



The Single Supervisory Mechanism

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The Single Supervisory Mechanism (SSM) is a new system of financial supervision that will be enforced from 4 November 2014. On this date, the European Central Bank (ECB) will take over the supervision of Systemically Important Banks (SIB).

The main purpose of the SSM is to centralise and harmonise the supervision of the banking system in order to ensure financial stability of the eurozone and participating countries. The SSM will cooperate with the National Competent Authorities (NCA) of participating EU countries to perform this supervision. In particular (according to ECB/2014/17), “a joint supervisory team shall be established for the supervision of each significant supervised entity or significant supervised group in participating Member States”. Each joint supervisory team shall be composed of staff members from the ECB and from the NCA.

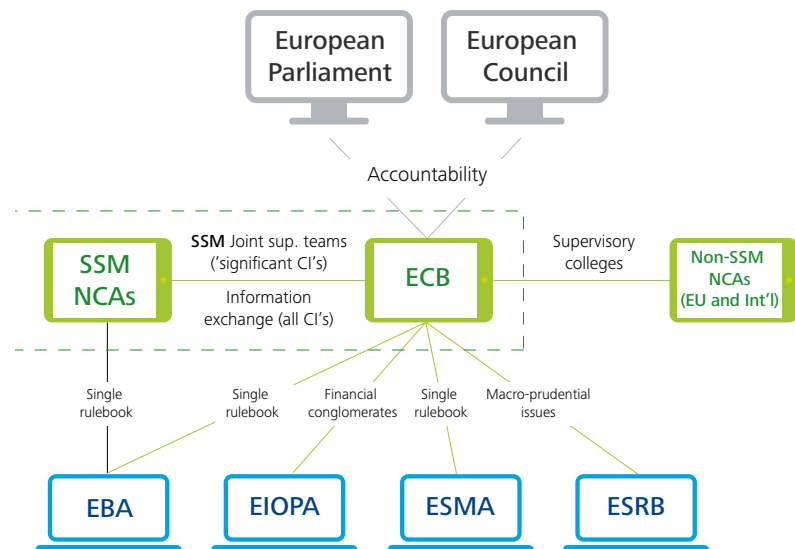
On the one hand, the setting up of the SSM demonstrates the European Union’s determination to supervise financial institutions at the European level so as to restore confidence in European financial institutions and their stability. On the other hand, it emphasises the trend toward data intensive regulation, requiring more—and better—data from regulated entities.

Trend towards data intensive regulation

The regulation not only requires financial institutions to demonstrate their capability in terms of processes and governance but will increasingly focus on their ability to provide proper, accurate data in a timely manner.

For example, the Single Supervisory Mechanism gives the ECB the possibility to require legal or natural persons to provide all the information that it needs to perform the tasks assigned to it by the SSM Regulation. This means that financial institutions will have to be able to answer ad hoc requests with the appropriate level of data quality and in a timely manner. On top of this, the Asset Quality Review (AQR) exercise shows that the level of detail required in the data to be provided could be rather granular. Indeed, the ECB will have the capability to assess more detailed, granular data that banks will have to provide consistently and quickly. The Basel III regulation is also contributing to this trend. Indeed, BCBS 239 introduced the “Principles for effective risk data aggregation and risk reporting”. Part of these principles focus on the processes and controls

SSM in practice: How will the ECB work with the existing supervisory network?



put in place prior to risk calculation. Specifically, it focuses on data quality monitoring and administering evidence through procedures and documentation, taking into account most aspects of data quality from accuracy to timeliness. As the supervisor will have more data, reconciliation and comparison will be easier. This will enable the supervisor to identify gaps and measure the reasonableness of data.

Finally, as this provides a unique opportunity for the SSM to compare institutions from different countries, analytics capabilities will certainly be put in place to allow significant volumes of data to be processed—not only in response to problems but also in anticipation of them. This means that we can expect a standardisation of data structure and definitions, to make data volumes manageable, which is essential if the ECB is to achieve the sought-after harmonisation of supervision across the eurozone. On top of this, given the ECB’s improved data capabilities, banks will have to be able to provide data more often in response to ad hoc requests.

What is the answer to this trend?

Meeting these requirements and challenges will involve comprehensive data management capabilities using a data management framework.

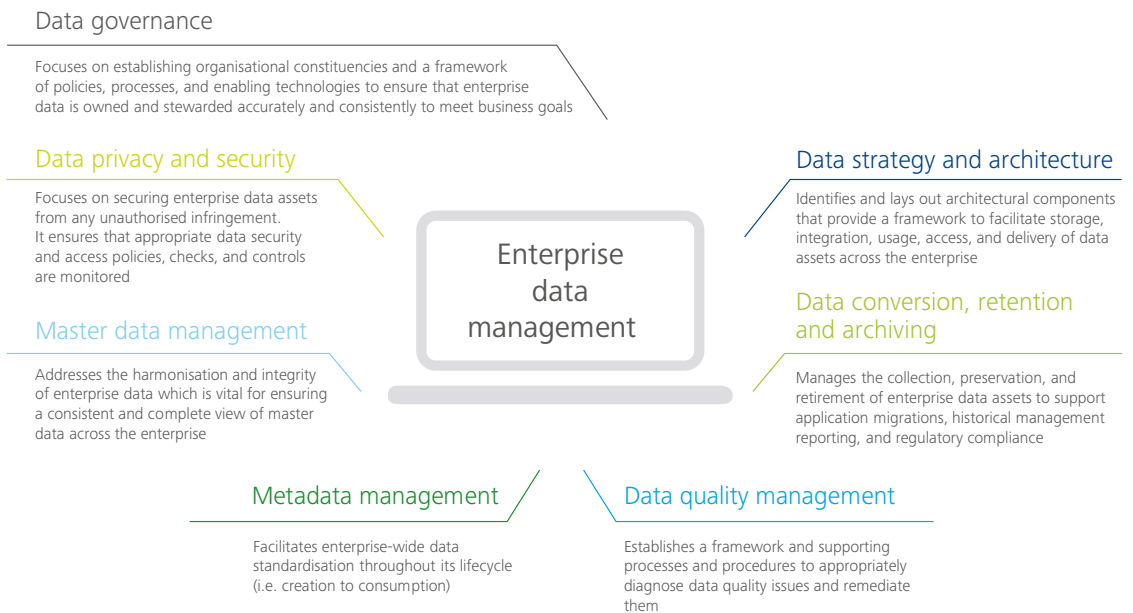
What has been done in the insurance industry?

By 2016, insurers will have to comply with Solvency II—which has strong requirements in the area of data management. For example, undertakings must

implement processes, procedures and responsibilities to ensure the appropriateness, completeness and accuracy of data. Insurers are also expected to regularly assess the performance of IT systems and of the channels used to collect, store, transmit and process data.

In order to comply with these requirements, different sophistication or maturity levels have been adopted.

We have classified them from 1 (less mature) to 4 (more mature) with the following characteristics:



Source: Deloitte's EDM (Enterprise Data Management) methodology

Such data management discipline nonetheless enables organisations to meet regulatory challenges as well as leverage operational gains.

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Level	Name	Description
1.	Process approach	This level consists of the reengineering of the process by adding manual operations (quality check, traceability, auditability). This requires less investment but also offers fewer benefits. Also, it does not relieve the business of operational burdens which can be a serious issue in larger organisations.
2.	Document management approach	This level proposes a reengineering of the process with manual operations for quality and file traceability and storage automation. This is a first initial compromise for small portfolios or less material risks.
3.	Solvency II central repository	This level enables reengineering of the process with automation of the quality processing auditability and traceability throughout a central repository architecture designed using the existing file layout. This is a good solution for larger portfolios of organisations that have no data management in place.
4.	Enterprise Data Warehouse (DWH)	This is the most mature level proposed. It offers reengineering of the process with automation of the quality processing auditability and traceability throughout a DWH architecture designed using a standard data enterprise model. This should be reserved for companies that already have strong management disciplines or a willingness to set one up.

In the implementation of such projects, the insurance industry can also be regarded as an interesting source of lessons learned. For example, it shows that technology enables repeatability and saves business resources, but can quickly become a financial nightmare. This means that the Total Cost of Ownership (TCO) approach must be adopted from the outset. We also observe that the data quality business case can be achieved by considering the whole organisation.

Indeed, taken alone, data quality will be just a regulatory cost—yet it can benefit many areas across the organisation if implemented correctly from the beginning. Notably, the main lesson is that governance is key. Using a thermometer will give you the temperature but not the remedy; data governance and data management skills must be put in place to make sure issues are monitored and fixed.