Regulatory Reporting:
Can bots help to cut cost and increase compliance?

In the last decade, there has been an explosion of regulatory reporting obligations globally and in the last few months there has been a number of related high profile fines. (FCA fined UBS AG £27.6 million and Goldman Sachs £34.3 million in March 2019 for transaction reporting failures between 2007 to 2017). Banks and financial firms are spending millions of dollars to transform the business and technology processes to meet regulatory requirements, and address reporting failures.

But with such diverse and complex regulations, error rates remain high, manual processes are common and the number of outstanding defects could take firms years to address, at a rate that will likely be unacceptable to the regulators.

So, as technology build solutions to strategically address the major compliance issues, is a parallel approach required to reduce manual intervention and increase compliance? Could Robotic Process Automation (the automated execution of a sequence of manual steps) help? Could it also reduce costs?

What is the Opportunity?

Report Preparation and Submission

High-volume, daily transaction reporting is usually automated, however there are a number of edge cases, low volume products and low frequency reports where manual processes are frequently conducted. In these cases, data is often sourced from disparate golden sources, then organized, formatted and submitted in defined templates.

Exceptions and Reconciliations

Complex rules to validate the accuracy and completeness of transaction reporting, as well as front-to-back reconciliations controls, can produce high numbers of exceptions. Run-the-bank teams have to review these exception, remove false positives or manually correct and re-submit transactions, often having to gather additional information from other data sources.

Management Information

Demonstrating control with appropriate MI is needed to allow management to make decisions, and tackle day-to-day issues in the process. Ideally, this can show the full waterfall of transactions booked, in-eligible, eligible reports and exceptions, sliced by entity, asset, desk, client segment etc. Production of this MI often has many manual steps given the breadth of data that is required to produce it.

The burden of all these reporting obligations, combined with the heavy reliance on manual work, has led to high-costs and large run-the-bank teams (>300 in some organisations). Manual errors lead to reduced compliance and of most concern, organisations becoming unable to stay on top of a growing number of reporting issues and a hard dependency on technology to fix them.

What can Firms do?

Ideally, firms will target a near 100% automated solution for regulatory reporting – perhaps using a corporate data lake to access the wide variety of data and regulatory rule documentation mapped through to reporting output. All overlaid with sophisticated process and exception management workflow for addressing any issues. However, many will recognise that the investment required to achieve this is enormous, and the time taken to get there is unlikely to be palatable with regulators. So, whilst this is steadily pursued as part of a wider corporate IT strategy, a parallel approach is required.

Enter RPA: The ability to execute repetitive manual rule-based processes – without human error – using an un-invasive solution that is not dependent on changes to reporting or trading systems. If firms adopt this as a second approach in parallel to strategic remediation, the heavy reliance on technology to solve all the issues is reduced and the business can cut related costs or re-purpose teams doing manual execution, to analysing issues and delivering new automated processes to streamline day-to-day operations and increase compliance.

To some, this approach is a hack, like a sticking plaster. Perhaps they are right. There should definitely be appropriate governance over the types of scenarios suited to RPA, as well as controls on development, deployment and maintenance. However, it is also a tool that must be considered when firms are under growing pressure from their regulators to speed up their remediation, reduce reporting failures and minimise the risk of heavy fines. One could argue it is a tool that regulators would expect firms to explore.

If you have any questions, or would like to discuss how RPA could augment your regulatory reporting strategy, please visit us at RCloud or contact me at gaurav.bansal@rcloudconsulting.com. At RCloud we have partnered with Automation Anywhere to offer RPA solutions to financial services in the UK. Automation Anywhere are a leading provider of RPA software and have deployed over a million bots globally. In 2018, they raised $550 million in Series A funding.

RCloud

Level 39, One Canada Square, London E14 5AB

info@rcloudconsulting.com || www.rcloudconsulting.com || +44 (0) 203 633 1130