EUROPEAN CENTRAL BANK

BANKING SUPERVISION

RDARR as a Supervisory Priority

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Overview

1. **Why Data quality and aggregation is important?**
2. What was done until now?
3. Did it work?
4. What is coming next?
5. Conclusions

Why data quality and aggregation is important

- Many times, **RDAR is seen as a mere supervisory requirement** and the focus is many times on the quality of supervisory reporting, but
- Good data quality and data aggregation capabilities is actually a **competitive advantage for banks**:
  - ✓ Good data quality is paramount **for understanding the exposure to the different risks** a financial institution faces and to steer the entity;
  - ✓ Good aggregation capabilities provide flexibility to **understand the impact of unexpected shocks** and react to them
  - ✓ Good data quality is a **prerequisite for the implementation of new technologies**, like AI

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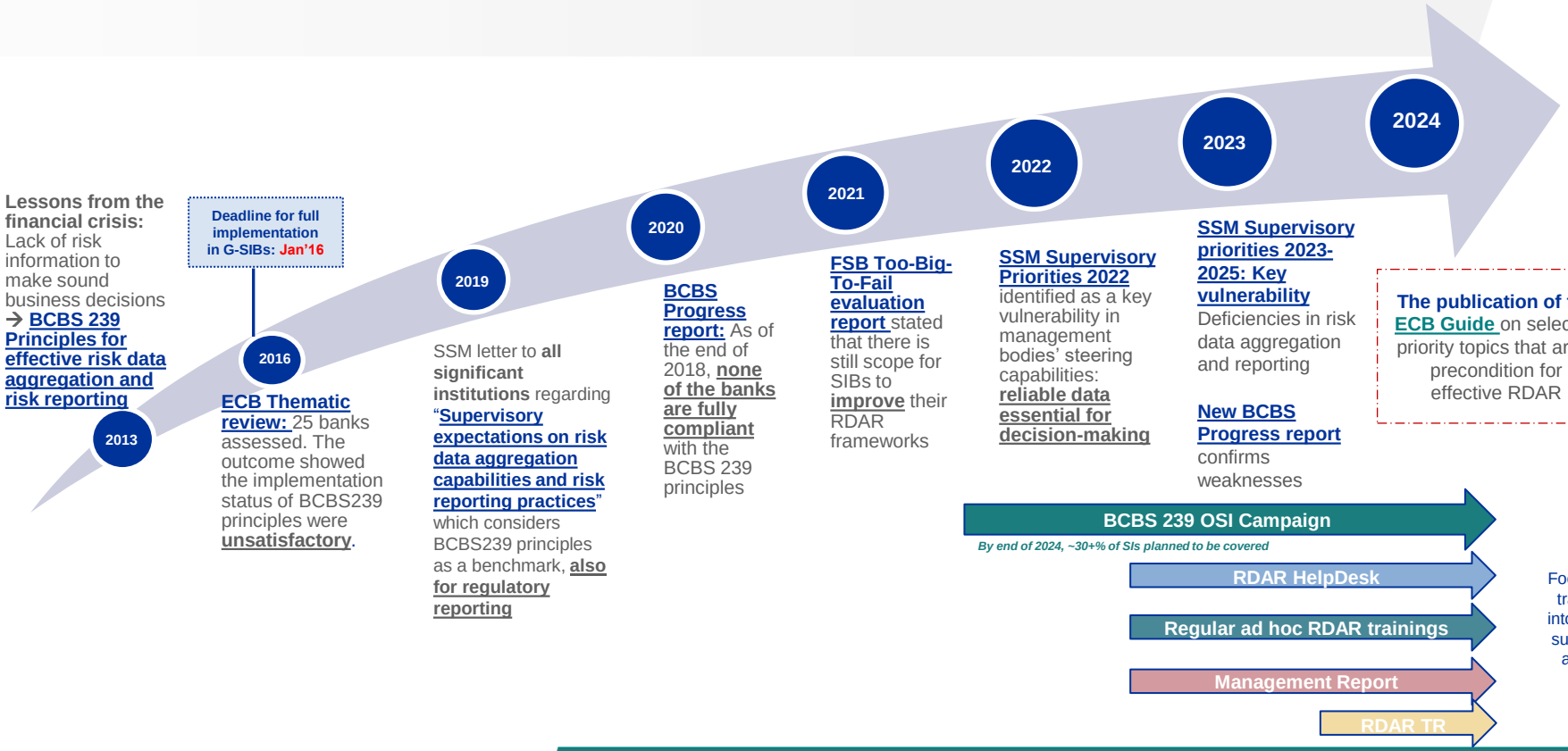
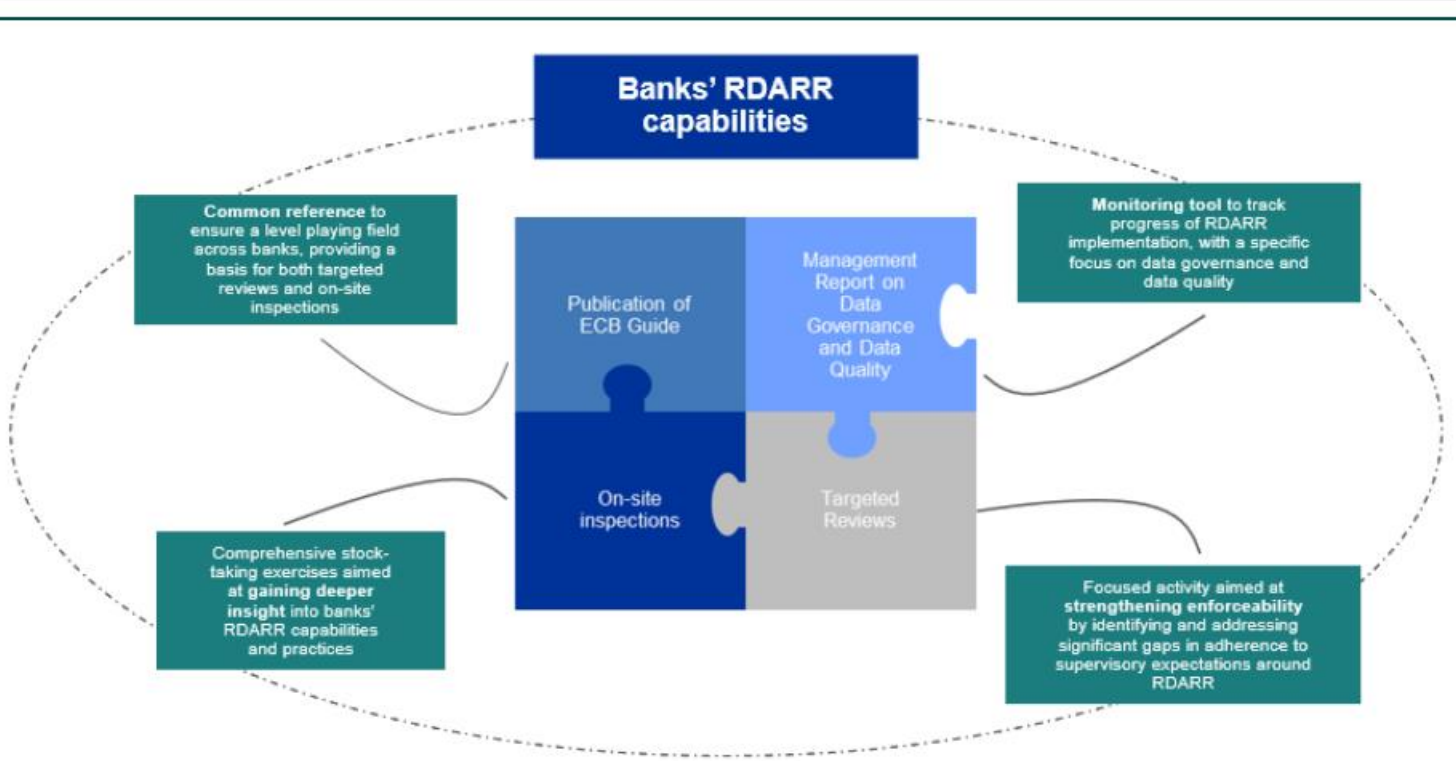
Work done so far



Comprehensive approach since 2022



The ECB Guide on RDAR

Make **transparent our minimum supervisory expectations on selected, priority topics** focussing on those **preconditions deemed essential to be in place** to facilitate progress in data aggregation capabilities, with focus on **how to achieve expected level** of RDAR capabilities

1. **Full responsibility of Management Body**
2. **Sufficient scope of application** of data governance frameworks in terms of risk types, reports and risk indicators, legal entities, business lines and risk, financial and supervisory reporting
3. **Effective group-wide data governance frameworks** incl. data owners, a data governance function, an independent validation function and regular validation by internal audit
4. **Integrated data architecture** with uniform data definitions and glossaries and data lineage back to the sources
5. **Group-wide data quality management and standards** incl. automated data quality (DQ) checks, reconciliations, measurement of data quality indicators (including tolerance levels) and an up-to-date and complete register of DQ issues
6. **Timeliness of internal risk reporting** should allow the banks to duly react in timely manner
7. **Effective implementation programs**

The ECB Guide on RDAR

Example: Full responsibility of Management Body (MB)

- MB should make RDAR a **key priority** for the institution and ensure the deployment of **adequate resources.**
- MB should **formulate, approve and review**:
  - ✓ Entity's **definition of BCBS239 compliance** and key RDAR **frameworks and policies**
  - ✓ concrete **requirements for data quality in terms of accuracy, completeness, timeliness and adaptability** in normal times and in times of stress
  - ✓ **KPIs** to monitor data quality
- MB should **oversee and monitor**:
  - ✓ key deliveries of **remediation programmes**
  - ✓ **adherence to BCS239 principles** as well as any potential **limitation that prevent full risk data aggregation.**
  - ✓ **Roll-out** of RDAR frameworks and policies **across the Group**
- MB members should have a **sufficient understanding, sufficient skills and experience** in the topic.

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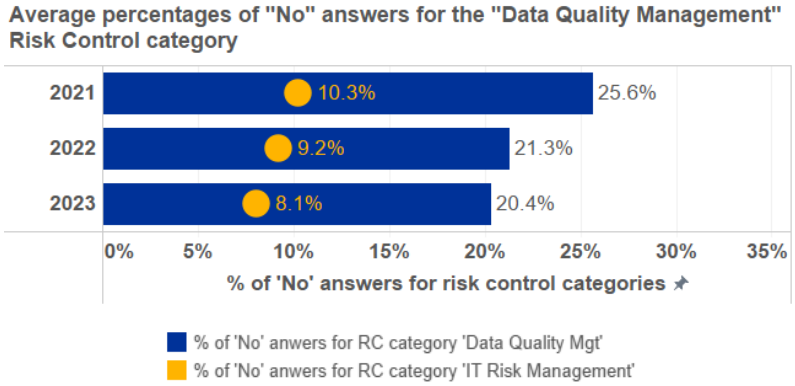
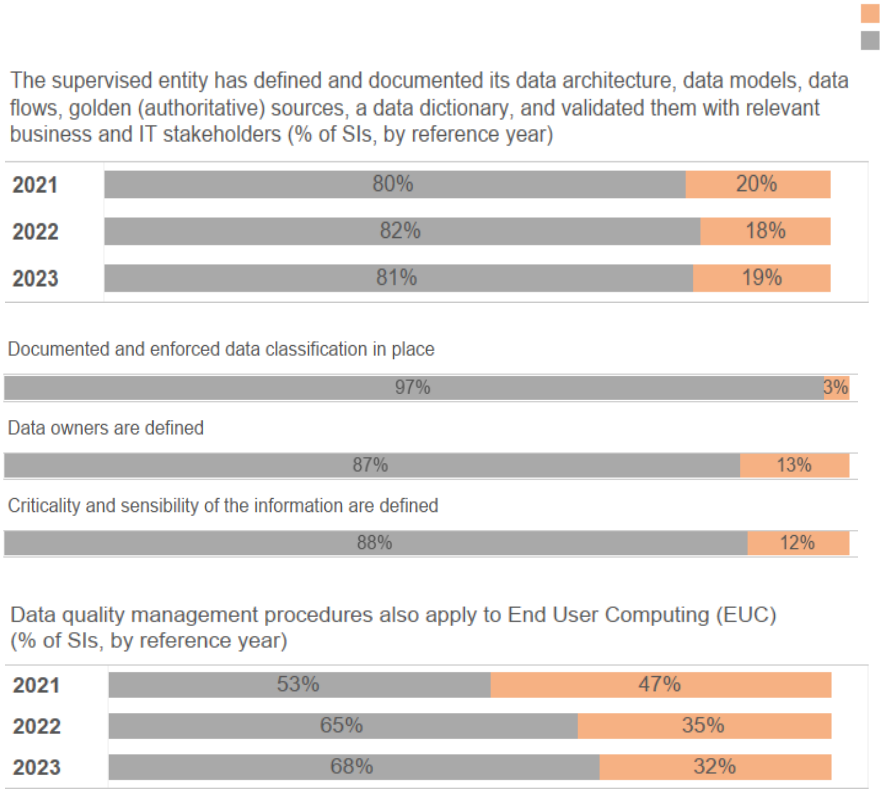
Did it work?

- Despite this increased supervisory scrutiny, it has been concluded that the **progress made by Significant Institutions** to date has been generally **insufficient**.
- Based on the recent OSI campaigns and horizontal projects (e.g. Targeted Review and Helpdesk support), the slow remediation of RDAR deficiencies are the result of multiple root causes, in particular:
    1. Governance framework shortcomings
    2. Fragmented IT infrastructure and a large amount of manual aggregation processes
    3. Remediation of RDAR deficiencies is often costly, entails high risks and takes time

Did it work? – According to the ITRQ

According to the ITRQ, **IT Data quality management is the least mature** of all IT Risk domains.



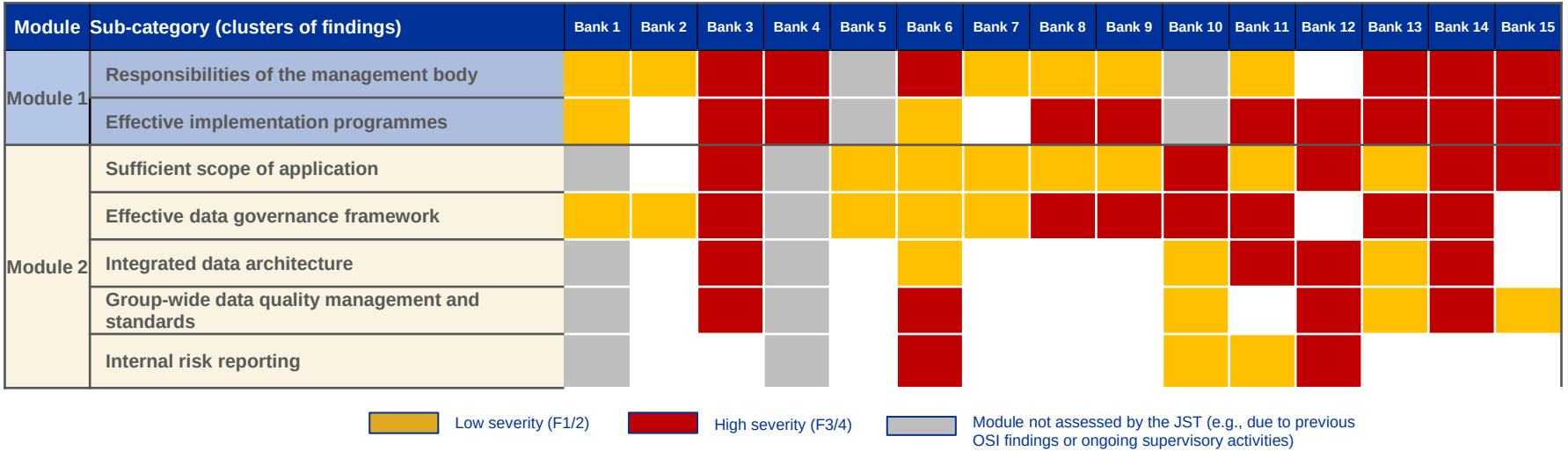


Did it work? – According to the OSI campaign

Area	Main findings
Internal governance	• Insufficient attention to RDAR from management board • Too narrow scope of application • Incomplete governance arrangements
Data infrastructure and IT architecture	• Data infrastructure and IT architecture not fit for purpose • Insufficient data lineage and data taxonomies • Data ownership inappropriately assigned
Accuracy and integrity	• Recurrent manual data corrections due to issues with data quality controls • Weakly controls of manual workarounds

Did it work? – According to the Targeted Review

- TR identified **significant gaps across sampled banks in meeting the expectations** outlined in the ECB Guide on RDAR.
- The table below shows **clusters of findings against the main aspects of the supervisory expectations** in the ECB Guide
- **Implementation programmes show the highest number of severe findings**, followed by data governance frameworks, responsibility of the management body and scope of application (details of the main deficiencies can be found in the annex)



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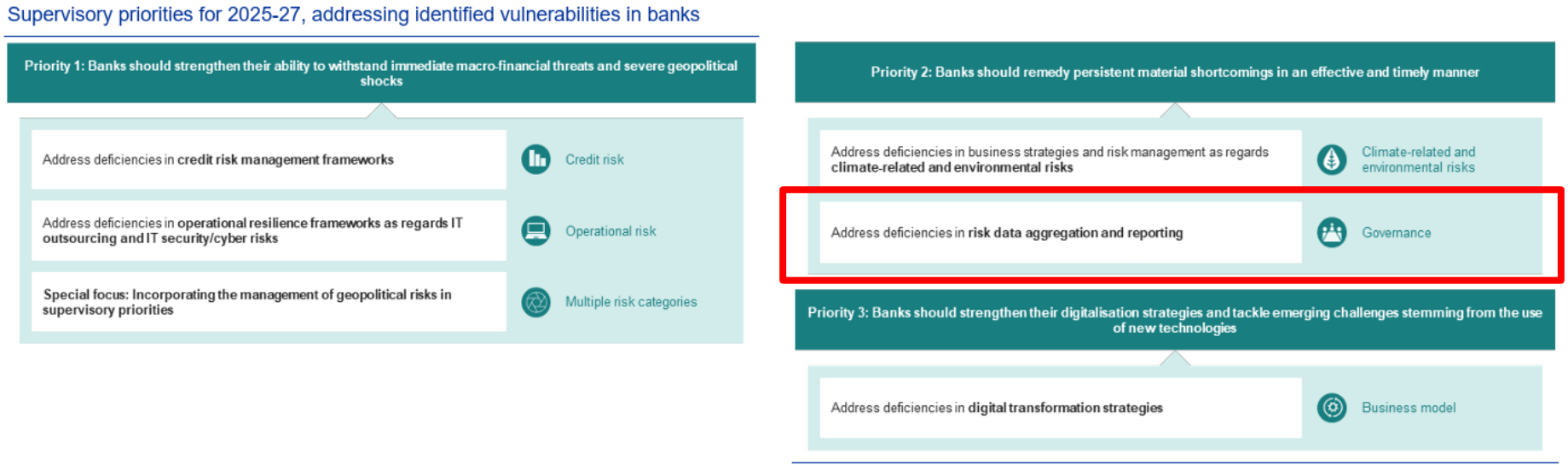
RDAR as an SSM Supervisory Priority



We classify all banks in different buckets

Bucket 1

Banks without significant issues

- A previous assessment has been performed
- Good RDAR capabilities and no significant issue has been identified/no hints that there are DQ issues
- This is reflected for instance with a low SREP score in this area (< 3+)*

Bucket 2

Banks with identified issues

- Assessed in previous supervisory activities (e.g., via OSI or TR)
- There is a good understanding of the main deficiencies in the bank to ensure adequate RDAR capabilities
- In some cases, there can be an action plan in place with specific actions and deadlines/some work is in progress

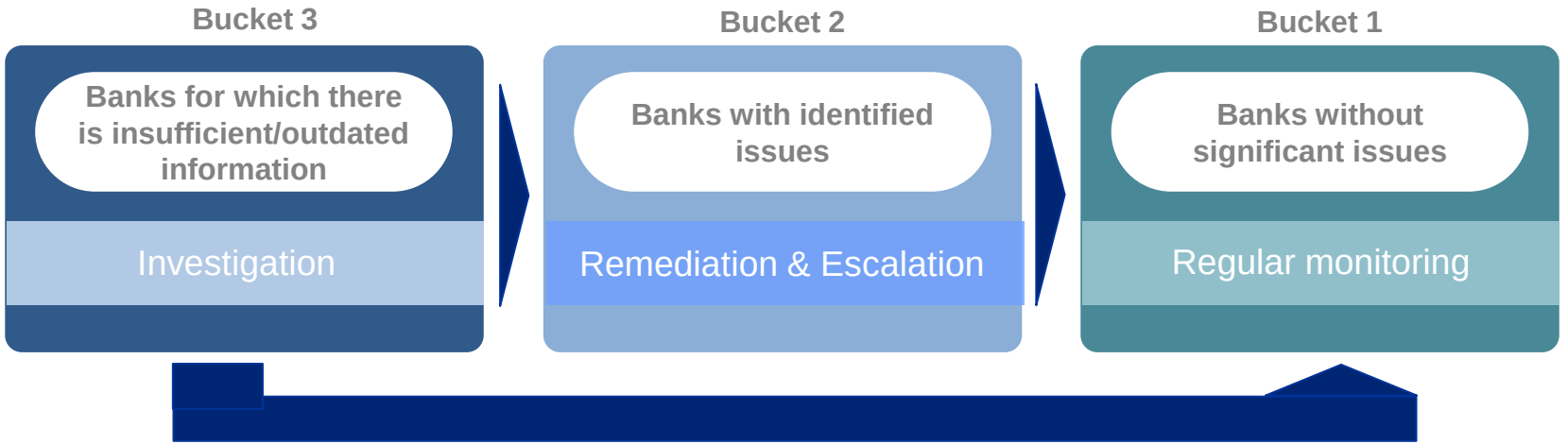
Bucket 3

Banks for which there is insufficient/outdated information

- Not thoroughly assessed in previous supervisory activities
- Hints that there are DQ issues
- In some cases, there might be some previous findings and measures, but they would be only partial and/or not well articulated

And we apply a different strategy in each of the buckets

The final objective is **to move as many banks as possible to bucket 1**. To do so, each bucket will be subject to a different supervisory strategy



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Conclusions

- RDAR, cannot be seen only as a supervisory compliance item. Good Data quality and aggregation capabilities provide evident benefits to credit institutions
- Despite the effort spent by regulators and supervisors for many year, progress made by supervised institution is deemed insufficient
- RDAR will continue being a supervisory priority. All Significant institutions will be classified in 3 different buckets and a different supervisory strategy will be applied to each bucket
  - ✓ For banks without any significant issue in this area, regular monitoring
  - ✓ For banks with significant issues already identified, follow up and escalation
  - ✓ For banks for which there is insufficient analysis, investigation