A viable way to meet new compliance expectations

To sustain profitability in a compliance-heavy world, wealth management firms need a top-down approach to drive the right culture and client experience, a better internal feedback loop between compliance and the business, and more commercially-focused decisions.

Compliance departments face growing challenges amid the current landscape, and from a variety of angles.

Among these are managing customer due diligence, account monitoring and filing suspicious transaction reports (STRs) – all in a quick, operationally-commercial and sensible way, while still providing high levels of customer service. Plus, expectations with regards to execution quality have increased.

This leads to several question which both business heads as well as compliance officers must ask on a daily basis, such as:

- Do I know how good my controls are?
- How good are my people?
- Do I provide sufficient training for every new joiner?
- How do I ensure that my senior staff attend to the more complex questions and tasks?

In line with this, much more management oversight and multiple layers of approval are required – for instance, relating to documenting discussions, and ensuring group-based acceptance of risk or clients.

This highlights another burden on compliance departments as well as the business – the sheer number of processes required – and growing.

The Monetary Authority of Singapore, for example, is asking banks to provide more evidence of scenarios and to do more reviews, such as in relation to issues such as trade surveillance and AML.

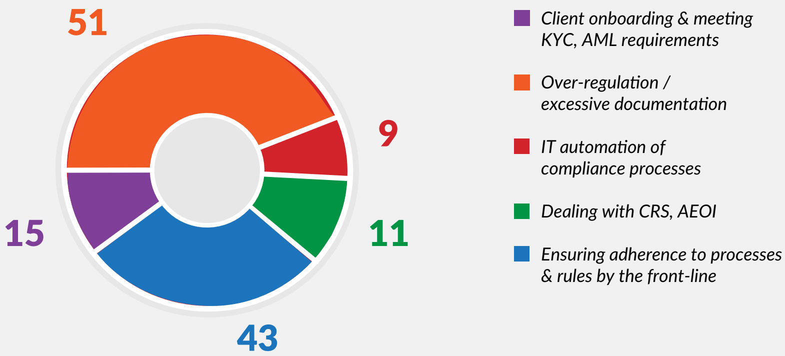
All of this raises expectations in terms of data integrity. Banks and other wealth managers therefore need to be in a position to collect and analyse this data.

Panel speakers

- ***Stefan Kuhn****, Head of Compliance, Private Banking, South-east Asia, Credit Suisse*
- ***Isay Lifshitz****, Head, Wealth Management Client On-boarding and Lifecycle Management, and Head, Group Operations Wealth Management Asia-Pacific, UBS*
- ***Sanjoy Sen****, Managing Director, Retail & Wealth - Asia, ANZ*
- ***Stephen Yee****, Head of Compliance, Singapore, Bank Julius Baer*
- ***Sinyee Koh****, Director, Duff & Phelps*
- ***Steven Seow****, Head of Wealth Management, Asia, Mercer*

Stefan Kuhn, Credit Suisse

WHICH OF THESE CHALLENGES MOST CONCERNS YOU AT THE MOMENT? (by number of votes)



Source: Hubbis Compliance in Asian Wealth Management Forum 2017, Singapore

Isay Lifshitz, UBS

From a business perspective, there is also concern about over-regulation from multiple regulators. It is difficult simply to keep up and get any clarity.

Further, for the larger players in several markets, it can be difficult to mesh all the various regulatory obligations in the relevant jurisdictions in a way that is still workable.

In turn, with the cost of compliance becoming so high, it is affecting the profitability of the core business to an extent that it impacts how banks are prioritising their objectives.

There are no easy answers in trying to meet new compliance expectations and still make a profit.

But it is important to note that compliance is not at odds with making a profit; it is part of doing business. Making a profit may instead have to depend on market factors, such as investment returns and the ability of firms to differentiate themselves.

Finding a balance is also key. Institutions need to ensure that they enough without going overboard.

For example, some banks have developed very lengthy due diligence questionnaires.

These do not necessarily do much more to protect the firm, but create a lot of work for front-line RMs initially, and then at an aggregated level for operations and compliance staff who have to process the data compiled.

Sanjoy Sen, ANZ

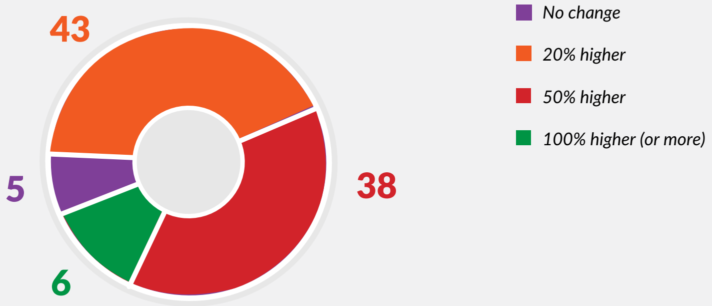
Against this backdrop, senior executives and top compliance professionals within wealth management firms say they need to ensure they are prepared, organised and proactive, to stay compliant in a viable way.

Stephen Yee, Bank Julius Baer

RESPONDING TO CHALLENGES

An important way for senior management to foster a compliance culture internally is to lead by example.

HOW MUCH WILL THE COST OF COMPLIANCE INCREASE OVER THE NEXT 12 MONTHS? (by number of votes)



Source: Hubbis Compliance in Asian Wealth Management Forum 2017, Singapore

They need to visibly be seen to reinforce the right controls, as well as checks and balances.

This also includes creating a better feedback loop between compliance and the business to ensure there is a constant learning process. It is good business practice, say industry leaders, to ensure clarity in terms of what organisations need to do.

Further, compliance officers need to understand the business almost as well as the business itself. This is essential in driving a better focus on the customer and an enhanced client experience.

This will also happen if banks can create more standardisation and automation to deal with all of the requirements they face.

More broadly as banks and other wealth managers try to manage the compliance burden, there is an inevitable

Sinyee Koh, Duff & Phelps

review on the horizon, to assess whether they have sustainable scale.

Indeed, it is inevitable that institutions needs to assess the cost of running their compliance departments, with consideration to the maximum percentage of fees and revenue that can go into compliance.

Armed with this type of information, business leaders can then more realistically judge how much they can cut the cost of compliance.

Steven Seow, Mercer

CUTTING THE COST OF COMPLIANCE

With the rising costs of compliance stemming from so much regulation, outsourcing offers one potential way to manage them. Here, banks and other wealth managers can defer simple tasks to cheaper locations.

Automation is another option, to drive increasingly intelligent and efficient processes. Plus, there is growing potential for more tactical solutions to address specific problems.

There is also the opportunity to share work with competitors, for example in terms of creating KYC and AML utilities.

Yet with the fintech revolution underway, some heads of compliance say they are looking into how to marry the use of machines with the requirement for paper trails.

The most realistic approach is a combination of machines and human judgement, processing and overlay.

This is perhaps best achieved by using a mix of junior operational staff and technology to review any potential red flags and escalate to senior people to make judgement calls.

This human element is vital given that firms cannot take anything a client says at face value, such as about source of funds; and this is the responsibility of compliance along with the front-line, even if it inevitably leads to what is perceived as excessive documentation.

More broadly, although there is no roadmap to date, size does matter. In particular in relation to certain initiatives, such as the Common Reporting Standard (CRS), economies of scale make a difference. ■