

Data Quality: IS THE GLASS HALF EMPTY OR HALF FULL?

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*Report on the third annual RMA/AFS state of enterprise data
to support credit risk management*



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In the fall of 2009, The Risk Management Association (RMA) and Automated Financial Systems, Inc. (AFS) sponsored its third annual survey on the State of Enterprise Data to Support Credit Risk Management. Given the turmoil in the credit markets over the past year, the need for accurate, timely data to make well-thought out strategic decisions has become even more essential. Financial product innovation, globalization of capital markets, competition, transparency, and regulatory requirements continue to drive banking organizations to collect broader and deeper data sets. These objectives also place an enormous strain on the legacy accounting and management information systems still prevalent in today's large complex banking organizations. One of the biggest challenges remains pulling data from disparate systems that are located throughout the bank—throughout the world in some cases—and feeding one or a few data warehouses, all to be kept current—and accurate—on essentially a real-time basis.

The survey focuses on two areas: data quality and approaches to data management. The participating institutions provided views on their organizations' state of data quality and what they are doing to improve it.

Acknowledgments

Staff members contributing to the study were Suzanne Wharton, Associate Director of Credit Risk Analytics, RMA; and Doug Skinner, Director of Regulatory Compliance, AFS.

About AFS

Automated Financial Systems, Inc. (AFS) is an information technology and software development company providing products and professional services exclusively to the financial services industry. Its mission is to work with forward-looking financial institutions to build the industry-leading global franchise for lending processes based on a straight-through processing model and on-demand technology and services. AFS assists clients by combining the lending applications, execution expertise, and management information to mitigate risk, reduce costs, and increase revenue. The firm is headquartered in Exton, Pa.; its European subsidiary, Automated Financial Systems GmbH, is located in Vienna, Austria. For further information, visit the AFS Web site at www.afsvision.com.

About RMA

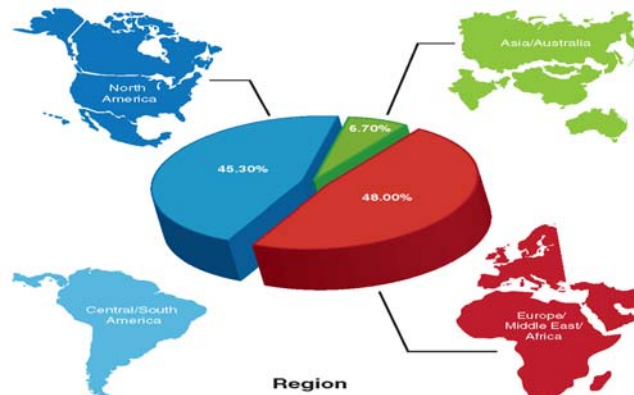
Founded in 1914, The Risk Management Association is a not-for-profit, member-driven professional association whose sole purpose is to advance the use of sound risk principles in the financial services industry. RMA promotes an enterprise-wide approach to risk management that focuses on credit risk, market risk, and operational risk. Headquartered in Philadelphia, Pa., RMA has 3,000 institutional members that include banks of all sizes as well as nonbank financial institutions. They are represented in the Association by 20,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific. Visit RMA on the Web at www.rmahq.org.

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EXECUTIVE SUMMARY

Overview, Methodology, and Presentation of Findings

A total of 75 global institutions headquartered in North America, Europe, Africa, Asia, and Australia completed the survey. The results are presented at the “all participant” (All) level, as well as by geography: North American institutions (NA), Europe, Middle East, and Africa (EMEA); and Asia and Australia (AS/AUS).



Key Findings

Again in 2009, the survey focuses on two key areas: data quality and approaches to data management. The participating institutions provided views on their organizations’ state of data quality, how they are utilizing the data to manage through the crisis, and what they are doing to improve it.

Several issues continue to contribute to credit risk management challenges:

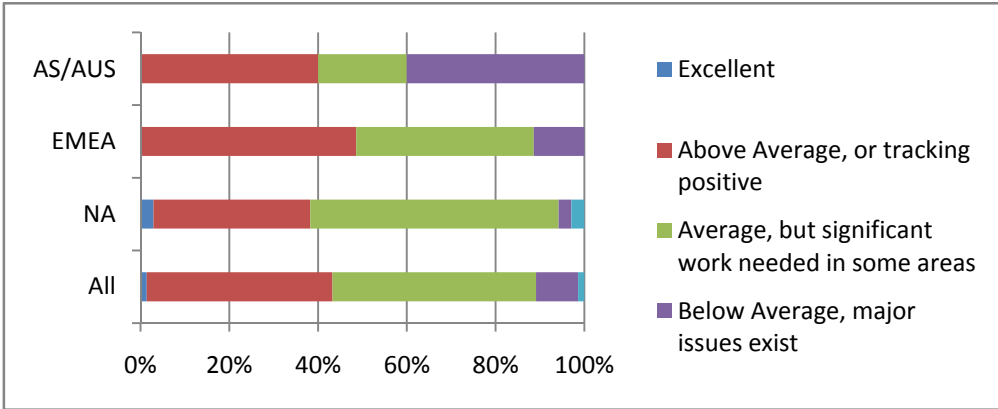
- Banks have scarce resources that must be allocated between meeting regulatory demands/actions versus the financial performance of the bank. The impact of increased levels of regulatory reporting combined with the seemingly random nature and immediacy for information draws resources away from the internal management of risk.
- Despite the resources (people, time, and dollars) expended on a centralized data repository, challenges remain in lifting data out of disparate systems for effective reporting to all stakeholders. The challenge is magnified if an institution has a footprint across several countries or regions of the world.
- There are multiple points of data entry into the loan process; rekeying of information leads to delays and errors when integrating data into the warehouse. In addition, capturing a client identifier in many instances is not handled uniformly across the institution.
- The era of excess capital has ended, with a priority being placed on identifying the effective and ineffective consumers of capital within an institution. Efforts to allocate capital at the transaction level have intensified.

The need to manage scarce institutional data resources is critical in the current operating environment. Over the past year, institutions have faced increasing internal and external demands for information to foster proactive risk management. Institutions have initiatives underway to improve governance, capital conservation, controls and systems, as well as the overall risk profile. Additional resources are needed to support portfolios of troubled assets as well as strengthening the flow of information to loss mitigation units.

Certainly, institutional focus is moving toward actionable decision-making rather than ex-post risk reporting. Striking the optimal balance between reporting all pertinent data and obscuring important messages continues to remain a key challenge. Data must be stored consistently with the ability to easily aggregate along logical hierarchies. Agreeing upon common data definitions across warehouse and analysis platforms remains a challenge for financial institutions. Risk management and the line of business need to continue to communicate to reach a common understanding of the data issues in order to achieve optimal results.

In the 2009 survey, 56.8% of participants rated the quality of data within their institution as average or worse. Improvements have been made since the 2007, with levels falling from 72.5% to 66.3% to the current level. The European marked institutions rated their data quality relatively higher than their North American and Asia/Australia counterparts.

Overall Quality of Data Used to Support Credit Risk Management



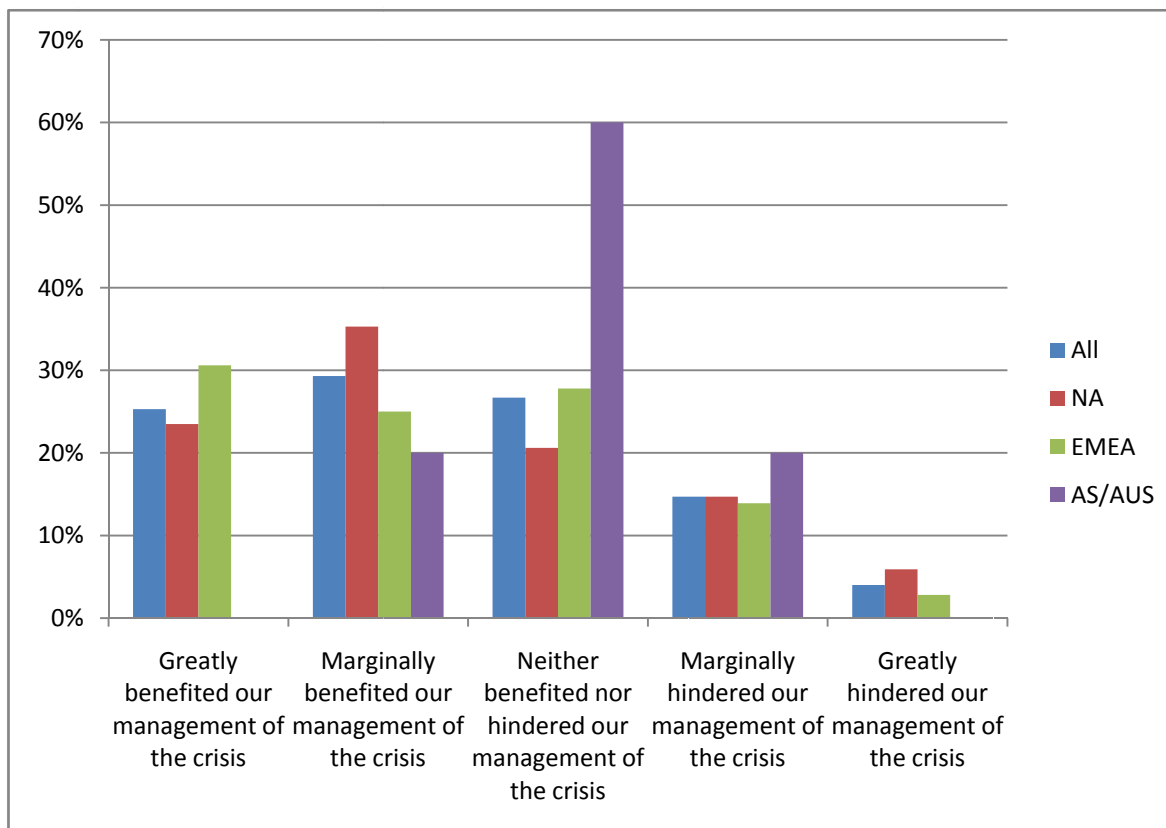
The primary benefits of increasing the quality of data supporting credit risk management are:

1. More timely identification of emerging problems,
2. More efficient capital allocation/utilization,
3. Reduced regulatory and legal risks, and
4. Improved transparency in reporting results to the market,

The order of benefit has changed substantially since 2008, with institutions focusing tactically to identify problems and conserve capital rather than taking a more strategic view of the market.

Benefit of and Barriers to Managing Data

The credit crisis continues to play out with institutions more pragmatic about what steps need to be taken to manage through the crisis. When asked if the accessibility and quality of data have proven beneficial through the crisis, institutions in the EMEA indicated that their data has benefited them the most during the ongoing credit crisis. The majority of institutions within the EMEA are Basel IRB banks; accordingly, these findings are what we might expect, i.e., they are consistent with a heavy investment and longer-term experience in meeting all three Pillars of Basel.



Over the three years we have conducted the survey, banks are gaining confidence in the data used to manage the credit portfolios. Banks are more pragmatic about the difficulty in collecting and integrating data to manage risk across the various disciplines. Institutions are taking steps to enable an institution-wide view of risk, yet challenges remain in defining the risk language that can be used.