The Global Financial Crisis Will Result in Underlying Data Chaos for Financial Institutions, Says Datanomic

Submitted by: Devonshire Marketing
Monday, 24 November 2008

Stressed M&A activity will result in inability to adequately identify weaknesses in the Loan Book, expose institutions to increased risk of financial crime and customer defection, putting further pressure on Capital Adequacy

Underlying data chaos in financial institutions is likely to become a major secondary effect of the global financial crisis, warns data enhancement and management specialists, Datanomic Ltd. Stressed merger and acquisition activity is placing an unprecedented reliance on underlying data. Accelerated acquisitions do not allow adequate time to identify ‘data blind spots’ or consolidate customer records using traditional methods. This may lead to weaknesses in Capital Adequacy calculations, including essential checks such as Loan To Value and Loan To Income Ratios, which can no longer be regarded as static. An inability to efficiently consolidate customer records from multiple systems and recognize the value and risk profile of every client will also expose institutions to increased risk of customer defection, payment default and fraud.

As the more vulnerable financial intuitions collapse, acquiring institutions are only able to take a macro view of combined data sources. The inability to conduct a comprehensive Data Risk Audit of the underlying data in their expanded portfolios means organisations are unable to identify their true picture of risk and liquidity exposure. To address these issues, Datanomic has outlined three core steps to mitigating risk through a Data Risk Audit, which takes into account the legal obligations of Basel II, Solvency II, anti-terrorism legislation, Single Customer View, migration of disparate systems and enhanced Capital Adequacy. These steps include:

1.A QuickStats Assessment of newly acquired data sources to identify potential weaknesses in the data collection and data management processes of the acquired institution. Particular focus should be applied to lending, with checks on risk factors such as Loan To Value and Loan To Income ratios, and other relevant financial fields. This is especially relevant to customers with self certified incomes in a period of falling property prices. The QuickStats assessment provides banks with the ability to identify the percentage of loans that are most at risk, and begin the process of liaising with these customers at risk at a much earlier stage.

2.A Comprehensive Risk Audit of newly acquired customers, screening them against enhanced global Sanctions and PEP lists, not just Bank of England lists. The Bank of England, FSA and Home Office lists contain the barest minimum of names and fall considerably short of a bank’s legal obligations. For example, on all the regulatory lists globally there are under 900 unique terrorist / terrorism names. Enhanced Sanctions lists contain in excess of 16,000 unique terrorism entities. Without screening the newly expanded client base against comprehensive lists, financial institutions are operating blind.

3.A Customer Crossover Audit to rapidly identify customers with accounts in both organisations. This may expose customers with excessive levels of borrowing, as well as those that need to be targeted for retention to prevent those whose combined investment exceeds the guarantee limit of £50K spreading the risk with other institutions.

“The pace of restructuring in the global banking market place is unprecedented,” said Dr Jonathan Pell, CEO of Datanomic Ltd. “Acquiring financial institutions are rapidly inheriting new portfolios, customers, and IT systems through stressed mergers, forcing them to gain insight into their underlying data faster than ever before, yet often without the means to do so. For example, banks must be able to recalculate house prices based on regional house price variations, and collate the necessary information to assess risk and negative equity. Likewise, they must be able to effectively screen customers against enhanced Sanctions and PEP lists, and identify crossover customers. The only way of achieving this is through a rapid and in-depth Data Risk Audit project, which enables banks to proactively identify risk and take remedial action in the near term.”

Datanomic has already conducted Data Risk Audits with two of the four big retail banks in the UK, as well as major lending institutions in the US, Russia and mainland Europe, and expects many more of its financial customers to follow. Information about Datanomic’s Data Risk Audit can be found at http://www.datanomic.com/dq-solutions/data-integration-migration/data-risk-audit/

“Banks that simply rely on their Basel II systems to give them a reliable capital position will be in for an unpleasant surprise,” added Pell. “Basel II in isolation is simply not good enough. Banks need to proactively identify and reduce all major areas of risk if they wish to avoid making the headlines for all the wrong reasons.”

About Datanomic

Datanomic’s holistic approach to ensuring data is fit for purpose and to client screening enables its growing list of world-wide clients to rapidly achieve a Return on Investment by exposing and correcting deficiencies in information the business relies upon, and also discovering potential regulatory and legislative compliance data issues, in line with proactive risk management. Our clients come from a wide spectrum of industries including financial services, telecommunications, government, healthcare, utilities, professional services and engineering.

For further information, please contact:

Kim Squire
Devonshire Marketing
Tel: 0870 7000 166