



Best practices in investment suitability implementation

Many Private Banks have invested in costly suitability enhancement programs that have not delivered the expected results. For suitability programs to succeed and deliver the desired outcomes, they must be designed to assist private bankers and investment advisors and should not be focused on merely tightening controls. In our view, an optimised suitability implementation must incorporate industry proven best practices to ensure success.

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From frameworks to accelerated implementation



CONVERSATIONS WITH COOS OF PRIVATE BANKS have shown time and again that these executives are focused on getting investment suitability right. Their concerns persist even though Private Banks have already allocated substantial resources to suitability enhancement programs. The changes initiated have been significant with sales processes revamped and additional risk and compliance personnel hired. Despite the spend on suitability, Private Banks are still not fully deriving the benefits of their investments and only a select few appear to be getting suitability right. The lack of success can be attributed to an ineffective implementation approach that ignores key best practices required to achieve the desired results.

A holistic and rigorous framework is an essential pre-requisite

The starting point for getting suitability right is for Private Banks to adopt a robust suitability framework that encompasses five dimensions - client risk profiling, product risk rating, pre-trade checks and disclosures, trade surveillance and an adapted organisational culture.

Orbium's framework incorporates lessons learned and stresses on the importance of a holistic approach by avoiding the creation of silos in departments with competing priorities. The emphasis is on embracing automation, where appropriate, across all five dimensions. The good news is that many COOs are now convinced about the importance of a holistic framework and the automation debate is also settled. Our deliberations with COOs are now geared towards incorporating industry best practices in suitability implementation.

Accelerating and optimising implementation

So why are suitability implementations not working? Based on our experience on multiple mandates, we share three critical considerations which can help ensure a successful implementation.

Front office ease of use must be the starting premise of the implementation and not an after-thought

To date, suitability enhancement programs remain largely reactive. We have observed that many Private Banks



launch enhancement programmes after internal or external inspections. In most cases, the programmes' mandate is to work through a checklist of findings and remediation items and the project team is pressed for time to meet deadlines. The enhancements are often driven with limited front office participation and ease of use quickly becomes an afterthought. The results are inevitably inflexible solutions that fall far short of user expectations and deliver poor user experience. Ultimately this approach leaves the front office staff disgruntled at best, or strongly opposed to the solution at worst. In our experience, these outcomes can be avoided if from the outset, front office users are actively engaged and play a vital role in the programmes.

- **A proactive approach makes front office ease of use the starting premise of the solution. At innovative clients, we have seen the creation of a Relationship Manager Suitability Workbench. Such a dashboard actively encourages use by relationship managers or investment advisors by enabling them to pre-filter suitable recommendations for a specific client portfolio. The suitable products are shortlisted and displayed on the**

screen for reference and solicitation by front office staff.

- **Recommendations from the advisory team are also seamlessly integrated into the dashboard.**
- **The relationship manager or investment advisor are able to simulate the effect of a transaction on the client portfolio and determine potential suitability violations, if any. Simulations help identify concentration mismatches that can be disclosed pre-trade to the client.**
- **Unfortunately, there are several examples in the industry, where Banks have ignored the front office perspective and adopted a reactive and restrictive approach to suitability. A few have chosen to prohibit or block transactions at the point where the banker is ready to book the transaction in the core banking system. This inevitably leads to a poor client experience when a trade is flagged by the system and further disclosures must be made to the client and in some cases, where the trade is unsuitable it should be unwound.**

Embrace a suitability ecosystem approach to leverage best of breed solutions. Such an approach is more cost effective and leads to better user experience

We observe that historically banks have built bespoke inhouse suitability solutions. Such an approach can quickly unravel as some inhouse solutions were never designed to cater to complex suitability obligations that are now becoming prevalent. We have seen examples in the industry where simple changes in suitability rules can take up to six months to implement.

- **By adopting an ecosystem approach, Banks can reduce costs, increase ease of use and provide significantly better user experience. External and readily available services can be utilized with in-house solutions to offer a comprehensive and user-friendly suitability offering.**
- **Working with external partners, including fintech and regtech firms, Orbium has created a model “suitability ecosystem”. This allows Banks to plug in innovative solutions across all five dimensions of the suitability framework to complement inhouse services.**
- **Many Private Banks now rely on a business rules engine to host the suitability checks. Business rule engines depict the rules visually and are easy to setup and update. Business risk functions can rapidly respond to regulatory changes without having to wait for months to make changes to suitability rules in legacy IT systems.**
- **The benefits of an ecosystem approach can easily extend downstream. For example, we see Banks adopting a robo-surveillance solution that analyses all transactions and identifies those trades that need further investigation, eliminating the tail risk associated with the traditional sample based methodology.**



Orbium, a global management consultancy and systems implementation partner to over 40 Private Banks



Build digital capabilities with embedded regulatory obligations

Private Banks are rapidly building digital capabilities and accelerating the adoption of digital channels. This presents a unique opportunity for Banks to build regulatory safeguards into their digital solutions and leverage the lessons learned previously. We observe that many Private Banks are making a push for digital engagement with clients and are increasing the breadth of their products available online.

This digital push must consider and incorporate the guidance provided by regulators on the design and operation of online and digital platforms. In late March, the Securities and Future Commission (SFC) - Hong Kong, released consultation conclusions on proposed Guidelines on Online Distribution and Advisory Platform.

attention to the design and operation of these platforms. A proactive approach will ensure that meeting suitability obligations does not become a time-consuming exercise and client experience remains uncompromised while meeting all regulatory obligations.

- **A best practice observed in Banks which have digital capabilities is to review all aspects of the suitability of a transaction. A digital solution enables the relationship manager or investment advisor to first assess cross-border suitability and if the trade does not violate any cross-border guidelines, the trade is then seamlessly evaluated to determine product and investment suitability.**
- **As Private Banks start rolling out online platforms, they must pay close**

Conclusion

There is a lot at stake in rolling out a suitability enhancement programmes.

Our experience and insights suggest that Private Banks undertaking such a programme maximise their chance of success by designing solutions that enhance the front office ease of use and complement in-house capabilities by embracing an ecosystem approach. Banks that are willing to break away from the typical checklist approach to suitability programmes will gain a strategic advantage enabling their relationship managers and investment advisors to provide better client experiences while meeting suitability obligations.

As observed in the industry, poor implementation approaches prove costly in the long term with delays, cost overruns and have even in some cases led to expensive remediation exercises. For Banks looking to tighten their suitability regime it is imperative to move from frameworks to accelerated implementation - and to do so now. ■