CORLYTICS

Regulatory Risk Intelligence

Top 20 **Banks** have paid more than $235bn in enforcement notices since 2008

Industry Context

- Waves of new regulation

- Fines directly impact the balance sheet

- Regulators are holding senior managers personally accountable

- Regulatory risks have proven hard to predict

26 Individuals have received prison sentences in the UK alone

THE AVERAGE SENTENCE IS 3 YEARS & 9 MONTHS

Yet more risks to analyze….

2012 · 2013 · 2014 · 2015 · 2016 · 2017 · 2018 · 2019

2012

1. Credit risk
2. Conduct risk
3. Market risk
4. Operational risk
5. Liquidity & Funding risk
6. Insurance risk
7. People risk

> ! The scope of conduct & regulatory risk has grown to include a number of regulatory risk types

2017

1. Credit risk
2. Conduct risk
3. Market risk
4. Operational risk
5. Liquidity risk
6. Capital risk
7. Regulatory risk
8. Insurance risk
9. Senior/People risk
10. Governance risk

Making regulatory risk predictable

- Regulations?

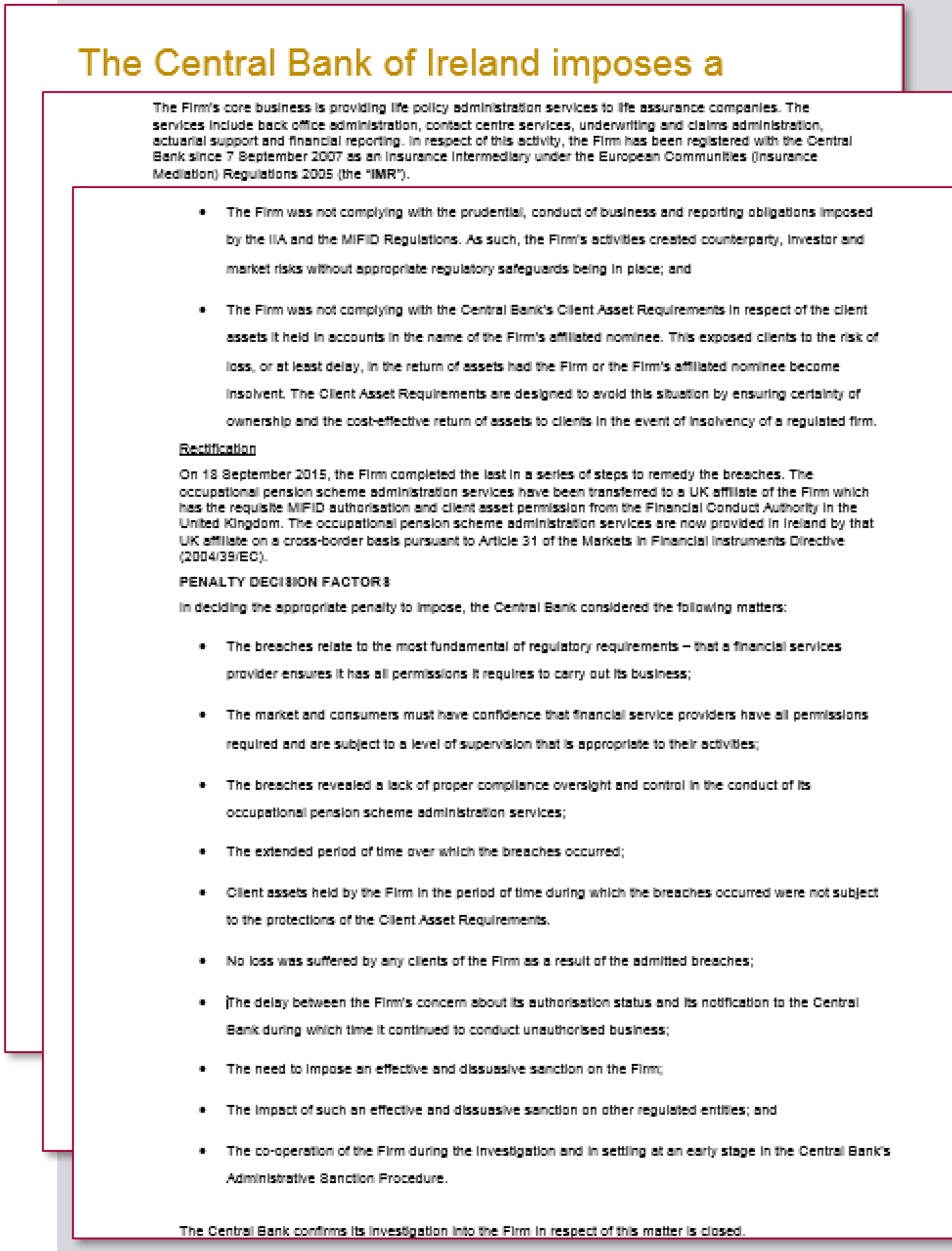
- Internal data?

- **Enforcement data** (FCA, PRA, SEC, OCC, Federal Reserve, ASIC, MAS, HK, Central Banks……)

Enforcement data is rich but unstructured

Free-text narrative

- Context – what went wrong
- Regulations breached
- Penalty (financial and other)
- Size of firm
- Industry segment
- Product/service



The Central Bank of Ireland imposes a

The Firm's core business is providing life policy administration services to life assurance companies. The services include back office administration, contact centre services, underwriting and claims administration, actuarial support and financial reporting. In respect of this activity, the Firm has been registered with the Central Bank since 7 September 2007 as an insurance intermediary under the European Communities (Insurance Mediation) Regulations 2005 (the "IMR").

- The Firm was not complying with the prudential, conduct of business and reporting obligations imposed by the IIA and the MiFID Regulations. As such, the Firm's activities created counterparty, investor and market risks without appropriate regulatory safeguards being in place; and
- The Firm was not complying with the Central Bank's Client Asset Requirements in respect of the client assets it held in accounts in the name of the Firm's affiliated nominee. This exposed clients to the risk of loss, or at least delay, in the return of assets had the Firm or the Firm's affiliated nominee become insolvent. The Client Asset Requirements are designed to avoid this situation by ensuring certainty of ownership and the cost-effective return of assets to clients in the event of insolvency of a regulated firm.

Rectification

On 18 September 2015, the Firm completed the last in a series of steps to remedy the breaches. The occupational pension scheme administration services have been transferred to a UK affiliate of the Firm which has the requisite MiFID authorisation and client asset permission from the Financial Conduct Authority in the United Kingdom. The occupational pension scheme administration services are now provided in Ireland by that UK affiliate on a cross-border basis pursuant to Article 31 of the Markets in Financial Instruments Directive (2004/39/EC).

PENALTY DECISION FACTORS

In deciding the appropriate penalty to impose, the Central Bank considered the following matters:

- The breaches relate to the most fundamental of regulatory requirements – that a financial services provider ensures it has all permissions it requires to carry out its business;
- The market and consumers must have confidence that financial service providers have all permissions required and are subject to a level of supervision that is appropriate to their activities;
- The breaches revealed a lack of proper compliance oversight and control in the conduct of its occupational pension scheme administration services;
- The extended period of time over which the breaches occurred;
- Client assets held by the Firm in the period of time during which the breaches occurred were not subject to the protections of the Client Asset Requirements.
- No loss was suffered by any clients of the Firm as a result of the admitted breaches;
- The delay between the Firm's concern about its authorisation status and its notification to the Central Bank during which time it continued to conduct unauthorised business;
- The need to impose an effective and dissuasive sanction on the Firm;
- The impact of such an effective and dissuasive sanction on other regulated entities; and
- The co-operation of the Firm during the investigation and in settling at an early stage in the Central Bank's Administrative Sanction Procedure.

The Central Bank confirms its investigation into the Firm in respect of this matter is closed.

Data Taxonomy: Tagging regulatory enforcements

REGULATORY CATEGORY

1. Economic Crime ←
2. Market Conduct ←
3. Conduct of Business Obligations ←
4. Regulatory Obligations ←
5. Governance & Oversight ←
6. Systems & Controls ←

Example: Regulatory risk comparison – across peer groups

REGULATORY RISK RATING: Regulatory Group

	Σ	BANK 1	BANK 2	BANK 3	BANK 4	BANK 5	BANK 6
ECONOMIC CRIME	124	29	15	36	12	10	22
MARKET CONDUCT	77	20	5	20	8	12	12
CONDUCT OF BUSINESS	58	17	3	11	11	4	12
REGULATORY OBLIGATIONS	83	21	18	27	6	8	3
GOVERNANCE & OVERSIGHT	79	0	8	32	7	20	12
SYSTEMS & CONTROLS	84	0	4	21	20	31	8

Risk drill-down into areas of functional ownership

REGULATORY RISK RATING: By Regulatory Category

	Σ	BANK 1	BANK 2	BANK 3	BANK 4	BANK 5	BANK 6
ECONOMIC CRIME	124	29	15	36	12	10	22
AML/BSA Rules	14	4	0	3	2	1	4
Sanctions	30	6	4	15	2	0	3
Tax Evasion	33	11	5	9	0	3	5
Mis-appropriation	14	0	1	2	3	2	6
Bribery	18	4	2	7	2	0	3
Fraud	19	5	3	0	4	4	3

Innovation Themes

- Law + Data Science
- Text analytics
- Taxonomies + automation
- Regulatory risk models

Thank you!