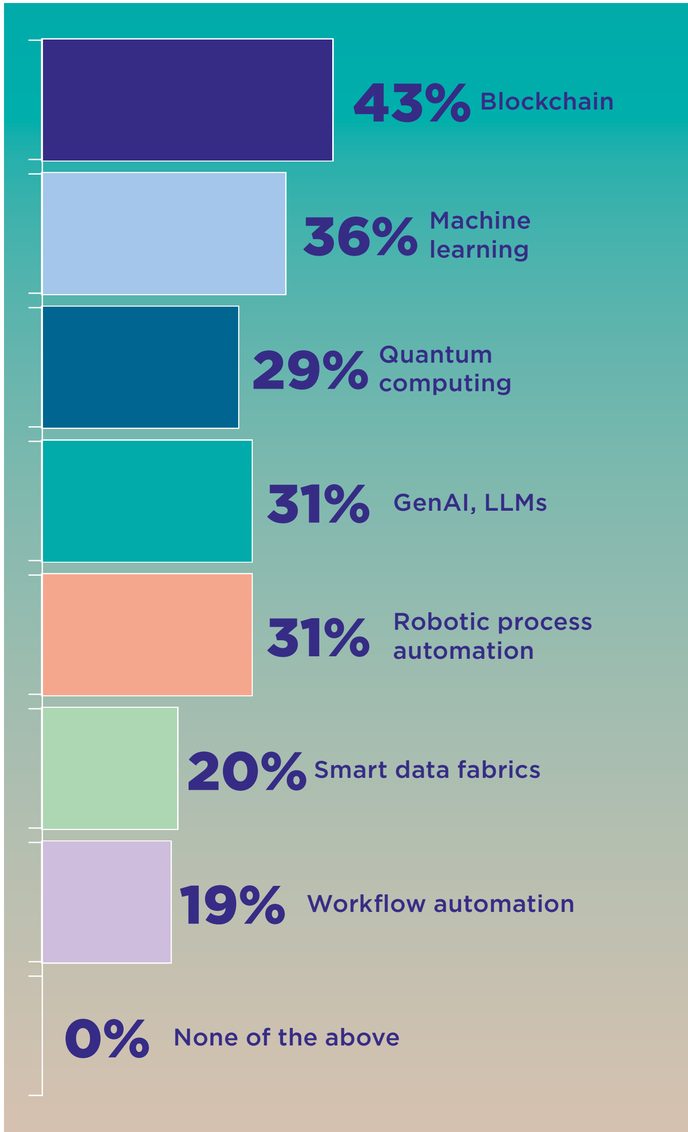
With its ability to support compliance and oversight in real-time, it's no surprise that blockchain came out on top with more than two-fifths currently exploring or implementing this technology. This technology can be used across a number of key compliance use cases, including audit trails.

Machine learning was also proven to be a popular choice by respondents, with 36 per cent of those surveyed looking to roll this out or already using the technology. This technology holds immense potential for enhancing regulatory reporting in financial services, including automated data processing, predictive analytics, fraud detection, and risk assessment.

A further 31 per cent of financial services providers chose GenAI and LLMs; this technology could be used to better interpret regulations and enable compliance teams to ask questions to gain more clarity and understanding. It could also be used as a tool to automate processes in order to free up time for other regulatory compliance-related tasks. Ultimately the interest in advanced technologies like blockchain and AI/ML are likely linked to the many potential use cases they could help facilitate in areas spanning trade monitoring, anti-money laundering, and fraud detection, as well as their ability to drive efficiency and decision augmentation.

Quantum computing, which was chosen by nearly 30 per cent of respondents, promises many benefits to compliance teams, including the ability to carry out complex simulations and streamline processes by identifying both patterns and inconsistencies across datasets which can cut the time needed to meet regulatory standards.

Smart data fabrics are also beginning to be explored by FSIs, with a fifth choosing this option. This architectural approach can build the data foundation for next-generation initiatives like AI; enable firms to adapt to volatile markets via real-time analytics; and connect and harmonise data on demand from across a firm's many silos. It can also keep firms out of the regulatory hot seat by making sure data is of a high quality, whilst also providing accurate and real-time insights and new, innovative services to keep them ahead of competition.



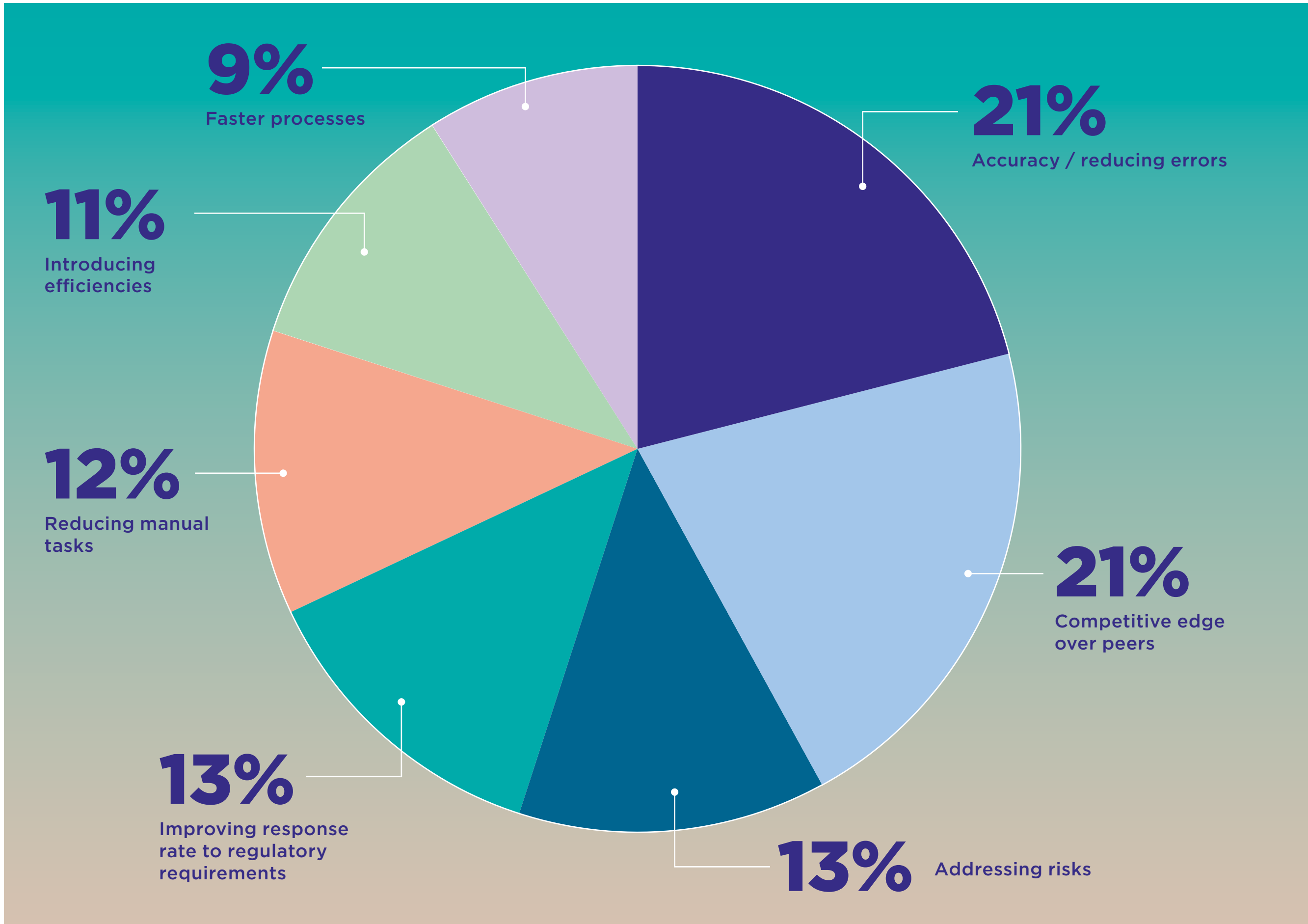
9. What is the most important benefit of implementing new technologies to your regulatory compliance and reporting strategy? **[select one option]**

The results demonstrate that accuracy / reducing errors and gaining a competitive edge over peers are the top benefits for FSIs when it comes to implementing new technologies, with just over a fifth choosing both of these options.

It is of upmost importance for firms to hand over accurate information to the regulators, otherwise they could risk a penalty or damaging their reputation. Rolling out the right technology can also improve processes and accuracy, thus building customer confidence which gives firms an edge over their competitors.

The figures indicate that implementing new technology as part of the regulatory compliance and reporting strategy is seen as a differentiator by many FSIs, which ultimately presents a stronger business case for investment than pure efficiency.

While chosen by less respondents, 12 per cent of those surveyed identified reducing manual tasks as their top benefit when it comes to regulatory compliance. It's unsurprising that this is deemed a key advantage for some FSIs as reducing manual tasks through automation results in improved accuracy and less errors, which has already been highlighted as an important benefit by 21 per cent of respondents. The technology's ability to boost productivity, significantly reduce reporting errors and delays, and facilitate speedier processes are all ways to quantify the value of automation in the reporting process to stakeholders, the wider compliance team, and leadership.



10. What are the most important regulatory compliance priorities for your organisation over the next 12 months? **[select top three]**

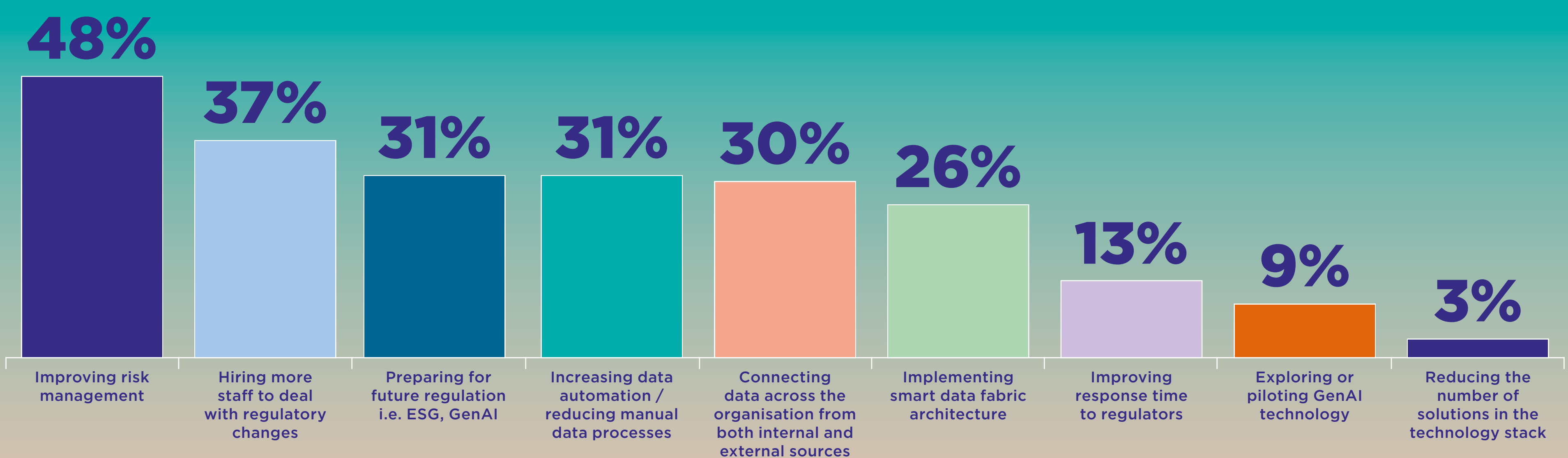
Given that risk management is key to meeting regulatory reporting standards and avoiding fines, it's unsurprising that the highest proportion of respondents – nearly half – said improving this area is a top-three priority over the next 12 months.

With many new regulations coming to the fore it is also no surprise to see that hiring more staff to deal with regulatory changes came in second place, with 37 per cent highlighting this as a priority over the next year, and a further third saying they will be spending time preparing for future regulation like ESG and GenAI.

Given that the majority of respondents previously said that they have trouble with manual data processing, it's promising to see that at least a third of respondents will be addressing this as a priority. However, the 69 per cent of respondents that are not prioritising automation over the next 12 months could be missing out on accurate and speedy insights that could help them meet their regulatory compliance goals.

While complex technology stacks were highlighted earlier in the report as the third most prevalent barrier to fully integrating and connecting data when it comes to regulatory compliance, it's perhaps concerning to see that only three per cent of respondents will be prioritising this over the next year.

With firms more focused on hiring additional staff than other areas such as increasing investments in data automation, rolling out smart data fabrics, or simplifying the technology stack, this could suggest that firms are taking a more short-term approach to managing regulatory change. However, firms must remember that a short-term mindset or a people-tech imbalance can cause problems further down the line.



Conclusion

The study demonstrates that FSIs are dealing with a number of key data challenges when it comes to meeting their regulatory compliance and reporting requirements, including poor risk modelling and analytics; issues with disparate systems; too many data sources; and siloed data, while consumer protection and data privacy are proving to be the biggest concerns in regard to specific regulations.

The vast majority of respondents – a combined 59 per cent – either say that manual data processing is holding back the majority of departments and tasks in their company or that they still using lots of manual data processing. The results also show that the many firms are spending between 10 – 15+ hours every week doing manual data processes for regulatory compliance-related tasks.

Firms that do not prioritise modern technology and automation may fall behind, with those that do choose to invest in the technology unlocking opportunities to become more accurate, cost-effective, and competitive – giving them additional time to spend on more important tasks.

Ultimately firms should be considering their data strategy and ensuring they have a unified approach to data management to enhance regulatory compliance, strengthen operational resilience, and foster trust. Unified data allows organisations to adhere to the regulator's requirements of ensuring transparency, managing risk, and ensuring operational resilience. It also provides data integrity by delivering a single, consistent view of data which ensures accuracy and reliability, as well as a single source of trust for regulatory reporting. Meanwhile, it can preserve the history of all changes, making audits easier as FSIs can confidently demonstrate compliance. Regulators increasingly demand detailed, frequent and extensive data, and unified data enables FSIs to meet these demands.

Poor engagement with stakeholders is proving a barrier to meeting risk management priorities for nearly half of respondents, which could be linked to challenges with internal culture. Ultimately to improve the relationship with stakeholders, FSIs need a cultural shift that fosters collaboration.

Technology can also play a role in driving greater collaboration among stakeholders, by making it easier to access and connect to data across silos. A good data strategy can ensure that all stakeholders are working off of the same information, even if they don't collaborate in reality.

It's clear that many FSIs need to improve their relationships with stakeholders in order to successfully identify the potential risks, opportunities, and impacts that are so key to meeting the top risk management priority for firms: regulatory reporting standards.

Corporate buy-in and lack of education or knowledge were revealed to be the most pressing obstacles to fully integrating and connecting data, demonstrating that some of the biggest hurdles for FSIs are related to cultural factors rather than technology itself.

The focus on people is extended to priorities for the next 12 months, with the second highest number of respondents – nearly two-fifths – revealing that they will hire more staff to deal with regulatory changes over the coming year.

With firms prioritising hiring over other areas such as increasing investments in data automation, rolling out smart data fabrics, or simplifying the technology stack, this could suggest that firms are taking a more short-term approach to managing regulatory change.

While those implementing technology such as smart data fabrics are choosing to future-proof their data strategy to ensure they are prepared to meet the demands of today as well as tomorrow, those that take a short-term approach could face more challenges in the future.

Many of the issues highlighted by the report could be addressed by rolling out the right data management technology to unify data, which can ultimately help to streamline operational processes that span multiple back-end applications and data silos, making data available on-demand, whilst reducing the need for maintaining repetitive, costly, and resource-intensive data mapping and processing tasks. Unifying data can allow firms to focus on utilising the analytics capabilities of their models to meet regulatory reporting requirements and risk management mandates, instead of managing data inconsistencies or disparate data sources.

It is the FSIs that can combine their cultural focus on risk management and regulatory compliance with technology that can provide a unified and transparent view into all enterprise-wide and customer data that will ultimately ensure their data is 'regulation ready'.

FStech In collaboration with InterSystems® Creative data technology