

# Elevating Government Financial Oversight and Compliance

One clear factor aggravating the current financial crisis is that the regulatory structure governing the U.S. finance industry has not changed since the 1930s. Consequently our regulatory regimes are fractured; responsibilities are divided and no one agency is responsible for seeing the big picture.

As a result, there is no overall authority that can effectively monitor systemic risk in the financial services industry. No agency is in a position to prevent or mitigate the negative impacts of financial crises on the economy.

This fragmentation is reflected in the IT systems regulators depend on. Agencies (and many of their internal departments) operate as distinct entities from an IT perspective. In the private sector, financial institutions also operate as distinct entities. Each is likely to employ its own proprietary models, systems, and methods for risk and valuation.

The result is that information regulators could use to determine risk remains scattered and inaccessible across incompatible systems and sources.

## Current IT Systems Can't Support Effective Regulation

Effective information sharing would provide the transparency and analysis necessary to effectively monitor systemic risk in the financial system. But because IT architectures do not parallel the distribution of authority across different organizations, they cannot support:

- Shared collection of information
- Common data and information architectures
- Common risk assessment methodologies and rating systems
- Systemic risk profiling
- Coordination, communication, collaboration, and data exchange among primary regulators
- Governance, transparency, and collaboration
- Integrated information sharing
- Dissemination of timely and actionable information

Information technology has been deployed to meet the requirements of individual regulatory agencies. These disparate IT systems have created obstacles as financial services have evolved:

- Disparate and proprietary systems cannot be formed into an enterprise architecture to support a global, holistic regulatory framework
- Lack of standards for information management prevent agencies from effectively exchanging and utilizing other agencies' regulatory information
- Common tools and applications for processing and managing information across agencies are not available or effectively utilized
- Lack of security and data protection standards threaten the exchange and utilization of information across agencies
- Lack of flexible and open platforms slows innovation and broadening of knowledge, based on many years of regulatory reform and experience

Until these issues are addressed, information technology will inhibit rather than support a modern, unified, and collaborative financial regulatory environment.

## Recommendations for Effective Regulation

### Establish a standard data architecture

The nation needs a data architecture for financial regulation that is enhanced with unstructured financial data. Establishing a common data architecture will help ensure that that information can be accessed, communicated, and utilized by the entire community of financial regulatory agencies in a timely manner. Potential IT options include establishing:

- Standards for data collection across the enterprise
- A standardized ontology and taxonomy
- An enterprise/regulatory data warehouse
- Migration capabilities for legacy data
- A standard data language, e.g., XBRL
- A common vision for data stewardship and maintenance
- Common operating platforms and data exchange standards
- An enterprise-wide disaster recovery and data backup methods

Improving the data architecture of regulatory agencies will help ensure that regulators can effectively utilize the most current data available to oversee the financial industry, ensure compliance with evolving regulations, perform analyses to support the development of new regulations, and monitor the evolution of financial markets. Data could also be shared with the public and academic institutions for greater transparency into the financial system.

### Establish common systems and tools

Establishing common systems and tools across the regulatory environment will help integrate agencies towards a more unified regulatory environment. Options include developing:

- An automated workflow capability through COTS products (via a target architecture)
- Real-time collaboration and data sharing capabilities
- Integrated business intelligence and analytics
- Standard reporting mechanisms and leveraging automated work flow and collaboration capabilities
- Capabilities for ad hoc analytics and reporting based on a common data warehouse

The development of common systems and tools could help streamline processes and workflows as well as facilitate more effective collaboration, analysis, and reporting. For example, as banks are downgraded, the OCC could readily share the exam report with the FDIC to enable early resolution strategy planning.

## How Microsoft Helps Agencies Improve Financial Regulation and Oversight

As a leading technology vendor and trusted advisor to the financial services industry, Microsoft remains committed to helping enterprises meet the unprecedented challenges of these turbulent times. While technology is not a cure-all for the credit crisis, Microsoft and its partners help financial institutions manage risk and meet compliance needs with solutions that automate and simplify governance, compliance, and risk management.

Microsoft combines its position as a leader in Financial Services solutions with a Federal team that understands the imperatives of the regulatory mission to offer agencies a powerful, high-value platform for collecting, analyzing, and monitoring risk reporting and performance metrics. Working with its partners, Microsoft develops customized solutions that meet the intersecting compliance challenges of corporate governance, IT governance, and industry regulations.

As federal regulators deal more directly with a consolidated financial services industry, Microsoft can help them rapidly implement upgraded oversight solutions. The company and its partners can quickly integrate disparate silos and unlock value by:

- Connecting systems
- Increasing transparency
- Driving new operational efficiencies
- Accelerating innovation across the enterprise

Most financial institutions in the world have standardized on our familiar platform and solutions from our partners. This provides a powerful network effect for federal financial regulatory oversight agencies, making their systems compatible with information from the organizations they are required to oversee.

## Microsoft Financial Solutions

Microsoft focuses on three core areas for government oversight and compliance:

**Document and Records Retention:** Microsoft and its partners can help align IT and business to embed DMRR best practices into your day-to-day processes and workflows.

**Governance, Risk Management, and Compliance:** Simplifies document management and helps ensure that you comply with requirements on how you store, retrieve, archive, and dispose data.

**Payments:** Solutions from Microsoft's partner ecosystem span every aspect of the payments business, including treasury cash management, payments delivery channels, and clearing and settlement.

## Microsoft Customer Success Stories

**Bank of America**—To comply with the operational risk aspects of Basel II, the bank created a portal solution based on Microsoft® Office SharePoint® Server 2007.

**The Peoples Bank in Winder, Georgia**—A solution developed by a Microsoft partner provides more accurate and frequent reports, cutting reporting time in half.

**Mercer, a global pension consulting firm**—A new actuarial valuation system based on Windows® Compute Cluster Server 2003 enhanced the effectiveness of Mercer's retirement consulting capabilities while keeping cluster management costs low.

**Sasfin Bank**—To maintain its competitiveness, Sasfin Bank deployed a Microsoft solution to automate processes and enhance reporting and analysis.

**SunGard**—Upgraded the database of its widely used BancWare ALM application to Microsoft® SQL Server™ 2005 Enterprise Edition 64-bit.

**Zurich North America Commercial** Deployed a new Microsoft solution for tracking risk inspection data that will provide efficiency savings of U.S.\$25 million over five years.

For these and other case studies, visit:  
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