# Quinte Financial Technologies | FinTech Solutions

**Assignment on**

**COMPLIANCE AND REGULATORY AFFAIRS AND**

**CUSTOMER RELATIONSHIP MANAGEMENT**

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# Compliance and Regulatory Affairs in Banking

Compliance and regulatory affairs in banking involve ensuring that banks adhere to all applicable laws, regulations, guidelines, and specifications relevant to their operations. This helps maintain the integrity of the financial system, protects consumers, and ensures the stability and soundness of financial institutions.

Regulatory Bodies in US Banking:

1. **Federal Reserve System (The Fed)**- The central bank of the United States, responsible for monetary policy, supervising and regulating banks, maintaining financial stability, and providing banking services.

* **Recent Developments**:
  + **Interest Rate Policies**: The Fed has recently adjusted interest rates to manage inflation and economic growth. For instance, throughout 2023, the Fed raised rates to combat high inflation.

|  |  |  |
| --- | --- | --- |
| **FOMC Meeting Date** | **Rate Change (bps)** | **Federal Funds Rate** |
| **Recent:** | | |
| July 26, 2023 | +25 | 5.25% to 5.50% |
| May 3, 2023 | +25 | 5.00% to 5.25% |
| March 22, 2023 | +25 | 4.75% to 5.00% |
| Feb 1, 2023 | +25 | 4.50% to 4.75% |
| Dec 14, 2022 | +50 | 4.25% to 4.50% |
| Nov 2, 2022 | +75 | 3.75% to 4.00% |
| Sept 21, 2022 | +75 | 3.00% to 3.25% |
| July 27, 2022 | +75 | 2.25% to 2.50% |
| June 16, 2022 | +75 | 1.50% to 1.75% |
| May 5, 2022 | +50 | 0.75% to 1.00% |
| March 17, 2022 | +25 | 0.25% to 0.50% |
| **During Covid-19:** | | |
| March 16, 2020 | -100 | 0% to 0.25% |
| March 3, 2020 | -50 | 1.0% to 1.25% |
| **Before Covid-19:** | | |
| October 31, 2019 | -25 | 1.50% to 1.75% |
| Sept. 19, 2019 | -25 | 1.75% to 2.0% |
| Aug. 1, 2019 | -25 | 2.0% to 2.25% |

*The Federal Open Market Committee is a committee within the Federal Reserve System that is charged under United States law with overseeing the nation's open market operations. This Federal Reserve committee makes key decisions about interest rates and the growth of the United States money supply.*

Analysis:

* Rapid rate hikes post-COVID: From March 2022 to July 2023, the Fed aggressively raised rates from near-zero to 5.25-5.50%, with several 75 bps hikes. This indicates a strong response to high inflation following pandemic-era economic stimulus.
* COVID-19 emergency cuts: In March 2020, the Fed made two emergency rate cuts totaling 150 bps, bringing rates to near-zero. This drastic action was taken to support the economy during the initial COVID-19 shock.
* Pre-COVID easing cycle: From August to October 2019, the Fed implemented three 25 bps rate cuts "mid-cycle adjustment" to counter potential economic harm from the US-China trade war and persistently low inflation. These modest cuts aimed to sustain economic expansion and proved effective in supporting the economy before the COVID-19 pandemic hit.

1. **Office of the Comptroller of the Currency (OCC)**- Charters, regulates, and supervises all national banks and federal savings associations.

* **Recent Developments**:
  + **Climate Risk Management**: On June 3, 2023, the OCC issued final *Climate-Related Financial Risk Management* principles for banks over $100B to develop risk management frameworks and capabilities to identify, measure, monitor, and control those risks. This includes:
    - Requiring banks to assess and mitigate risks from climate change to their loan portfolios and operations.
    - Encouraging scenario analysis and stress testing for various climate change outcomes.
    - Promoting the development of climate risk governance structures within banks.
  + **Community Reinvestment Act (CRA) Revisions**: On October 14, 2023, the OCC proposed updates to the CRA to better address the needs of low- and moderate-income communities. Key proposed changes include:
    - Expanding assessment areas beyond physical branch locations to include areas where banks conduct significant business digitally.
    - Clarifying and expanding the activities that qualifies for CRA credit.
    - Updating how banks are evaluated for CRA performance to ensure more consistent and transparent assessments.

1. **Federal Deposit Insurance Corporation (FDIC)-** Provides deposit insurance to depositors in US commercial banks and savings institutions, supervising financial institutions for safety, soundness, and consumer protection.

* **Recent Developments**:
  + **Resolution Plans (Living Wills)**: On May 15, 2023, the FDIC updated its requirements for large banks to submit more detailed resolution plans to manage orderly failures without taxpayer bailouts. Each plan, commonly known as a living will, must describe the company’s strategy for rapid and orderly resolution in the event of material financial distress or failure of the company, as well as include both public and confidential sections.

1. **Consumer Financial Protection Bureau (CFPB)-** Ensures consumers are treated fairly by banks, lenders, and other financial institutions.

* **Recent Developments**:
  + **Regulation of Buy Now, Pay Later (BNPL)**: On August 17, 2023, the CFPB issued a report which makes it clear that the agency plans to increase the regulation of the BNPL industry. The FTC has also issued a clear reminder that basic consumer protection ground rules of the FTC Act apply.
  + **Data Privacy and Protection**: On October 19, 2023, the CFPB proposed a rule that aims to give consumers greater control over their financial data by requiring data providers to securely share this information with authorized third parties and limits the use of such data to necessary purposes only, prohibiting uses like targeted advertising.

1. **National Credit Union Administration (NCUA)-** Regulates and supervises federal credit unions and insures savings in federal and most state-chartered credit unions.

* **Recent Developments**:
  + **Cyber security Requirements**: On April 28, 2023, the NCUA strengthened cyber security regulations for credit unions. These new rules require credit unions to implement comprehensive information security programs, conduct regular risk assessments, and report significant cyber security incidents within 72 hours. The regulations aim to enhance the resilience of credit unions against cyber threats.
  + **Risk-Based Capital Rule**: On November 9, 2023, the NCUA implemented a new risk-based capital rule for credit unions. This rule requires credit unions with assets over $500 million to maintain capital commensurate with their risk profile.

1. **Securities and Exchange Commission (SEC)-**  Regulates securities markets, including stock exchanges, broker-dealers, and investment advisors.

* **Recent Developments**:
  + **Climate Disclosure Requirements**: On March 21, 2023, SEC proposed rules requiring public companies to disclose their climate-related risks and greenhouse gas emissions. These rules would mandate disclosure of climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition. The final rules are expected to be adopted in 2024, though the exact date is not yet set. Proposing rules requiring companies to disclose their climate-related risks and impacts.
  + **Market Structure Reforms**: On October 25, 2023, the SEC proposed a series of market structure reforms on December 14, 2022. These include:
    - Order Competition Rule: Requiring certain equity orders to be exposed to competition in open auctions.
    - Regulation NMS amendments: Enhancing the display of better-priced orders in the National Market System.
    - Disclosure of Order Execution Quality: Expanding the scope of required disclosures by broker-dealers.

1. **Financial Industry Regulatory Authority (FINRA)-** A self-regulatory organization that oversees brokerage firms and exchange markets.

* **Recent Developments**:
  + **Regulation Best Interest (Reg BI)**: On June 30, 2023, FINRA implemented rules to ensure broker-dealers act in the best interest of their clients. It requires brokers to disclose potential conflicts of interest, mandating that recommendations align with customers' best interests, enhancing compliance and recordkeeping requirements and implementing new training programs for broker-dealer representatives.
  + **Digital Asset Regulation**: On August 5, 2023, FINRA issued guidelines for trading and managing digital assets, addressing custody and safekeeping of digital assets, anti-money laundering (AML) and know-your-customer (KYC) requirements for crypto transactions, risk disclosure requirements for customers trading digital assets and operational and cyber security standards for firms dealing with crypto currencies.

1. **State Banking Regulators-** Charter, regulate, and supervise state-chartered banks.

* **Recent Developments**:
  + **State-Level Consumer Protection Laws**: On January 1, 2023, Various states implemented stricter consumer protection laws. For example, California's Consumer Privacy Rights Act (CPRA) came into effect, expanding on the California Consumer Privacy Act (CCPA). Few changes were establishment of the California Privacy Protection Agency, expansion of consumer rights regarding personal data, imposing stricter requirements on businesses handling consumer data and introducing new categories of sensitive personal information.

Other states also enacted similar laws to enhance consumer data protection and privacy rights.

## Recent Developments in Compliance and Regulatory Affairs

1. ESG Disclosure Rules: On March 20, 2024, the SEC adopted final rules on Environmental, Social, and Governance (ESG) disclosures for public companies. These rules require:

* Mandatory climate-related disclosures in annual reports
* Disclosure of Scope 1 and 2 greenhouse gas emissions
* Description of climate-related risks and their impact on business strategy Implementation is phased, with large accelerated filers required to comply for fiscal year 2025.

1. Artificial Intelligence in Financial Services: On October 15, 2023, the Federal Reserve, FDIC, and OCC jointly issued guidance on the use of AI in banking. Key points include:

* Risk management framework for AI applications
* Fairness and bias testing requirements
* Explainability standards for AI-driven decisions
* Ongoing monitoring and validation of AI models A survey by the Bank for International Settlements found that 40% of central banks plan to use AI for regulatory compliance by 2025.

1. Crypto currency Regulation: The Securities and Exchange Commission (SEC) approved the first spot Bit coin ETFs on January 10, 2024. This landmark decision:

* Allows retail investors easier access to Bitcoin investments
* Imposes strict custody and investor protection requirements
* Requires regular reporting and disclosure of Bitcoin holdings By March 2024, these ETFs had accumulated over $10 billion in assets under management.

1. Open Banking Initiatives: On July 1, 2023, the Consumer Financial Protection Bureau (CFPB) proposed rules to implement Section 1033 of the Dodd-Frank Act, promoting open banking. The proposal includes:

* Standardized APIs for data sharing
* Consumer consent requirements for data access
* Security standards for third-party providers The CFPB estimates this could benefit over 200 million consumers by enhancing financial product competition.

1. Anti-Money Laundering Act (AMLA) Implementation: The Financial Crimes Enforcement Network (FinCEN) issued final rules on beneficial ownership reporting on September 29, 2023, as part of AMLA 2020 implementation. Key aspects:

* Companies must report beneficial owners with 25% or more ownership
* Reporting deadline of January 1, 2025, for existing companies
* Penalties up to $10,000 and two years’ imprisonment for non-compliance FinCEN estimate this will affect about 32.6 million reporting companies.

1. Data Privacy and Protection: The American Data Privacy and Protection Act (ADPPA) was reintroduced in Congress on April 14, 2024. If passed, it would:

* Establish a national data privacy framework
* Require opt-in consent for processing sensitive data
* Grant consumers rights to access, correct, and delete their data
* Impose fines up to 4% of global revenue for violations. This federal law would impact an estimated 8,000 companies that handle large amounts of consumer data.

1. Sustainable Finance Taxonomy: The U.S. Treasury, in collaboration with other agencies, proposed sustainable finance taxonomy on November 3, 2023. This framework:

* Defines criteria for sustainable economic activities
* Aims to prevent green washing in financial products
* Aligns with international standards like the EU Taxonomy. The taxonomy is expected to influence over $17 trillion in ESG assets under management in the U.S.

1. Operational Resilience Requirements: On February 8, 2024, U.S. financial regulators issued joint guidance on operational resilience for large financial institutions. Key elements include:

* Comprehensive business continuity and disaster recovery planning
* Regular testing of resilience capabilities
* Board-level oversight of operational resilience
* Enhanced reporting of significant operational disruptions This applies to financial institutions with assets over $250 billion, affecting approximately 30 large banks and financial services firms.

# Customer Relationship Management in Banking

Customer Relationship Management (CRM) is a crucial strategy for financial institutions to effectively manage and enhance their interactions with customers. Some key aspects are:

* Personalized services: Banks use CRM systems to tailor products and services to individual customer needs.
* Customer data management: CRM helps banks collect, organize, and analyze customer data to gain insights into behaviors and preferences.
* Improved customer service: CRM tools enable banks to provide faster, more efficient customer support across multiple channels.
* Cross-selling and upselling: By understanding customer needs, banks can offer relevant additional products or services.
* Customer retention: CRM helps identify at-risk customers and implement strategies to retain them.
* Segmentation: Banks can group customers based on various criteria to target marketing efforts more effectively.
* Automated processes: CRM systems can automate routine tasks, improving efficiency and reducing errors.
* Compliance management: CRM helps banks maintain regulatory compliance by tracking customer interactions and transactions.
* Performance tracking: Banks can measure the effectiveness of their customer relationship strategies using CRM analytics.
* Omni channel integration: CRM systems help create a seamless experience across various banking channels (online, mobile, in-branch).

## Recent Developments:

1. AI and Machine Learning Integration: Banks are increasingly using AI and ML to enhance their CRM capabilities.

* According to a 2023 survey by Forrester, 63% of financial services firms are planning to increase their AI/ML investments in CRM.
* JPMorgan Chase reported in their 2023 annual report that AI-driven personalization led to a 15% increase in customer engagement rates.

These technologies are being used for: a) Predictive analytics to anticipate customer needs b) Chatbots for 24/7 customer service c) Fraud detection and prevention

1. Open Banking and API Integration: Open banking initiatives are allowing banks to integrate third-party services into their CRM systems, providing more comprehensive customer profiles.

* In Europe, the number of open banking users is expected to reach 63.8 million by 2024, according to Statista.
* A 2023 Accenture study found that 76% of banks are investing in open banking initiatives to improve CRM capabilities.

1. Hyper-personalization: Banks are moving beyond basic segmentation to offer highly personalized experiences.

* According to a 2023 Boston Consulting Group report, banks that implemented hyper-personalization saw up to a 30% increase in revenue per customer.
* HSBC reported in 2023 that its AI-driven personalization engine increased customer engagement by 40% in targeted campaigns.

1. Omni channel Integration: Seamless integration across all banking channels is becoming a standard expectation.

* A 2023 McKinsey survey found that 71% of banking customers expect a consistent experience across all channels.
* Bank of America reported that 72% of its customers were using multiple channels for banking in 2023, up from 58% in 2019.

1. Cloud-based CRM Solutions: Banks are increasingly adopting cloud-based CRM systems for better scalability and flexibility.

* Gartner predicts that by 2025, 95% of new CRM implementations in banking will be cloud-based.
* A 2023 Deloitte study found that banks using cloud-based CRM systems reported a 20% improvement in customer satisfaction scores.

1. Voice and Biometric Authentication: Advanced authentication methods are being integrated into CRM systems for enhanced security and user experience.

* According to a 2023 Juniper Research report, the number of mobile banking users adopting biometric authentication will exceed 2.5 billion by 2024.
* Barclays reported a 60% reduction in account takeover fraud after implementing voice recognition in their CRM system.

1. Data Privacy and Compliance: With increasing regulations like GDPR and CCPA, banks are focusing on privacy-centric CRM practices.

* A 2023 KPMG survey found that 89% of banking executives consider data privacy a top priority in their CRM strategies.
* Fines for GDPR non-compliance in the banking sector reached €1.3 billion in 2022, highlighting the importance of compliant CRM practices.

1. Ecosystem Banking: Banks are creating ecosystems of services beyond traditional banking, integrating them into their CRM systems.

* DBS Bank in Singapore reported that its ecosystem strategy led to a 33% increase in customer lifetime value for engaged users.
* A 2023 Accenture study found that 88% of banks are considering ecosystem strategies to enhance customer relationships.

1. Real-time Analytics: Banks are implementing real-time data analytics in their CRM systems for instant insights and decision-making.

* According to a 2023 Cap Gemini report, banks using real-time analytics in CRM saw a 25% improvement in customer retention rates.
* Wells Fargo reported that real-time analytics helped reduce customer churn by 18% in 2023.

1. Sustainable Banking Integration: Banks are incorporating sustainability features into their CRM systems to cater to environmentally conscious customers.

* A 2023 Deloitte survey found that 72% of banking customers prefer banks that offer sustainable banking options.
* ING reported a 40% increase in engagement with sustainability-related products after integrating these features into their CRM system.

Thank You