

Enterprise records management:

An imperative for financial institutions



Abstract

Good records management helps protect records and augments the operational efficiency of a financial institution. We believe that efficient record-keeping is the hallmark of a well-governed organization and should be seen as an integral part of—rather than incidental to—business. Due to evolving business processes, mergers, and acquisitions, the amount of information generated (and potentially treated as records) in financial institutions is increasing exponentially.

Storing and managing relevant records out of the billion gigabytes of data created daily is time-consuming and cumbersome. With information residing in silos, financial institutions must adopt efficient record-keeping and information-sharing processes. This white paper discusses how financial institutions must implement an electronic records management solution while avoiding implementation pitfalls.

Records management: Business drivers for financial institutions

We have witnessed an increase in the interest in records management solutions across financial institutions in the last five years. The need for records management can be attributed to the following business drivers:

Regulatory compliance

Financial institutions must follow local and international laws and regulations or pay hefty penalties for non-compliance. According to Fenargo¹, in 2020, penalties for non-compliance with anti-money laundering (AML), know your customer (KYC), and Markets in Financial Instruments Directive (MiFID), and data privacy regulations totaled \$10.6 billion in the financial sector, rising 27% from the year before.

Regulations can be categorized into:

- **Financial regulations:** These regulations oversee banking, financial markets, and consumers and protect against financial risks and frauds to secure consumers' investments. The record-keeping perspective mandates retaining the respective records for a certain period (mostly between five and 10 years). Key financial regulations are Sarbanes-Oxley Act (SOX), Dodd-Frank Act, MiFID, European Market Infrastructure Regulation (EMIR), Basel, and Gramm-Leach-Bliley Act.
- **Data privacy and protection:** These regulations protect the personal data and privacy of individuals, ranging from consumers to employees. The most widely discussed data privacy law is the European Union's General Data Protection Regulation (GDPR). The US has no single

[1] Fenargo, *Global Financial Institution Fines for AML, Data Privacy and MiFID Rise 27%, 09 December 2020, Accessed November 2021, <https://www.fenargo.com/press-releases/global-financial-institution-fines-for-aml-data-privacy-and-mifid-rise-26-in-2020/>*

comprehensive federal law but has state and region-specific legislations that govern data privacy. Important data privacy regulations include Health Insurance Portability and Accountability Act (HIPAA), Children's Online Privacy Protection Act (COPPA), California Consumer Privacy Act (CCPA), and Personal Information Protection and Electronic Documents Act (PIPEDA).

Records management systems provide an integrated view of the required business processes that financial institutions can present as regulatory and legal compliance evidence. This enables efficient regulatory reporting and mitigates the risk of regulatory penalties, reputation damage, and opportunity loss.

Litigation support

Decades-old data required to support litigations may not be consistent for reporting due to mergers and acquisitions and evolving business processes. Financial institutions also need to handle various business and financial disputes, which may end up in a court of law if not resolved in the normal course of business transactions. Records management solutions can provide legal staff easy access to high-quality records containing business information and documents in the required time.

Audit conformance

Auditors look for the accuracy, integrity, and confidentiality of information. Financial institutions need to conform with internal and external audit processes. Records management systems have data integrated as required by the auditors and established processes to ensure data accuracy, integrity, confidentiality, and data consistency, resulting in efficient reporting and investigation. Records management also monitors and reports searches, thus maintaining the confidentiality of the data. Hence, records management helps to achieve audit conformance efficiently and on time.

Record-keeping standards

There are many standards that influence records management implementation. While some, being legal or regulatory in nature, are inviolable, others are influenced by best practices. The key records management standards include ISO 15489, SEC Rule 17a-4 by US Securities and Exchange Commission, and MoReq by DLM Forum in Europe.

Record management standards establish the core concepts and principles for creating, capturing, and managing records. Standards ensure that the key objectives of the record management systems—to keep the records in unaltered format, enable timely and efficient information extraction, and allow access to only authorized users—are successfully met.

Standards apply to records regardless of structure or form in all types of business and technological environments. These standards cover several areas:

- Records, record systems, and metadata for records
- Policies, assigned responsibilities, monitoring, and training to support effective records management
- Recurrent business context analysis and records requirement identification
- Record controls and processes for creating, capturing, and managing records.

Financial institutions must follow laid down standards to ensure an efficient and effective records management implementation.

Making meaning out of the madness

Let us now look at the three approaches that can be followed for implementing an enterprise-wide records management solution:

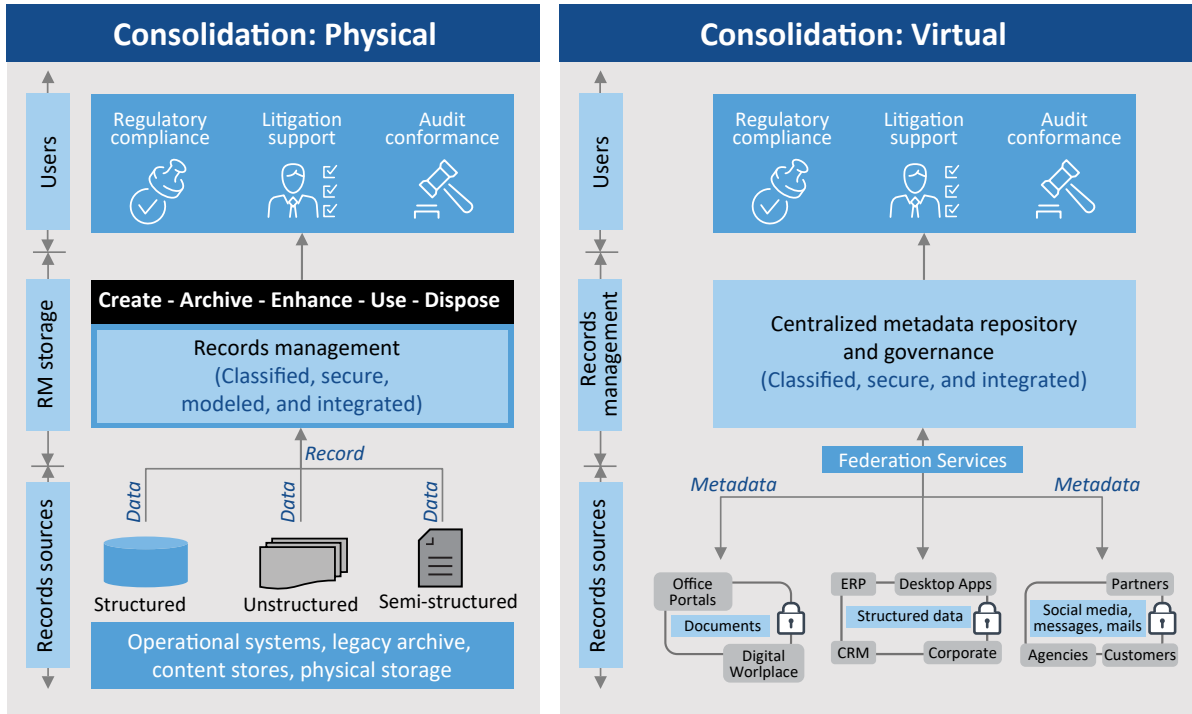


Figure 1: Consolidation approaches: Physical and virtual or 'manage in place'

Consolidation: Physical

In the physical consolidation approach, records are migrated from fragmented sources and stored in a centralized records store (see Figure 1). The centralized records store is modeled so that it is easy to retain, retrieve, enable disposal of information as well as hold it for regulatory, litigation, and audit purposes. Due to a single data repository, physical consolidation is a more strategic and efficient approach, enabling better data integrity, control, and policy application. It is a big bang approach and may take between five and ten years for enterprise-wide implementation in large financial institutions.

Consolidation: Virtual or 'manage in place'

In the virtual consolidation or 'manage in place' approach, the data is not migrated out of the record sources. Metadata from all the sources is copied at the centralized control layer that also holds the business rules related to the regulatory obligations, legal holds, and retention schedules. Based on the retention schedules, the source systems are informed through the enterprise-level messaging or federation services about the record retention period and record disposal date. Every source needs to have record disposal scripts, which can be executed. Although the virtual consolidation approach is faster than the physical consolidation approach, it is error-prone as it requires maintaining records and scripts in fragmented sources.

Centralized file archival

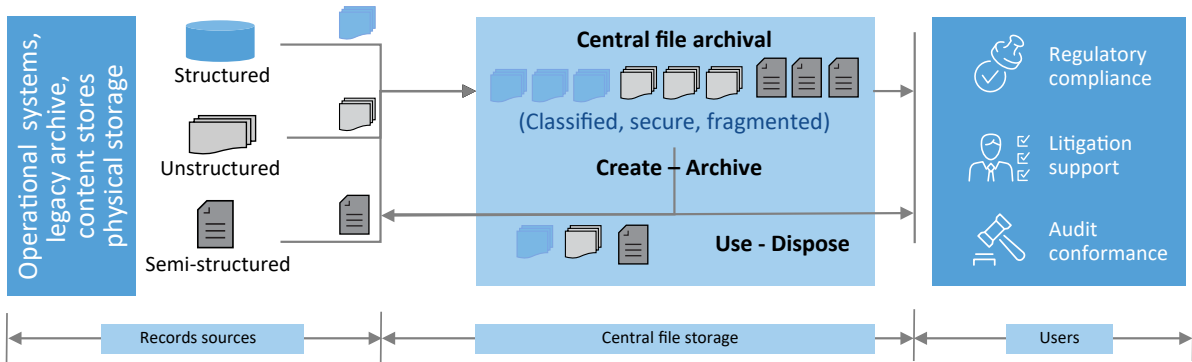


Figure 2: Central file archival approach

The central file archival approach is similar to the physical consolidation approach. In this approach, the structured and unstructured data is not integrated but hosted in one place in a flat-file format or output (see Figure 2). So, there is limited metadata available for indexing and reporting. This is a practical approach as the information can be extracted by restoring it to sources if the source system IP does not permit sharing the data model information and metadata. Although this is not an efficient way of records management, it enables secure access and easy disposal of records.

Our interactions with various global customers reveal that a majority of financial institutions prefer a physical consolidation approach for enterprise-wide records management implementation. Physical implementation requires a geography-specific records store as mandated by regulations. We believe that physical consolidation is the strategic or appropriate approach to achieve enterprise-wide records management in financial institutions.

Pitfalls in the journey

Some aspects that financial institutions must focus on while implementing a records management solution include:

Governance framework

For successfully implementing an effective records management system, financial institutions must establish a formalized governance framework with a focus on some key aspects:

- Defining records management roles and responsibilities, including key roles like records management officer, records management IT manager, and application records management single point of contact (SPOC)
- Monitoring key performance indicators (KPIs)
- Laying down policies or approaches for records retention, disposal management, legal hold management, and other critical functions

Regulatory updates

Financial institutions need to keep track of frequent changes in regulations, which is the responsibility of the 'regulatory watch' function within the legal and compliance department. Tracking regulatory updates will require screening or monitoring of the regulatory websites, newsletters, or alerts issued by the official websites.

Records classification

Records management consists of decades-old data sources, including structured, unstructured, and semi-structured data or records related to banking business processes. Often, the metadata or information on these records is not available, and such a situation can pose a risk to banks' regulatory compliance. So, it is very important to identify and classify or categorize this data to have an effective records management system.

Retention schedules

A retention schedule is a repository of records and associated retention periods. Financial institutions derive the retention schedule by analyzing and interpreting the applicable regulatory obligations, related business processes, and supporting applications. This analysis helps identify the details such as records under obligation, golden source of records, associated application objects, retention period, trigger date, and disposal date.

Conclusion

Records management is often a neglected and underrated function at many financial institutions. But this is going to change with regulations and compliance becoming more and more complex and demanding. In our view, financial institutions must proactively implement an agile, robust, extendible, and adaptable records management system to address and existing and evolving regulations. This will help financial institutions avert regulatory penalties and reputational damage, mitigate litigation risks, and achieve audit compliance.

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