

TAKING OWNERSHIP OF FDIC 370

**A FUNDAMENTAL SHIFT OF
RESPONSIBILITY TO BANKS**

CAPCO

TAKING OWNERSHIP OF FDIC 370

- INTERPRETATION AND IMPLICATIONS
- FRAMEWORK FOR RESPONSE
- CAPCO SOLUTION

INTRODUCTION

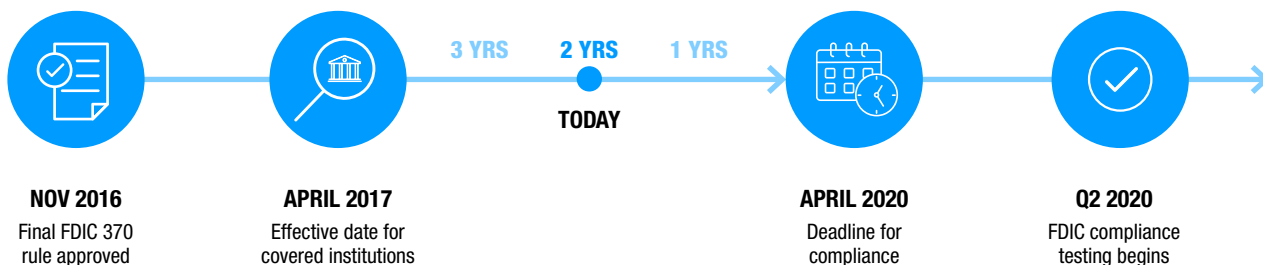
More than 400 banks have failed since 2009. In nearly every case, the Federal Deposit Insurance Corporation (FDIC) has played a critical role in the successful resolution of the failed institutions. If the FDIC cannot facilitate the sale of a failed bank to a healthy bank, the FDIC promptly pays the failed institution's depositors the full amount of their insured deposits. Depositors' ability to rely on the FDIC for protection provides financial stability and maintains confidence in the U.S. banking system.

The FDIC strives to pay depositors within one business day of a bank's failure. For some time, the FDIC has been concerned that the size and complexity of the largest banks would preclude it from maintaining this level of efficiency. Deposit insurance coverage is necessarily based on an individual bank's data. In large banks, the relevant data is frequently maintained in multiple information technology systems, complicating the insurance coverage calculation for certain types of accounts or when data is incomplete. To mitigate this risk of delayed payment, the FDIC approved a new rule in November 2016 specifying recordkeeping and compliance requirements.

The new rule – Recordkeeping for Timely Deposit Insurance Determination (FDIC 370) – has significant implications for affected banks. The rule states that banks must reach compliance by April 1, 2020 (See Figure 1 FDIC Official Timeline). Many banks have already started down the path of compliance, specifically looking at the changes necessary. While compliance with the rule initially looked achievable in less than 3 years, these banks have found that there are significant amounts of remediation and arduous third-party account coordination that have proven more time-consuming than originally estimated.

This white paper provides information on the rule, presents a framework for response, and shares how Capco is actively helping banks develop solutions to meet compliance before the approaching deadline.

FIGURE 1 FDIC Official Timeline



INTERPRETATION AND IMPLICATIONS

Currently, the FDIC estimates deposit insurance required for banks based on the bank's quarterly Call Report submissions (Consolidated Reports of Condition and Income). The new rule effectively shifts responsibility for deposit insurance calculations from the FDIC to the bank by requiring large banks to assess their deposit accounts, understand and appropriately handle beneficial deposit ownership, and calculate and apply the available insurance coverage.

This shift will provide the FDIC confidence that they can make depositors' insured funds promptly available should one of these complex institutions fail. Additionally, banks and customers will have improved visibility of insured and uninsured funds, because deposit insurance coverage is known on an ongoing basis.

Banks with two million or more deposit accounts need to:

- Capture all necessary data and make sure that it is current and accurate. This includes data captured on new accounts, as well as, identifying and bridging data gaps for existing accounts.
- Configure their information technology systems to calculate deposit insurance coverage according to FDIC rules.
- Ensure supporting documentation and physical records (e.g., signature cards) are complete and accurate for all relevant accounts.
- Meet alternative recordkeeping requirements for certain accounts (e.g., deposit accounts held in a trust) and certify that the needed information will be provided to the FDIC in the event of a failure.

To envision the impact of the rule, consider its essence: Banks must be able to calculate a customer's deposit insurance coverage on any given day, which includes:

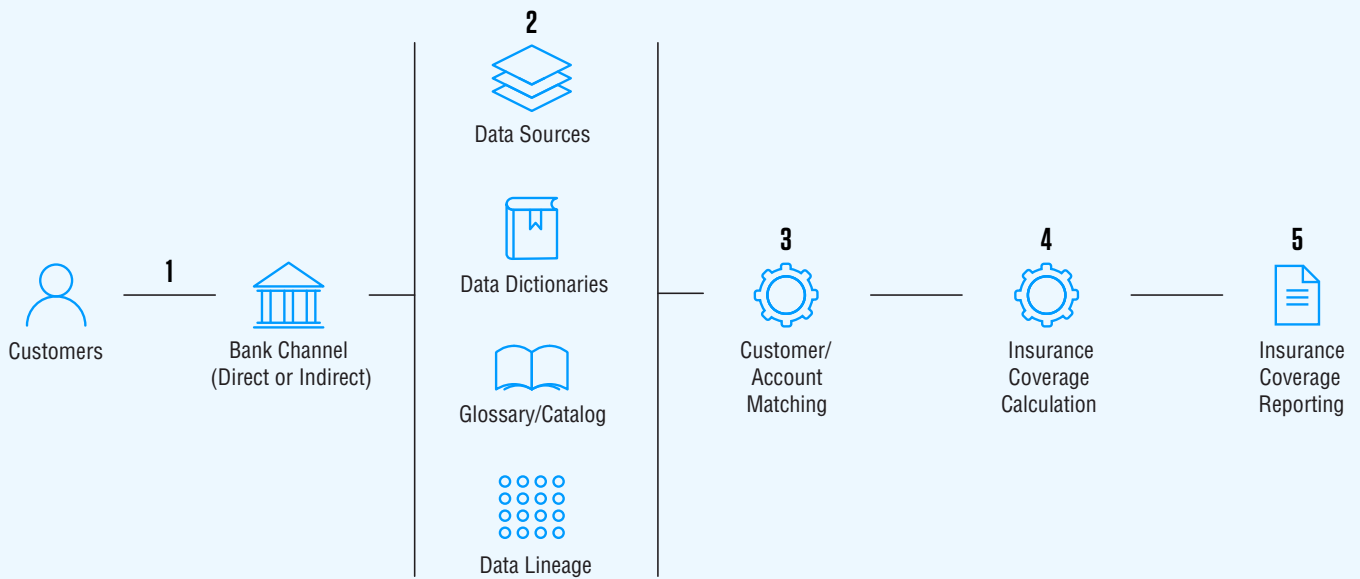
- Identifying unique customers (including those of third-parties) and all related insured deposit accounts.
- Understanding beneficial ownership to establish data gathering requirements.
- Collecting necessary data at account opening.
- Obtaining current account balances and applying FDIC rules for deposit insurance coverage (e.g. considering full and partial ownership).
- Producing reports and data files according to FDIC Requirements.

To enable this, **large banks need to consider changes to processes, procedures and systems.**

Figure 2 illustrates potential changes across the bank, from the point of customer interaction through operations.

INTERPRETATION AND IMPLICATIONS CONTINUED

FIGURE 2 Blueprint for Insured Deposits Recordkeeping



REQUIREMENT

CHALLENGE / OPPORTUNITY

<p>1 Whether opening a new account or changing an existing account, appropriate customer information and documentation is collected.</p>	<p>Need to address imaging in both direct and indirect channels. There is additional complexity with third party accounts.</p>
<p>2 Information and documentation is stored efficiently and securely. Data is available for all required activities.</p>	<p>Significant effort is required given the multitude of data-related projects that most banks have in flight.</p>
<p>3 Ongoing matching of covered accounts to customers is performed to maintain a current view of coverage.</p>	<p>Challenges typically include multiple systems of record, data availability and data quality.</p>
<p>4 Insurance coverage is calculated based on current account balances. Testing and other related procedures are facilitated.</p>	<p>This is an entirely new capability for which vendor and custom options may be considered. Capco has developed a reference implementation (see page 8).</p>
<p>5 Regulatory and management reports are automatically produced.</p>	<p>In addition to required reporting, new value-added information and services (e.g., insurance coverage alert) may be enabled.</p>

INTERPRETATION AND IMPLICATIONS

CONTINUED

Ongoing compliance will require rigor. Compliance includes annual testing and certification of implementation by either the CEO or COO and annual submission of a deposit insurance coverage report. Furthermore, the FDIC will conduct periodic on-site inspections and tests to confirm that each bank's IT systems can calculate deposit insurance coverage accurately in the event of failure.

Multiple factors make it challenging for banks to develop a solid plan, let alone actually reach compliance. Figure 3 presents a summary of these challenges.

A substantial part of the three-year implementation timeframe will be needed to address technology-related changes, deposit systems, applications and related interfaces. A significant effort may also be needed to address data gaps. Lastly, changes to certain business processes will require time to implement, particularly where training needs to happen.

The work and time involved underscores the need for banks to rapidly define a plan and begin implementation. As mentioned, above.

FIGURE 3 Common Challenges for Large Banks



COMPLEX OPERATIONS

- Need to access multiple systems for accounts and relationships (e.g. different applications for brokered deposits, trust accounts, loan escrows, etc.)
- Need to address storage and retrieval of customer-related documentation.



CUSTOMER EXPECTATIONS

- Potential impact to customer relationship when addressing information gaps.
- Change in customer experience when opening new accounts.



RESOURCE CONSTRAINTS

- Multiple risk and regulatory projects in parallel that take considerable amount of subject matter expert (SME) time.
- SMEs pulled in multiple directions between ongoing responsibilities and special initiatives.



COSTLY IT DEVELOPMENT

- Increased importance of accurate and comprehensive common customer identifier.
- New data elements (ownership right and capacity codes).
- Insurance calculation capability. Continuous updates among all parties.



REGULATORY PRESSURE

- Continuously evolving regulatory environment.
- Linkages to other requirements, e.g., KYC.



DESIRE FOR AGILITY

- Integration among multiple legacy systems.
- Integration with third parties.
- Real time deposit insurance status and account updates.

FRAMEWORK FOR RESPONSE

Capco believes there are three components to a successful response:

1. A [structured approach](#) to scoping and managing this compliance initiative.
2. A strategic and holistic view of [managing compliance data](#).
3. A comprehensive evaluation and [analysis of technology](#) and systems.

STRUCTURED APPROACH

Capco assists clients with a wide range of transformation efforts, including compliance initiatives. We utilize a structured approach that has proven to deliver expected results on time and within budget. Aspects of our approach include:

- Definition of the compliance strategy.
- Analysis of issues and options, leading to definition of requirements.
- Detailed technology analysis and planning.
- Effective program management through deployment.

MANAGING COMPLIANCE DATA

Data management is a critical capability for all financial institutions - effective management of data can ease the burden of managing ongoing compliance, and even turn compliance into a strategic activity.

Most banks fail to reach the full potential of strategic compliance data management for a variety of reasons, such as demands from operating a complex technology environment, ongoing flow of new regulations and requests from regulators, and insufficient resources to define and manage an integrated technology/data strategy.

In our experience, this type of compliance initiative only reaches full success if it is logically related to all other initiatives, or at minimum all interdependent initiatives. If each initiative essentially stands alone, duplication inevitably results and leads to a complex cost-inefficient environment. A comprehensive data supply chain solution is central to achieving compliance within the prescribed timeframe, and to maintaining an efficient compliance program.

TECHNOLOGY ANALYSIS

Ideally, a solution to this rule fully automates all relevant processes and activities. Specific capabilities that should be examined carefully include: insurance coverage calculation, data management, document management and reporting. Most banks need to compare detailed requirements with current and planned functionality, and determine how to close gaps.

Large banks should be able to define alternative solutions that have different tradeoffs. Confidence in the final recommendation – and typically the speed with which it will be approved – depends on the quality of the analysis. [We recommend to clients a comprehensive and methodical analysis of data and technology, that yields a strong fact base and supporting logic for any recommendations.](#) In situations where new technology is being considered, we suggest conducting a vendor scan to explore the cost/benefit of adding a new system or application.

INHERENT RISKS

Banks that attempt to address the rule with a loosely defined approach are accepting multiple risks, e.g.:

- Incomplete analysis may yield incorrect or missing business requirements.
- Sub-optimal solutions could result in the need for future enhancements and projects.
- Incomplete data or poor data quality may create errors in calculating the deposit insurance coverage.
- Missed automation opportunities could lead to time-consuming and costly manual workarounds.

These risks collectively contribute to the biggest risk of all: inability to manage compliance with the FDIC 370 rule effectively and efficiently.

THE CAPCO ADVANTAGE

Capco is the first consulting firm to engage with large banking clients to implement recordkeeping solutions for insured deposits, and we also continue to be the furthest along in reaching milestones toward full compliance.

As the largest financial services-focused management consulting firm, Capco is uniquely positioned to assist large banks with this new rule.

First and foremost, we bring deep expertise and experience that starts with a special relationship with the FDIC. The Capco Center of Regulatory Intelligence provides the latest analysis, thought leadership, and leading-edge regulatory insight into risk and compliance issues facing the financial services industry. Additionally, Capco has managed resolutions and receiverships for financial institutions, including FDIC Bridge and Deposit Insurance National Bank events.

Second, we have strong experience with core systems and data. Our ongoing risk and compliance work gives us a detailed understanding of how banks can align compliance, technology and data strategies. We continually monitor compliance requirements and work with clients to revise our systems appropriately.

Third, we have significant transformation and implementation capabilities. We focus solely on delivering change within financial services, so our resources are based on our strong subject matter knowledge and experience. Our clients trust us with their critical and strategic initiatives, and we pride ourselves on our record of successful delivery.

Lastly, we are mindful of our clients' need to operate quickly, yet cost-effectively. We bring accelerators, tools and templates to each initiative to launch programs quickly and proceed with high confidence that all issues are being addressed and that the final solution will be the best possible one.

THE CAPCO SOLUTION

Capco's FDIC 370 Solution includes more than 40 activities and 12 deliverables within 5 stages of development. While the FDIC estimates many banks will likely need 3 years, Capco's Solution is aggressively-paced over 2-year timeline which allows for full compliance prior to the April 2020 deadline.

CONCEPTUAL ARCHITECTURE

The FDIC 370 requirement is basically a mandate to implement data management for deposit-related data with a couple of new twists. Capco leverages its success with prior data management projects like Basel, BCBS239, CCAR, and FDIC 360 – adding on FDIC 370-specific activities which address the new requirements including:

- Integration with related documentation systems
- Data quality processes for FDIC Agents (via pending deposit file workflow)
- Re-engineering of on-boarding (KYC)
- Rationalizing with other data warehousing / compliance reporting efforts
- Implementation using latest data technologies

REFERENCE IMPLEMENTATION

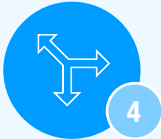
Our proprietary calculation reference tool is based on Microsoft Azure Cloud Data Factory which provides banks the following benefits:

- Hosted on Azure Cloud, which has more certifications than any other cloud provider
- Infrastructure features operations, redundancy, scalability and security, with elastic pricing
- Utilizes Big Data technology including Data Lake Analytics with U-SQL, and Data Lake Stores
- Integrates with on premise via Data Management Gateway; Provides reports using Power BI
- Provides platform for independently assessing data readiness, and validating proprietary solutions

Capco's Reference Architecture is in the process of being submitted to the FDIC for official certification.

**“We simplify
complexity.”**

FIGURE 5 Accelerators, Tools, & Templates



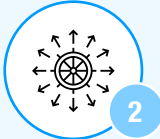
PROGRAM MANAGEMENT



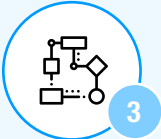
REGULATORY REPORTING



CENTERS OF EXCELLENCE



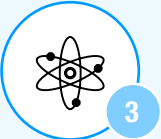
FUNCTIONAL MODELS



PROCESS FLOW MANAGEMENT



REQUIREMENTS REPOSITORY



DATA MANAGEMENT



TESTING SCRIPTS

ACCELERATORS, TOOLS & TEMPLATES

In addition to our reference architecture and implementation, Capco has more than 20 accelerators, tools and templates with proven success in areas of program management, risk and regulatory reporting, data supply chain models, functional operating models, scalable process models, repository requirements, and testing strategies.

Contact our [FDIC 370 team](#) or access more Capco [FDIC 370 resources](#) to learn how we can assist your bank in achieving deposit insurance recordkeeping compliance before April 2020.

APPENDIX

Achieving compliance with the newly finalized rule on Recordkeeping for Timely Deposit Insurance Determination is no small task. Specific activities – including defining and capturing key data elements, reconciling those elements with other enterprise data, and performing the deposit insurance coverage calculations – are ‘net-new’ and need to be integrated with banks’ ongoing operations and compliance efforts. Banks should consider a comprehensive data supply chain solution to gather information, streamline activities and support execution of the bank’s overall compliance strategy in the most efficient manner possible to meet the new regulatory requirements

RULE SECTION	SELECTED DETAILS
Covered Institutions	<ul style="list-style-type: none">• Banks with 2 million or more deposit accounts (as measured on FDIC Call Reports) for two consecutive quarters preceding the effective date (or thereafter).• 38 banks are covered as of January 2018.• A bank may apply for exemption if in policy and operation it does not take deposits from accountholders that in aggregate surpass the maximum coverage amount.• A bank may seek relief from compliance if it falls below the threshold for three consecutive quarters.
IT System Requirements	<p>Required functions include:</p> <ul style="list-style-type: none">• Accurate calculation of deposit insurance coverage for each account.• Generation and retention of output in the FDIC-specified format and layout.• In the event of failure, restriction of access to deposits in an account until the FDIC has made its insurance coverage determination.• Debiting from each account the amount that is uninsured (i.e., adjusting account balance so only insured deposits are made available). <p>The functions must be capable of being executed within 24 hours of FDIC designation as receiver.</p>
General Recordkeeping Requirements	<p>In deposit account records, the information must include a unique identifier for each:</p> <ul style="list-style-type: none">• Account holder.• Beneficial deposit owner (if different from account holder).• Grantor and each beneficiary, if deposit account held in connection with an informal revocable trust (e.g., payable-on-death accounts, in-trust-for accounts).• Grantor and each beneficiary, if deposit account held by covered institution as trustee of an irrevocable trust. <p>The information must include the applicable ownership right and capacity code as specified by the FDIC.</p>
Alternative Record-keeping Requirements	<p>For accounts where the covered institution does not maintain the information needed to meet the general requirements (e.g., brokered accounts, deposits in trusts), the minimum information includes:</p> <ul style="list-style-type: none">• Unique identifier of account holder.• Pending reason code as specified by FDIC. <p>For revocable/irrevocable trusts for which the covered institution does not maintain the information to calculate insurance coverage, the minimum information includes:</p> <ul style="list-style-type: none">• Unique identifier of account holder.• Unique identifier of grantor if account has transactional features.• Pending reason code as specified by FDIC.

APPENDIX CONTINUED

Implementation

The rule's effective date is April 1, 2017 with a compliance date of April 2020.

The FDIC may accelerate the implementation date for an individual institution under certain conditions (e.g., undercapitalized, excessive risk, liquidity stress) and in consultation with the institution's banking agency.

Relief from Compliance

A covered institution may apply for exemption if it demonstrates that it does not take deposits from any account holder that would exceed the standard maximum deposit insurance amount.

Covered institutions may request exceptions from any specific aspect of the requirements if it can demonstrate circumstances that "make it impracticable or overly burdensome" to meet the requirements.

Covered institutions may apply for release from compliance if it has fewer than 2 million deposit accounts for three consecutive quarters after becoming a covered institution.

Communication with the FDIC

Within 10 business days of the effective date (or becoming a covered institution), a covered institution must notify the FDIC of the person responsible for implementing the required capabilities.

Compliance

Certification must be submitted to the FDIC on or before the compliance date and annually thereafter:

- Certification must confirm implementation and testing for the preceding calendar year and be signed by the CEO or COO.
- The deposit insurance coverage report must contain the information and statistics specified by the FDIC.

FDIC testing of compliance will begin within a quarter of the initial compliance date and occur no more frequently than a three-year cycle thereafter.

Ownership Right and Capacity Codes

Specific codes have been defined by the FDIC and must be applied correctly to each customer and account combination.

Output Files

Covered institutions must have the capability to prepare and maintain four files, each with a specific data format:

- Customer file
- Account file
- Account participant file
- Pending file

The unique customer identifier is paramount as it serves as the link across the four files.

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Sandeep Vishnu is a partner at Capco, where he leads the Data & Analytics and Risk & Finance practices for North America. He focuses on risk management, financial analysis, data supply chain, data science, management/regulatory reporting, compliance and operational/control issues for banks, asset managers, insurers and other financial service firms. Over the course of his career, he has developed risk, compliance, information security and data/information management programs for several financial institutions. These have included creating ERM and ORM programs, establishing the office of the CDO, setting up data supply chains for integrated management and regulatory reporting, architecting data quality programs and developing a target operating model for risk, finance, data and technology integration. He has developed trusted advisor relationship with key clients to help formulate, shape and refine “strong” ERM programs and has set up data programs to meet the needs of BCBS239, FRY-14 and CCAR. Capco’s data practice focuses primarily on data supply chain (governance, infrastructure, architecture, reconciliation and reporting), (2) analytics and visualization, and big data solution definition and implementation.

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George Simotas is a managing principal at Capco. He has over 30 years of experience in the financial services industry and has assisted many companies with developing business and regulatory compliance strategies and transforming their operations. His functional expertise includes strategy development, regulatory compliance, and business and operations transformation. Over the course of his career, he has developed operational risk and compliance strategies and redesigned operating models and business processes for several financial institutions. These have included creating strategies to comply with FDIC and other banking regulations, optimizing operating models, redesigning and testing business and technology internal controls, and managing large scale business transformation projects.

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Daragh is a managing principal at Capco and a leader in the Data & Analytics practice for North America. He specializes in regulatory data solutions, and visualization. He has experience in guiding transformational programs for retail, commercial and private banks, as well as asset managers, discount brokers, and prime brokers across a variety of strategy and execution engagements, including data enablement and digital transformation. Daragh has 15 years of consulting and industry experience at analytics, digital and big-4 consulting companies; before that he spent over 8 years at UBS Warburg and Reuters.

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ABOUT CAPCO

Capco is a global management and technology consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry and domain expertise to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward. Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific. To learn more, visit www.capco.com

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