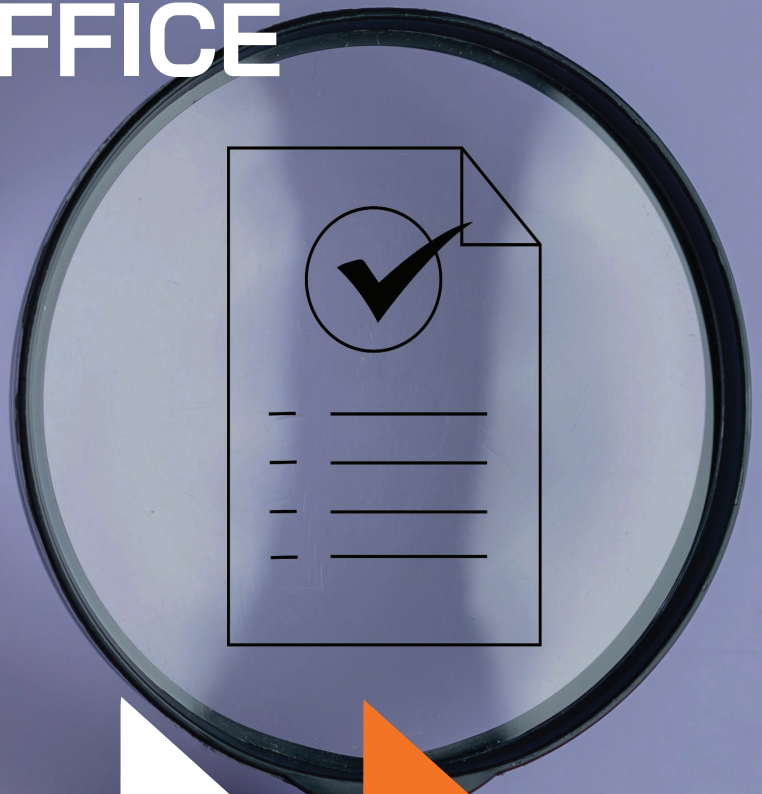


IMPROVING THE COMPLIANCE AND REGULATORY EXPERIENCE FROM THE CLIENT TO THE BACK-OFFICE



SUMMARY

- We recently conducted a survey of compliance professionals in private wealth management firms – mostly based in Singapore – and this is the first of a series of articles from that survey. Private banking is a realm of intricacies and complexities, made even more daunting by the mounting compliance obligations, like Know Your Customer (KYC), and Anti-Money Laundering (AML) regulations.

As these guidelines become more stringent, to what extent do they shape the decision-making process for potential clients when choosing their private banking and wealth management partners? As banks become increasingly cautious, potentially stifling new client acquisition, how can we navigate this maze of obligations while sustaining growth and client satisfaction? It's a challenging balancing act – and how do you get it right?



» **Onboarding a new client** is a complex process. Clearly the specific checks and processes may vary depending on the bank’s location, the type of client, and the relevant regulations governing the institution. The goal is to establish a comprehensive and robust compliance program that safeguards the bank from potential risks while maintaining a transparent and trustworthy relationship with clients. The checklist is comprehensive and growing - customer identification and verification, risk assessment, source of funds and wealth,

inconsistent across firms. Each country has its own unique challenges and expectations. Take Singapore, for example - this year, private wealth managers are grappling with understanding new guidelines about the types of license restrictions that exist with regards to the offering of investment products. They must also deal with necessary but time-consuming surveys from the Monetary Authority of Singapore (MAS).

As one compliance professional noted in our recent survey, “We are

services). Nevertheless, it illustrates how there are a number of “sports” being played in the same field, from private banks to independent or external asset managers to financial advisory firms and fintech focused on-line brokerages which also provide fund management services and in due course financial planning services.

Ensuring co-ordination in the regulatory environment for each of these segments is complex, and one result is that there appears to be a marked difference in the onboarding experience for new customers

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sanctions and watchlists, anti-money laundering (AML) and counter-terrorist financing (CTF) checks, business relationship risk assessment, ultimate beneficial ownership (UBO) verification and politically exposed persons (PEP) screening.

Financial institutions are also struggling with risk management. Long delays in client onboarding or reviews may reflect underlying issues. Banks might be reluctant to take on more risk, especially when managing numerous pending reviews. The cost and risk of maintaining smaller or less profitable accounts might exceed their benefits, complicating the risk-profitability balance and adding to the compliance burden.

Challenges of a Fractured Playing Field

Compliance teams’ interpretations of the rules are changing, and they are sometimes completely

seeing an increasing trend where External Asset Managers (EAMs) simply want to offer products rather than conduct discretionary or advisory asset management. Under their current licenses, they’re probably prohibited from doing so.” They added, “In Singapore, the MAS has also been tightening various areas, especially expectations with regards to Anti-Money Laundering (AML). They have also issued more guidance on general risk management, where compliance is now just trying to catch up with the latest expectations that the MAS has introduced.”

The above comments arguably illustrate a lack of understanding of the regulatory requirements between one player in the field (a compliance officer in a private bank) and another player in the field (a regulated EAM that is permitted both to engage in fund management and has an exemption from licensing for financial advisory

dependent on the segment they are part of. This is creating an environment where one segments may have a distinct advantage over another segment, with a major result being an impact on a relationship managers ability, in a more onerous segment, to compete and onboard AUM expeditiously. Furthermore it also results in a significant increase in costs for the overzealous firm.

Finding the Expertise

Another response highlighted the strain on human resources, with the sector still heavily reliant on manual processes. The need for skilled workers to navigate complex Anti-Money Laundering (AML) systems is growing, while their availability is diminishing. Existing tools often fail to meet expectations, despite technological advancements. The challenges in implementing effective AML systems remind us that technology alone cannot solve all issues; it requires thoughtful

application, considering industry complexities and regulatory frameworks.

Another response echoed this sentiment: "One of the things I am hearing from Singapore and the UAE is that there is currently a lack of compliance personnel needed to meet demand. There is a challenge with regards to actually finding the staff with the level of understanding and training to be effective compliance officers." He goes on to note that the issue seems to partially lie in the prevalence of junior or highly specialized roles in compliance. These individuals may not have a broad understanding of the full scope of compliance or risk exposures affecting the entire financial institution.

Bandwidth issues throughout the region

A pressing issue in the current market is the capacity of compliance resources, particularly in Singapore, but it's a concern that could be extended to places like Dubai as well. The question is whether the existing compliance capacity can match the growth and development of the financial sector. If not, then what are Governments, regulators and the regulated institutions doing to address this constraint. Interestingly, Dubai seems to be in a more advantageous position given its openness to attract and assimilate talent from abroad

What is the digital piece?

The compliance piece is moving towards increased automation and standardization within individual institutions. An initiative by the Monetary Authority of Singapore (MAS) to promote inter-institutional collaboration through information sharing for Anti-Money Laundering (AML) is a promising development, though it may take some time to fully materialize across all entities.

Artificial Intelligence (AI), currently a tool primarily employed by larger institutions for AML risk detection, is another key trend, the widespread adoption of which by smaller institutions may still be a few years off.

« "This evolution will also demand a shift in the role of compliance officers, requiring them to master system management and data analysis to rectify system errors." »

They may be focused solely on their specific areas, lacking a holistic, comprehensive view of the institution's compliance requirements and risk management strategies.

The result of this lack of a holistic, qualified resource often leads to bottlenecks in the system, further contributing to an increase in costs and friction on the ability to onboard assets and generate income.

to address these needs. This openness may give them a slight edge in maintaining pace with the rapid expansion of their financial sector. Does this mean that locations such as Singapore are inadvertently sabotaging their own growth through their internal social policies, and if this is the case, do they need to combine these social policies with targeting training of their work force to meet these resource constraints?

Technological advances are expected to reshape compliance processes, with a focus on data collection, file building, reviews, gap analysis, and quality assurance. The aim is to minimize human errors and enhance overall efficiency through automation. This evolution will also demand a shift in the role of compliance officers, requiring them to master system management and data analysis to rectify system errors.



However, it's important to note that compliance requirements are likely to grow even more rigorous in the future. While regulatory technology solutions and data mining may expedite the process and enhance accuracy, it does not necessarily imply that the process will be less complex or demanding. Indeed, the regulators need to be very clear on what is relevant or irrelevant data and how it is interpreted and executed by regulated financial institutions. The NatWest/Coutts fiasco over the relationship of Nigel Farage with Coutts, illustrates the enormous reputational damage that can occur and how risk management and compliance departments must be clear on their precise mandate as determined by their regulators and have clearly defined "rules of engagement" with their customers.

The Implications of Regulatory Changes on the Role of Relationship Managers

Regulatory shifts are increasingly highlighting the need for concise rules that necessitate less interpretation. This could

significantly redefine the role of Relationship Managers (RMs) in the compliance process. By assuming a more proactive role in gathering information and educating clients about their obligations, RMs can streamline the onboarding process, potentially mitigating delays caused by non-compliance.

This amplified role, however, is not without challenges. RMs traditionally focus on client servicing and revenue generation, meaning they might lack the requisite knowledge or motivation to delve into the complexities of compliance matters. Their client-centric roles often require them to straddle the line between maintaining strong client relationships and enforcing compliance mandates.

Moreover, there are many instances of potentially problematic client situations that may not be readily discernible but could create significant hurdles during the compliance process. These could include ongoing legal disputes, family conflicts, or undisclosed financial circumstances. Such scenarios underline the importance of RMs possessing a strong

understanding of the compliance landscape.

Thus, while redefining the role of RMs could enhance the efficiency of compliance processes, it also necessitates equipping these professionals with the appropriate compliance knowledge and training. This would enable them to identify and navigate potential compliance risks without compromising their primary client service and revenue generation roles.

Finally, in imposing these demands on the relationship managers and clients, the compliance process must ensure that it creates a process which is simplified, with a clear mandate and framework. It must be considered in the light of the relationship managers' requirement which is to onboard a client as expeditiously as possible and to offer the highest level of service and engagement to that client. Losing sight of the financial institutions role to serve the client in such a manner is resulting in unnecessary costs burdens and a negative affect on the cost/income ratio. Segmentation and proportionality are vital in the process. ■



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