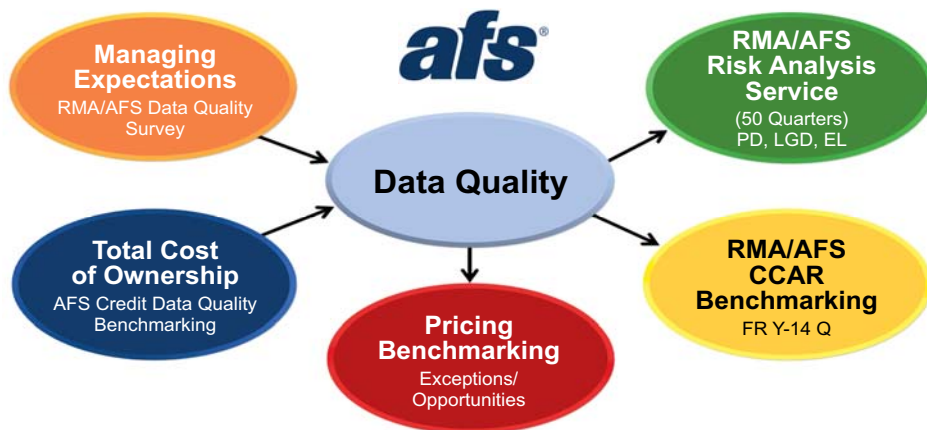


A Passion for Data Quality

BY LEE KIDDER AND DOUG SKINNER

AFS is proud of its long-standing partnership with The Risk Management Association (RMA) in providing several services that help banks identify, measure and compare challenges with data quality, and continually improve their capabilities to address them (see diagram below). This dedication – this passion – about data runs deep in our history and culture at AFS, and drives our every effort in software development, system implementations and conversions, client loan processing, and information-based services.



No one in the banking industry needs to be reminded that “data quality” has rapidly become one of the most critical challenges facing banks today, thanks to Basel III, Dodd-Frank, stress testing, CCAR, and a laser-like regulatory focus on the credibility of banking data, all part of a governmental effort “to restore confidence in the U.S. financial system.”¹ Data quality now rightly belongs front and center in every bank’s strategic agenda, and should be driving massive investment in upgraded data infrastructure to reverse decades of disinterest and neglect.

It should be readily apparent how deeply dependent the critical

performance drivers are on having fundamentally reliable data. In the present low-interest-rate environment, with razor-thin margins and intense competition for borrowing customers, data quality is the connecting thread that correlates and integrates them all into a single, coherent strategy for separating winners from losers in performance.



- **Customer expectations.** Excellent data quality is what enables more rapid decision-making, responsiveness and flexibility in offering the right credit products.
- **Revenue growth.** Better data can pinpoint market segments that offer higher returns and/or lower risk, enabling optimal pricing, fee collection and new product placement.
- **Regulatory compliance.** Data needed for regulatory compliance must be consistent across financial, credit, risk and operational channels, visible at the enterprise level, and inspire confidence and reliability in all reporting structures.

¹ Federal Reserve Governor Daniel Tarullo, speech given June 25, 2014

- **Credit process efficiency.**

Straight-through processing, integrated workflows and automated management controls are essential to reduce redundant manual entry, maintain data integrity throughout the process, and deliver “one version of the truth.”

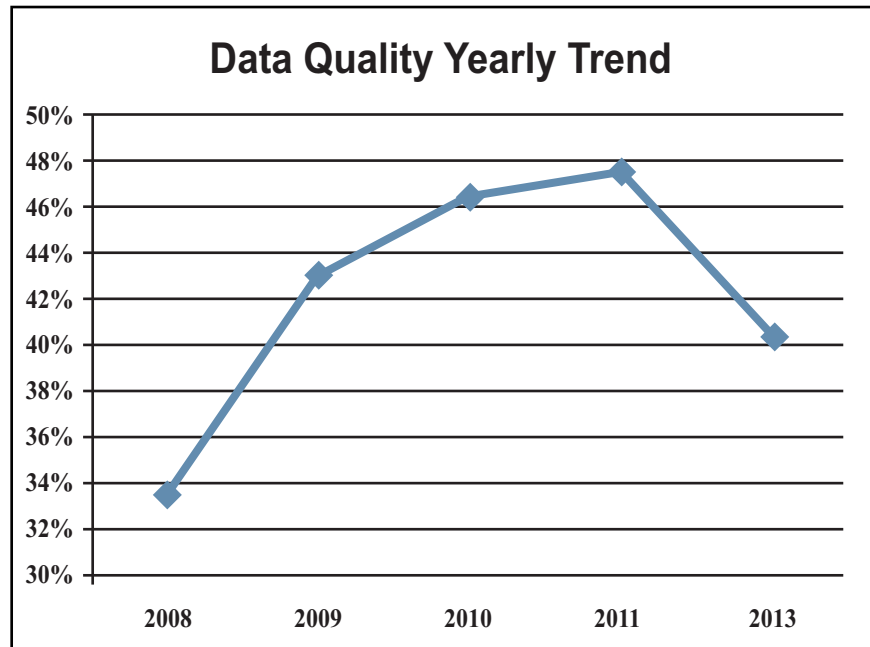
A History of Benign Neglect

To be fair, many banks are in fact spending lots of money on data quality, but most of it is being directed toward cure rather than prevention, to paraphrase Benjamin Franklin. Banks are heavily focused on process review efforts to correct and repair data quality after the fact, but disproportionately little to prevent data errors from occurring in the first place.

Sadly, the facts about the challenges of data quality are in the public domain, and affect the vast majority of banks:

- The “qualitative” component of the Fed’s CCAR program has clearly become the decisive factor in capital plan failures over the past two years. Seven of the eight CCAR plans that were “objected” by the Fed were failed for qualitative reasons, primarily around poor internal controls, aggregation processes, and weak management information systems. All of these are caused by, or result in, unreliable data. CCAR failure denies banks the possibility of distributing capital for dividends, share buybacks or investment without the Fed’s written approval.
- As demonstrated in speeches, press releases and other announcements by regulators,

Institutions Rating the Quality of their Data as Above Average or Excellent



Source: AFS/RMA Annual Data Quality Survey 2014

their patience is wearing very thin for the continued inability by banks to “produce reliable information in a timely manner.”²

- The volume, granularity and precision of data that regulators are requiring continues to increase, and indicates a growing reliance on data quality for regulatory supervision. At a symposium last year, Fed Governor Daniel Tarullo said that “supervisory stress testing and the associated review of capital planning processes have provided a platform for building out a regulatory framework that is more dynamic, more macroprudential, and more data-driven than pre-crisis practice.”³
- The Basel Committee for Banking Supervision (BCBS) published in 2013 a comprehensive set of

“Principles” governing capabilities for collecting, storing and reporting risk data, to which designated global banks are expected to comply by January 2016, yet virtually all the designated banks have declared they will not be in compliance by then.

- At our annual AFS Summit conference in June 2015, more than a dozen speakers from banks, regulatory agencies and consulting firms sounded a common alarm that banks need to accelerate their capability to deliver enterprise-wide data that is accurate, granular and consistent, in real-time, across financial, risk and regulatory channels. CFOs will be required by year-end 2015 to attest that financial and credit risk data foot.

² Federal Reserve press release, August 5, 2014

³ Speech delivered at the Federal Reserve Third Annual Stress Test Modeling Symposium, Boston, June 25, 2014

- Personnel expense dedicated to data quality in banking operations has skyrocketed in the past five years, with anecdotal reports from banks that upwards of 30 percent of total staff expense is dedicated to quality control of one degree or another.
- **Credit process efficiency.** Straight-through processing, integrated workflows and automated management controls are essential to reduce redundant manual entry, maintain data integrity throughout the process, and deliver “one version of the truth.”
- The results of this additional expense, however, are not encouraging. Banks have actually become less confident about the quality of their data instead of more so, as shown by the most recent annual global survey of

data quality that AFS conducts jointly with the RMA. For the first time since it began in 2007, the percentage of banks expressing confidence that their data was either “above average” or “excellent” declined in last year’s survey from 48% to 40%.

Time for Action

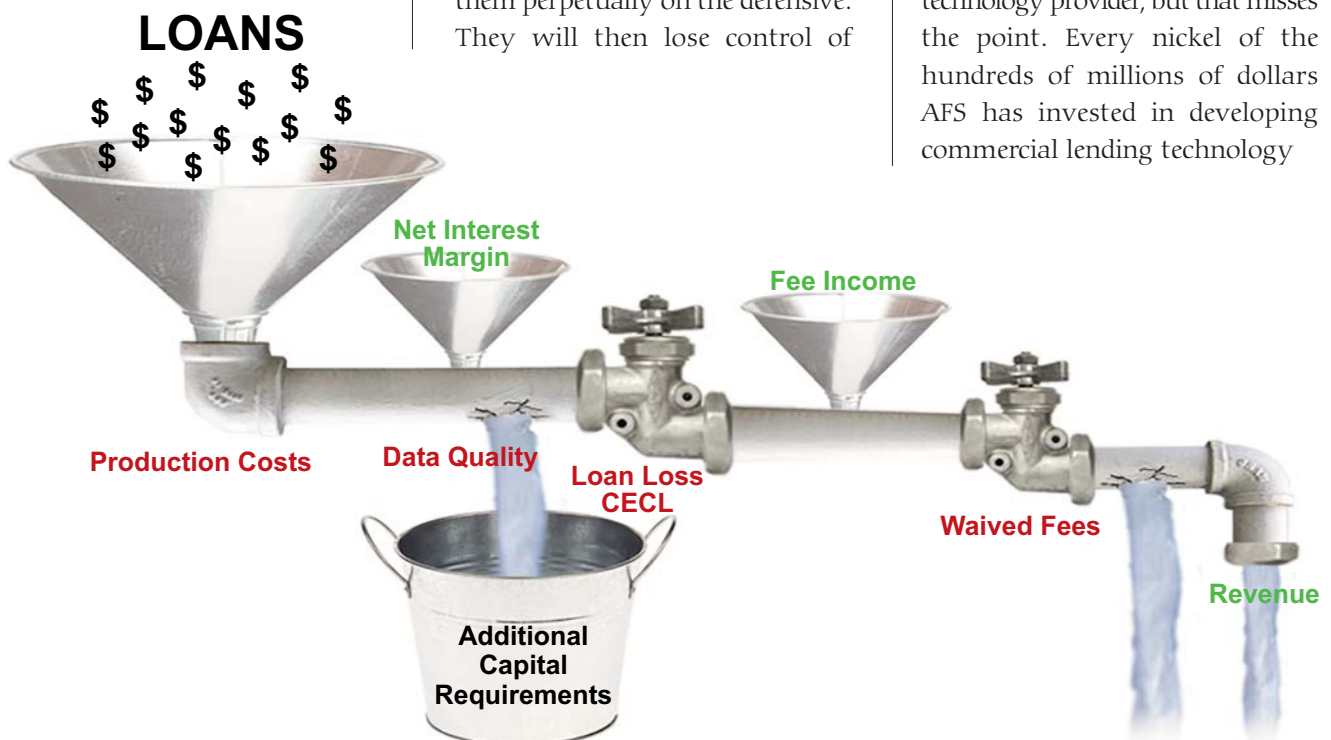
The hour is getting late. AFS visits and interacts with bank executives all over the country on a daily basis, and the common issue we hear about constantly is the ever-increasing pressure that regulators are exerting on banks to show real and sustained improvement in their data quality. Banks realize that they need to move more deliberately and quickly at a strategic level to shore up their data capabilities before regulators take control with enforcement actions, putting them perpetually on the defensive. They will then lose control of

their strategies and fall behind competitively.

Even beyond regulatory demands, the increased Basel III capital requirements over the next five years will demand much higher and more efficient levels of operating performance. Like a leaky plumbing system (see below), poor data quality can drain critical revenue and increase expenses, resulting in missed competitive opportunities, poor performance and even higher capital needs.

The AFS Passion for Data Quality

At AFS, we work with banks on a number of fronts to improve the quality and reliability of data in their commercial loan delivery process. We’ve been doing so for over 45 years; it’s simply what we do. We’re passionate about it. Some may think of us as simply a technology provider, but that misses the point. Every nickel of the hundreds of millions of dollars AFS has invested in developing commercial lending technology



has had one ultimate objective: to improve the accuracy, timeliness, integrity and consistency of our clients' data.

Why are we **so** passionate?

First, we have the data; we know where the problems are and how serious they are. As the leading provider of commercial lending technology, with more than \$1 trillion in outstanding commercial loans for our clients in our databases, AFS possesses more actual live data about the U.S. commercial banking industry than any other source. We analyze this data constantly to understand trends by several key categories, and because we are the largest commercial bank system of record, we are considered by many the industry's foremost data authority. The monthly AFS C&I Pricing Newsletter, which is published only two weeks after each month-end, is read and relied upon by thousands of bankers as the bellwether on volume growth, pricing, risk ratings, fees and credit risk management in the U.S. commercial lending market.

Second, we've been data-driven for 45 years. AFS succeeds when our clients succeed. Our driving mission has always been to help our clients succeed, grow and prosper, and data quality is at the core of that value proposition. AFS technology is built upon that mission, and our long track record of execution, reliability and consistency is testament to our fixation on data quality as the standard of value by which our clients should judge us.

- **AFSVision®** is the premier 4th generation platform and the only true "straight-through processing" lending platform for commercial banking assets, with over \$200 billion in commitments
- The AFS private-cloud delivery, **AFSCommerce®**, now processes more than \$250 billion in client assets, a 36% increase over last year
- **AFS Level III™** is the demonstrated leader in commercial loan servicing and accounting, with over \$2 trillion in financial assets in either license or private-cloud delivery

Third, there are so many aspects of data quality to be passionate about, which is reflected in the comprehensive set of programs and services we offer banks to aid them in turning data into insight.

- **AFS is a 15-year partner with RMA** on leading-practice programs in data quality, all focused on exposing comparative expectations, processes and initiatives:
 - **Risk Analysis Service**
 - **CCAR Data Quality Benchmarking**
 - **Global Data Quality Survey**
- For ten years we have provided **AFS Market Pricing and Risk Benchmarking and Dashboards**, which enable banks to spot competitive pricing and risk rating levels by geography, NAICS industry codes and products, and thereby seize opportunities for higher yields and optimal revenue

- AFS Operational Benchmarking has for ten years provided clients insight into process gaps and efficiency weaknesses that impede data quality
- As an **FFIEC-regulated vendor**, AFS utilizes industry-leading data security practices including the "CIA Triad" – Confidentiality, Integrity & Availability

How does it all tie together?

In a philosophy and business model that have been dedicated to a single ideal for 45 years – helping banks achieve, sustain and leverage the superior insight and performance level that come from a superior basis of business information.

AFS has the data. We have the expertise and experience. We have the track record. And we have the passion. It's what we do. ●

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