FINANCIAL DATA LOCALIZATION: CONFLICTS AND CONSEQUENCES

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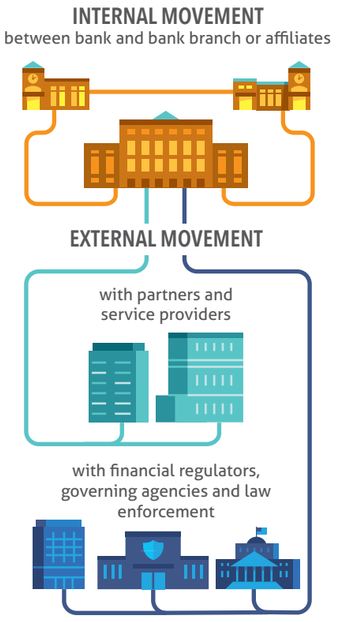
Modern banking customers are global, and expect on-demand, high-quality service from their financial institutions regardless of time or location, making 24/7 call centers and multi-national bank branches and service centers the norm. Similarly, regulators expect financial institutions to have a global understanding of their customers to assess and manage risk. Delivering on these expectations requires financial institutions to regularly move information between locations in support of business operations. Policy goals to ensure privacy and security are important and can coexist with the free flow of data. However, regulations that achieve these goals through localization cause conflict and complexity and can result in unintended consequences. Let's take a look:

HOW DATA FLOWS

Supporting business operations requires the regular movement of financial data between locations. Multi-national operations add complexity, as local governing regulations must be considered once a border is crossed.



REGULATORS
oversee bank activity to protect privacy and maintain financial system integrity

PRIVACY FINANCIAL

UNINTENDED CONSEQUENCES OF LOCALIZATION

LEGAL TENSION

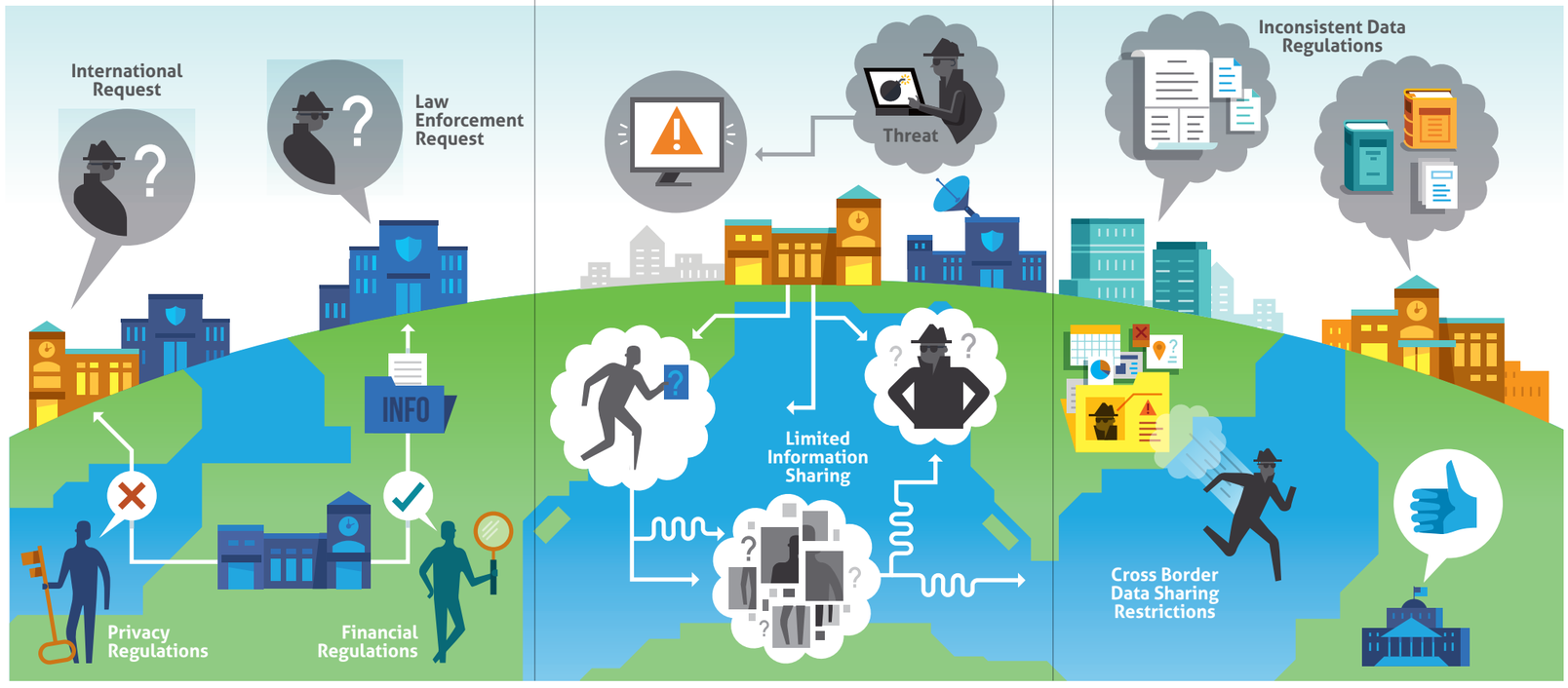
Banks have legal obligations to comply with both regulators and law enforcement agencies within their country. However, requests by law enforcement from other countries for access to data, even when narrowly tailored and proportionate, can often conflict with local regulations that seek to protect the privacy of citizens and the integrity of the financial system. These tensions are heightened by a lack of international, agreed upon principles or safe harbors.

HAMPERED THREAT RESPONSE

Data privacy and other cross border data transfer restrictions may limit the ability to share information from one country with peers and regulators in other countries so security threats may be slower to be identified. A legislative framework is needed for sharing threat information across borders while respecting local privacy and other rules.

COMPROMISED REPORTING CAPABILITIES

The inconsistency of data regulations across countries erodes the opportunity for holistic reporting. For example, when considering criminal activity, regulations require criminal reports to be made locally. In addition, cross border data sharing restrictions often apply to sharing with affiliates, which increases the risk that a criminal rejected in one country can open an account in another country.



TYPES OF REGULATION

Many regulations exist to control access to information and protect privacy and security interests:

- ANTI MONEY LAUNDERING
- PRIVACY
- BANK SECRECY
- BLOCKING STATUTES
- CYBER SECURITY
- LOCALIZATION
- OUTSOURCING

PERCEIVED DRIVERS FOR LOCALIZATION

INFORMATION SECURITY

Perception: Localization provides better data security and protection.

Reality: Increased risk of cyber attacks as footprint grows and data becomes more diffuse.

PROTECTION OF PRIVACY VALUES

Perception: Localization protects data from over-broad law enforcement access abroad.

Reality: With narrowly tailored and proportionate laws we can accomplish better oversight and protect individual privacy.

TECHNOLOGY

Perception: Localization makes technology easier to manage.

Reality: It's more difficult to update applications and ensure consistency with increased end-points.

EFFICIENCY

Perception: Localization increases efficiency.

Reality: Redundancy of data centers and personnel reduces bank efficiency and increases cost.

LOCAL JOBS

Perception: Localization creates jobs and stimulates the economy.

Reality: Job creation is minimal, and localization can cause global financial companies to reduce their presence, limiting services and opportunities.

ACCESS TO DATA

Perception: Localization is the only way to ensure access to data during a crisis.

Reality: Contractual access can be granted to data stored outside a local jurisdiction to ensure regulators can perform regulatory and supervisory roles, even during a crisis.