

Wolters Kluwer Survey: U.S. lenders still reeling from pandemic, while regulatory and risk challenges remain

December 2021

By Tim Burniston and Elaine Duffus

The U.S. banking industry has spent most of 2021 coping with the pandemic's aftermath, and many financial institutions have keenly felt those disruptions in their day-to-day operations and lending practices. Among those challenges weighing on lenders' minds are substantial risk and regulatory compliance concerns that only seem to be increasing, at least according to researchers with Wolters Kluwer Compliance Solutions.

Wolters Kluwer recently released its 2021 Regulatory & Risk Management Indicator survey, an annual initiative identifying regulatory and risk trends in the U.S. banking industry. In its ninth year, the survey gauges U.S. banks, credit unions, and other lending institutions' confidence in navigating complex risk management and regulatory compliance issues. It also addresses where they expect their institutions to invest capabilities to address those issues in the coming 12 months.

This year's survey generated a Main Indicator Score of 128, a 25-point increase over the 2020 score. These results mark the third consecutive year in which the Main Indicator Score has increased, up 43 points in total since 2018. Concerns about navigating regulatory change, managing risk across all lines of business, and an increase in the dollar amount of fines imposed by regulators were all cited as reasons for the significant jump in score.

2021 Indicator Main Score: Based on 10 underlying factors



*Scale for this metric has been doubled to account for the significant hike in regulatory fines imposed during the survey review period.

Source: Wolters Kluwer 2021 Banking Regulatory & Risk Indicator Survey

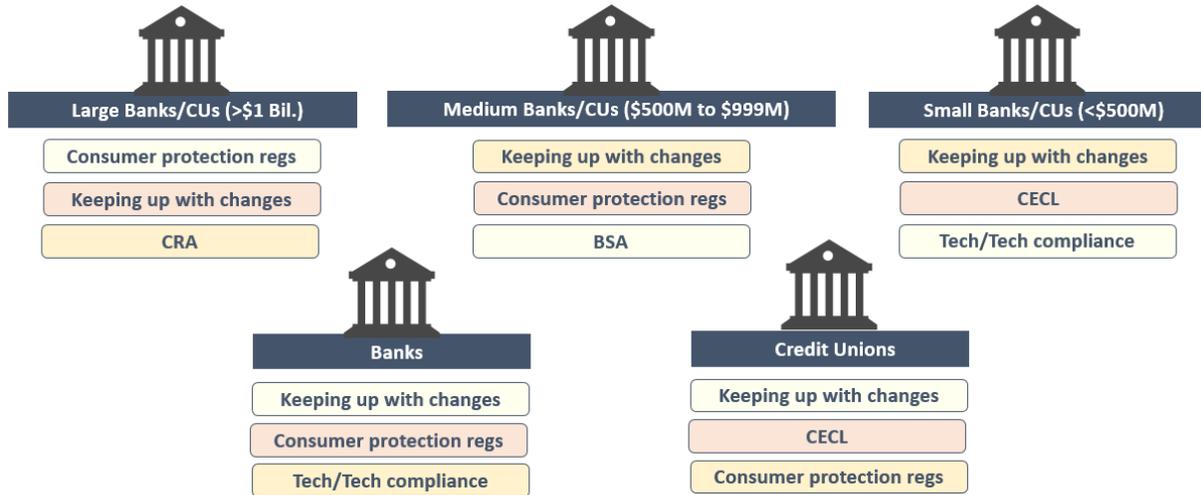
The Main Indicator Score is calculated based on several factors, including the number of new federal regulations, number of enforcement actions, and the dollar amount of fines imposed on banks and credit unions over the past 12 months, together with survey respondents' input.

Cybersecurity remains a top priority

Not surprisingly, 2020 and 2021 were record-breaking in the number and severity of attempted cyberattacks. In addition to pre-pandemic known cybersecurity risks, such as exposures to third parties and legacy systems, COVID-19 opened the door to new challenges. The threat of ransomware attacks led the list of factors in organizations' enterprise risk planning. Sixty-three percent of respondents gave it "significant consideration" and another 22 percent marked it for "some consideration" in their planning.

The pandemic's ongoing impact (49 percent), loan default risk (46 percent), inflation (42 percent), business resilience and adaptability (41 percent), recession fears (34 percent), and climate-related financial risks (21 percent) also present significant concerns for respondents in their enterprise risk planning. Keeping pace with ever-changing regulations consistently ranks among the top regulatory compliance challenges, no matter the banking segment:

Top Regulatory Compliance Challenges—by Segment



Wolters Kluwer: 2021 Banking Regulatory & Risk Indicator Survey

The digital journey

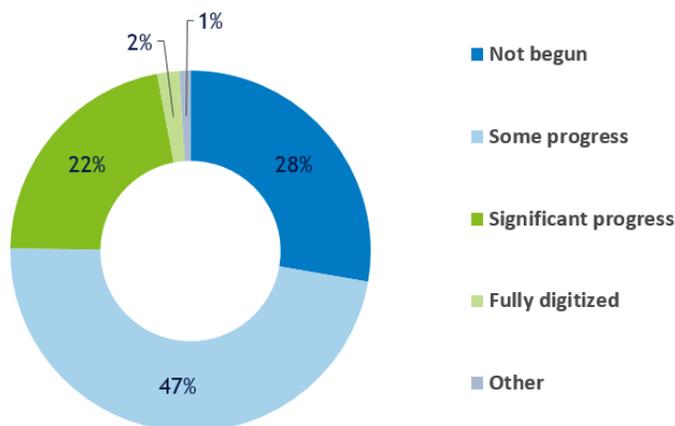
The pandemic exposed gaps in many institutions' ability to quickly adapt to meet rapidly changing market pressures and evolving customer expectations. This year's survey included a new question about investing in digital transformation efforts. Sixty-three percent anticipated "significant" or "some" acceleration of their organization's digital lending processes.

Forty-seven percent of the respondents indicated they had made some progress with digitizing their lending capabilities, while 24 percent indicated they have made significant progress or are fully digitized. Interestingly, very few respondents anticipated much acceleration around artificial intelligence, robotics, or regulatory change management automation.

Digital Lending Capabilities -- Progress

- 47% of the respondents indicated they have made some progress with digitizing their lending capabilities
- 24% indicate they either have made significant progress or are fully digitized.

Digital Lending Capabilities



Source: Wolters Kluwer 2021 Banking Regulatory & Risk Indicator Survey

Compliance Program Management

Institutions confirmed a number of challenges in implementing an effective compliance program. Respondents cited a reliance on manual processes (45 percent), inadequate staffing (41 percent), and too many competing business priorities (36 percent) as their top roadblocks. These findings highlight the continued need to implement technology that will automate elements of the regulatory change process and allow compliance professionals to focus on more value-added functions.

Looking ahead

Over the next 12 months, respondents' most pressing regulatory compliance challenges include, in order of importance, Bank Secrecy Act/Anti-Money Laundering requirements, forthcoming Beneficial Ownership requirements, and fair lending laws and regulations along with Dodd-Frank Section 1071 small business reporting rules. Respondents also expressed high levels of concern about UDAAP standards and looming Community Reinvestment Act rule changes, Current Expected Credit Losses (CECL) standards, and state-issued regulatory requirements.

When asked about the likelihood of reduced regulatory burden over the next two years, respondents revealed greater pessimism, with 72 percent citing the likelihood of regulatory relief as either "somewhat unlikely" or "very unlikely" compared to 56 percent in 2020.

Overall, the survey results show that compliance professionals need to be vigilant about having a robust regulatory change management program and fully functioning Compliance Management System with updated policies and procedures. As the ripple effects of the pandemic, the economy, and other industry factors continue to burden financial institutions, developing a disciplined, automated approach to compliance will provide the consistency and transparency that regulators require.

(End)

About the Authors:

[Timothy R. Burniston](#) is Senior Advisor for Regulatory Strategy with Wolters Kluwer Compliance Solutions. [Elaine Duffus](#) is Senior Specialized Consultant, Compliance Program Management, with Wolters Kluwer Compliance Solutions.