

**Information to
Vision**

Excellence, reliability, and value are core principles followed by Idola while working with its clients and partners. This newsletter provides current information to help financial institutions meet their risk and compliance mandates. It is with current, meaningful information that appropriate vision is developed to meet today's challenges.

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**FATF Guidance to Life
Insurance Sector**

Based on international consultation with both public and private sectors, the FATF adopted a Risk Based Approach Guidance for life insurance companies and intermediaries at its October 2009 Plenary.

The purpose of this Guidance is to:

- Support the development of a common understanding of what the risk-based approach involves
- Outline the high-level principles involved in applying the risk-based approach;
- Identify characteristics of risks indicating that enhanced mitigation strategies may be warranted;
- Describe good public and private sector practice in the design and implementation of an effective risk-based approach

For further information, click on:

<http://www.fatf-gafi.org/dataoecd/0/15/43905397.pdf>

**FDIC July -Oct 2009 –
Enforcement Action**

On Aug 28, 2009 FDIC made public its enforcement actions for the month of July 2009. The FDIC processed a total of 64 matters in July. These included twenty-two cease and desist orders; one temporary cease and desist order; twelve removal and prohibitions; sixteen civil money penalties; two prompt corrective action directives; one Section 19; one modification; and six orders terminating an order to cease and desist; and three Notices.

On Sep 25, 2009 FDIC made public its enforcement actions for the month of Aug 2009. The FDIC processed a total of 48 matters in August. These included twenty-four cease and desist orders; one temporary cease and desist order; fourteen civil money penalties; two prompt corrective action directives; and five orders terminating an order to cease and desist; and two Notices.

On Oct 30, 2009 FDIC made public its enforcement actions for the month of Sep 2009. The FDIC processed a total of 48 matters in September. These included twenty-six cease and desist orders; twelve removal and prohibition orders; six civil money penalties; two prompt corrective action directives; one voluntary termination of insurance; and one order terminating the order to cease and desist.

For more details, please click on:

<http://www.fdic.gov/news/news/press/2009/pr09154.html> (July 2009)

<http://www.fdic.gov/news/news/press/2009/pr09176.html> (Aug 2009)

<http://www.fdic.gov/news/news/press/2009/pr09193.html> (Sep 2009)

**Regulatory Trends
on Enterprise Risk
Management**

A recent article by FinCri Advisor, on the topic of Enterprise Risk Management (ERM), published by UCG, one of the nation's largest, specialized business-information publishing companies, cites the tightening of focus of regulators on ERM.

Please click on the following for more details on this article:

<http://www.fincriadvisor.com/2009-10-25/bankriskmanagement>

Bank Director's Role in establishing a 'Culture of Compliance' Consumer Compliance Outlook for the third quarter of 2009 (from the Federal Reserve Bank of Philadelphia), speaks about the role of Bank Directors' in ensuring the compliance function and how by doing so, they receive the information they need to be better informed on compliance issues and establish a 'culture of compliance.'

For more details, please click on:

http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/2009/third-quarter/q3_01.cfm

Red Flags Federal Trade Commission (FTC) has extended its deferral of enforcement of its Identity Theft Red Flags Rule to 01 June 2010, giving creditors and financial institution more time to develop and implement a written Identity Theft Prevention Program.

For details, click on:

<http://www.ftc.gov/os/2009/10/091030redflagsrule.pdf>

Senate Committee on Banking, Housing and Urban Affairs proposes comprehensive financial reform
On Nov 10, 2009, the Senate Committee on Banking, Housing and Urban Affairs proposed comprehensive financial reforms which include the following main features:
Independent Consumer Financial Protection Agency
Single Federal Bank Regulator

For the summary of the draft, please click on:

<http://banking.senate.gov/public/files/FinancialReformDiscussionDraft111009.pdf>

For the entire draft, please click on:

http://banking.senate.gov/public/files/AYO09D44_xml.pdf

Money Laundering and Terrorist Financing in the Securities Sector The Financial Action Task Force (FATF) has recently completed a study which describes (i) how criminals might be able to use securities firms to launder money and finance terrorism and (ii) how illicit funds can be generated through fraudulent activities. The report contains case studies that illustrate the risks associated with the various types of intermediaries, products, payment methods and clients involved in the securities industry.

For complete details, click on:

<http://www.fatf-gafi.org/dataoecd/32/31/43948586.pdf>

Scottrade fined for inadequate AML Program On 26 Oct 2009, The Financial Industry Regulatory Authority (FINRA) announced that it has fined Scottrade for failing to establish and implement an adequate anti-money laundering (AML) program to detect and trigger reporting of suspicious transactions, as required by the Bank Secrecy Act and FINRA rules.

For more details please click on:

<http://www.finra.org/Newsroom/NewsReleases/2009/P120268>

Importance of Data Quality in Compliance

By Rama Pappu, Managing Partner at Idola Infotech, LLC

Financial Institutions have often realized the importance and benefits of good data quality. The fact is that most of these organizations are struggling with data quality issues. The costs associated with poor data quality are not only ignored but budgeted into the overall category of the cost of doing business. However, a financial institution can eliminate these significant costs and insure proper regulatory compliance by instituting a data quality improvement program as a core component of its overall business intelligence strategy.

According to a survey conducted by Gartner in August, 2009, "The average organization loses about \$8.2 million annually through poor data quality". Further, of the 140 companies surveyed, 22% estimated their annual losses resulting from bad data at \$20 million. Four percent put that figure as high as an astounding \$100 million. The compliance costs could be much higher in terms of reputational risks, enforcement actions and penalties and higher allocation of resources to remediate the data quality.

Regulators have specified that good data quality is part of the overall risk and compliance process. The European Union's Third Directive on AML and USA PATRIOT Act have both focused on data quality requiring attention in the following areas:

- Customer Identification (CIP)
- Know Your Customer (KYC)
- Customer Due Diligence

Of particular interest is Section 319 of USA PATRIOT Act that requires a foreign financial institution that maintains correspondent account in US, to provide full details for any account it holds within five calendar days upon receiving a request from a federal agency. This means that the financial institution must be able to locate and provide comprehensive data on any of its accounts in a timely manner. This is possible only if the organization has developed a methodology for assuring data quality.

Perhaps most significant however, is the risk that true suspicious, fraudulent, or other illegal activity is occurring within a financial institution and is not detected. The over used saying "garbage in – garbage out" is as true for a compliance solution as it is for any other automated system. Rules, profiling, peering and other detection strategies will yield incorrect results if they operate on incorrect or missing data.

Causes of Poor Data Quality

There are many factors that lead to poor data quality. To uncover causes and assure that an organization is achieving an adequate level of quality, an appropriate review is required. Nevertheless, some causes of poor data quality commonly are:

- Legacy data from other systems (core banking system or KYC system) has not been reviewed or updated in a very long time.
- Most legacy systems have only rudimentary data quality business validation rules which often results in errors and

inconsistencies from staff responsible for data entry and data validation.

- Inefficient processes in managing or maintaining data.
- Mergers & Acquisitions often lead to consolidation of systems leading to data compatibility issues such as duplicate customers, lack of data standardization etc.
- Lack of proper training for the staff responsible for gathering and entering data.
- Data mapping between the core banking and transaction monitoring systems, undertaken by IT staff without compliance involvement or IT staff not having full understanding on compliance requirements would often result in data mapping issues.

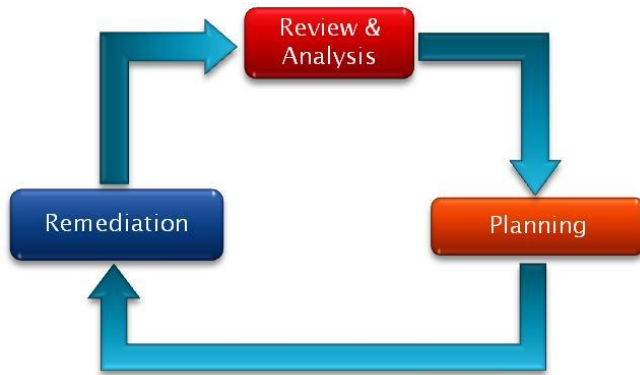
The Impact of Poor Data Quality

Poor data quality affects compliance in the following ways:

- Most financial institutions adopt risk based approach to identify the risk posed by the institution's customers. If the attributes contributing to the risk of the customer are not inaccurate or incomplete, the risk classification of the customer will also be inaccurate.
- Poor data quality results in inefficiencies in suspicious activity monitoring and detection. This could result in high false positives or missing out on real suspicious activities.
- Inefficiencies in cases review resulting in more time taken for case investigation.
- The data populated on the Suspicious Activity Reports (SAR) will often be inaccurate or incomplete. Law enforcement agencies often stress the importance of quality data on SARs filed.
- A financial institution will not be able to demonstrate a sound monitoring program to the regulators which could result in enforcement actions, expensive look backs and reputational risks.

A Framework for Data Quality

The following diagram depicts Idola's framework for improving data quality which involves the following processes:



Review & Analysis:

- Review business artifacts to understand the compliance requirements
- Review mapping documents and interface specification documents between data sources and transaction monitoring system
- Identify the data sources that feed data into transaction monitoring system
- Identify gaps in data accuracy and incidences of non-conformance
- Perform “Data Profiling” to understand the data and identify areas of improvement

Planning:

- Define targets and prioritize them. Set targets to improve data characteristics like completeness, consistency, accuracy etc.
- Obtain buy-in from stakeholders and business process owners that manage data
- Define metrics to benchmark data quality based on “Data Profiling”
- Allocate resources

Remediation:

- Automate manual processes where possible to drive data quality and gain efficiency

- Implement tighter integration of systems such as core banking system, KYC system and the transaction monitoring system
- Implement process improvements by identifying deficiencies in existing process for data collection
- Implement training programs particularly focused on personnel involved at the source of data collection
- Use data cleansing and data enrichment tools to enrich data that needs improvement
- Use trusted third party reference sources for data validation and enrichment

Benefits from Improved Data Quality:

Perhaps the most important benefit from assuring appropriate compliance data quality is its significance in mitigating the threat of reputational risk. It is regrettably all too common to read in the papers examples of banks under severe regulatory pressure from enforcement actions. Inevitably, this leads to deterioration in confidence from clients and shareholders.

Other key benefits from improved compliance data quality include:

- Ability to demonstrate a sound monitoring program
- Improvement in operation efficiency and reduced cost
- Improvement in customer satisfaction and retention levels
- Ability to keep up with changing regulations
- Ability to expand business in new areas thereby resulting in revenue growth

Financial Institutions should understand that poor data quality is not just an IT problem but a business problem. The business process owners that manage data should be empowered to ensure that data quality is maintained. Financial institutions must create a “Data Culture” and establish a mindset that data quality is everyone’s responsibility, an ongoing effort, and should be treated as an institution’s asset to achieve better results.

Conclusion

With the convergence of Enterprise Risk, Fraud and AML Compliance, the need for financial institutions to access clean, accurate, standardized and timely data has gained importance. Banks and other financial firms need to invest in improving data quality and this should not be viewed as a cost to the institution. High quality data can be achieved through a combination of people, process and technology. The availability of good quality data will enable financial institutions to meet the ever changing regulations be it on the Enterprise Risk or on the AML Compliance side.

Maintaining good data quality is beneficial to any organization but is especially relevant for Compliance in demonstrating a sound monitoring program. Maintaining good data quality is not a onetime activity – it is an ongoing process.

Share Your Knowledge Knowledge sharing among peers is an essential service that helps us all navigate through our responsibilities in our risk and compliance professions. The Idola Report is dedicated to facilitating this valuable service. If you have information that you believe should be shared with other subscribers of the Idola Report or would like to submit an article for publication, please contact Sal Cangialosi at the address below.

About Idola Idola Infotech was founded in 2002 by a team that specialized in software product development and the deployment of complex technology projects. Its management team consists of banking experts, leaders of the regulatory compliance market, and senior technology specialists. They have developed commercial products for one of the largest vendors of financial services software. Project management experience has been earned across a wide range of financial institutions from some of the largest in the world to small community banks. Idola has implemented and deployed software solutions domestically and internationally earning its reputation for **excellence, reliability, and value.**

Idola is pleased to announce that its Managing Partner, Mahesh Viswanathan' recent presentation on 'Data Quality' in the context of regulatory compliance requirements at Fidelity Information Services (FIS) User Group Meeting in New York was very well received.

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