

Regulatory change management for investment suitability and beyond

It may come as no surprise that in spite of turbulent financial markets, most global and local private banks in Asia are continuing to invest heavily in their operations in order to keep pace with the agility needed to service the growing market of Asian multi-millionaires. By Prasanna Venkatesan of Synpulse.

As digitally-savvy and wealthy customers look out for more sophisticated engagement via online channels, banks also strive to find smarter ways to onboard these new channels and scale them across markets while being compliant. Although banks show the willingness to embrace such changes, they are limited by their internal inefficiencies and less-than-agile IT infrastructure.

Of the many regulatory topics that continue to challenge banks, investment suitability has been one of the key topics that most banks struggle to handle effectively.

Although practices for careful advice were known in the market for years, regulators in Hong Kong and Singapore started issuing many clear directives on suitability standards after the financial crisis in 2008.

In the last few years, many banks have resorted to tactical solutions to address

these suitability requirements. However, these solutions have resulted in added administrative overheads to their relationship managers (RMs) and created complex control structures that are heavily-scrutinised during regulatory reviews.

TACKLING INVESTMENT SUITABILITY CHALLENGES

Implementing a suitability framework in a pragmatic way requires deep understanding of the private banking industry in terms of regulatory requirements, clients, investment products and risk management.

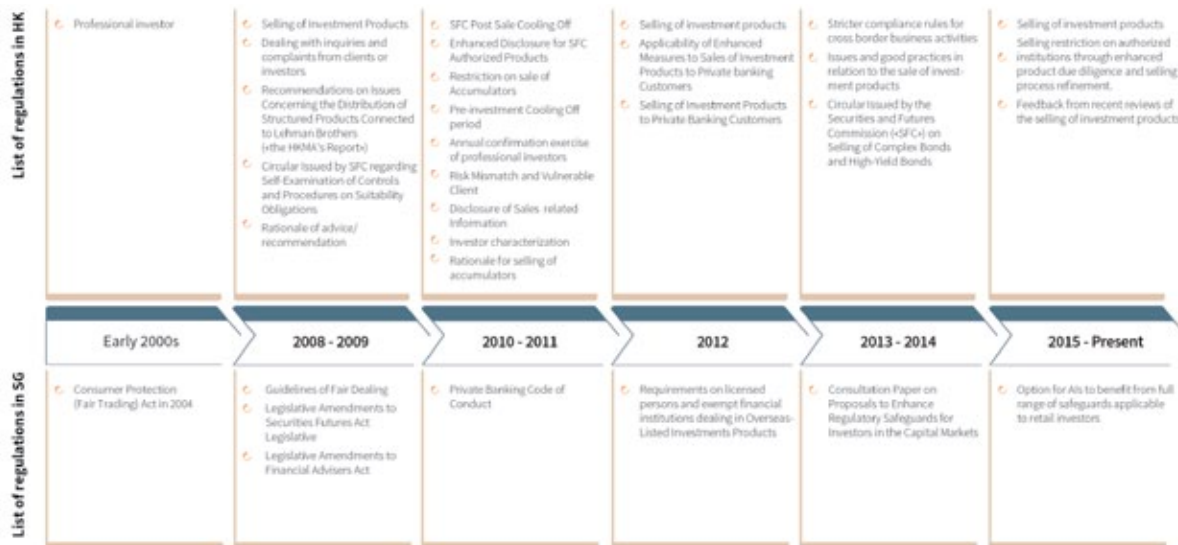
There are three key steps to implementing a robust suitability framework:

- Formulate a pragmatic 'portfolio approach' to ensure that client's investments are assessed at portfolio level instead of a transaction level, making it more meaningful in a private banking set-up
- Implement 'pre-trade checks' in the order management system in a way that the RMs only need to focus on failed suitability checks and follow



PRASANNA VENKATESAN

Synpulse



Source: MAS and HKMA Suitability Requirements on a timeline

the clear recommended actions presented via a unified dashboard

- Devise a periodic 'portfolio monitoring' mechanism to ensure that the client's portfolios are monitored to detect unusual portfolio performance, risk mismatch, concentration risks etc in order to address suitability risk in a proactive and timely manner

The majority of the large banks in the region have a good understanding on the principles of a successful suitability framework. However, they seem to be constrained with the challenges that IT

change management process and IT infrastructure present.

This takes us towards concept of digitalisation and organisation agility where the industry needs to identify efficient ways of conducting business which extends towards the space of regulatory and compliance topics.

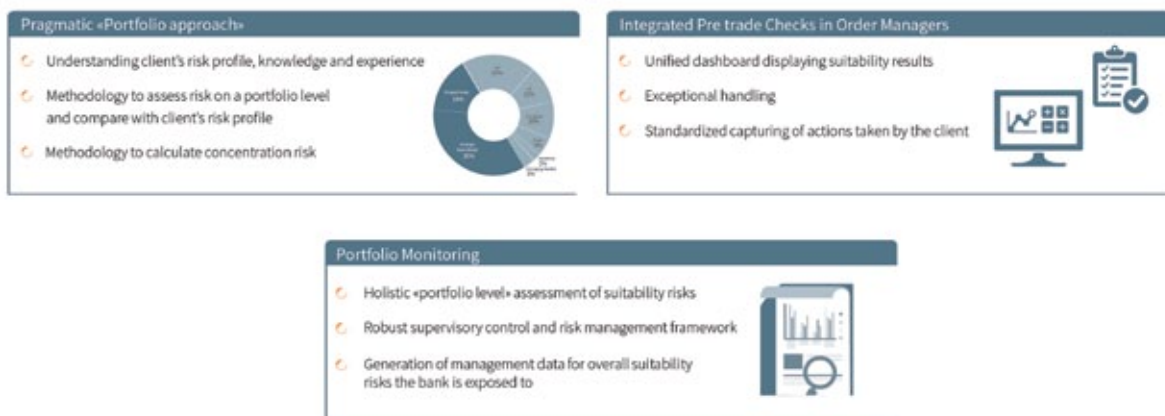
THE RULE ENGINE SOLUTION: STRATEGIC PERSPECTIVE

Traditionally banks have been big part of their change budget to implement the regulatory requirements (especially suitability) and the corresponding control processes to ensure compliance.

In spite of these large investments, most of the private banking businesses even today face formidable challenges based on two aspects.

First, there are still a lot of administrative overheads that the RMs and the clients face due to ineffective ways of implementing regulations that many times ignore the business context of private banking. This results in frustrated RMs, unhappy clients and poorly-implemented control processes that are heavily-scrutinised by regulators.

Secondly, decentralised IT implementations spanning across multiple core



Source: Key steps in implementing a robust suitability framework

banking components are too cumbersome and costly to maintain. This results in a less agile IT infrastructure that prevents scalability of regulatory implementations across geographies or channels.

A central rule engine to develop and maintain the rules will not only allow ease of maintenance and future scalability but also enable central control and management of regulatory rules and internal controls.

As such, the rule engine is designed only to maintain the business logic relevant to regulatory checks and envelopes around the existing core banking systems. This architecture facilitates aggregation of relevant client, product and portfolio information before the business logic can be executed.

Such an implementation would enable other digital channels and different booking centres to connect to the rule engine and start leveraging the centrally developed regulatory rules.

This significantly brings down the cost and time to market for new channel or new booking centre integration.

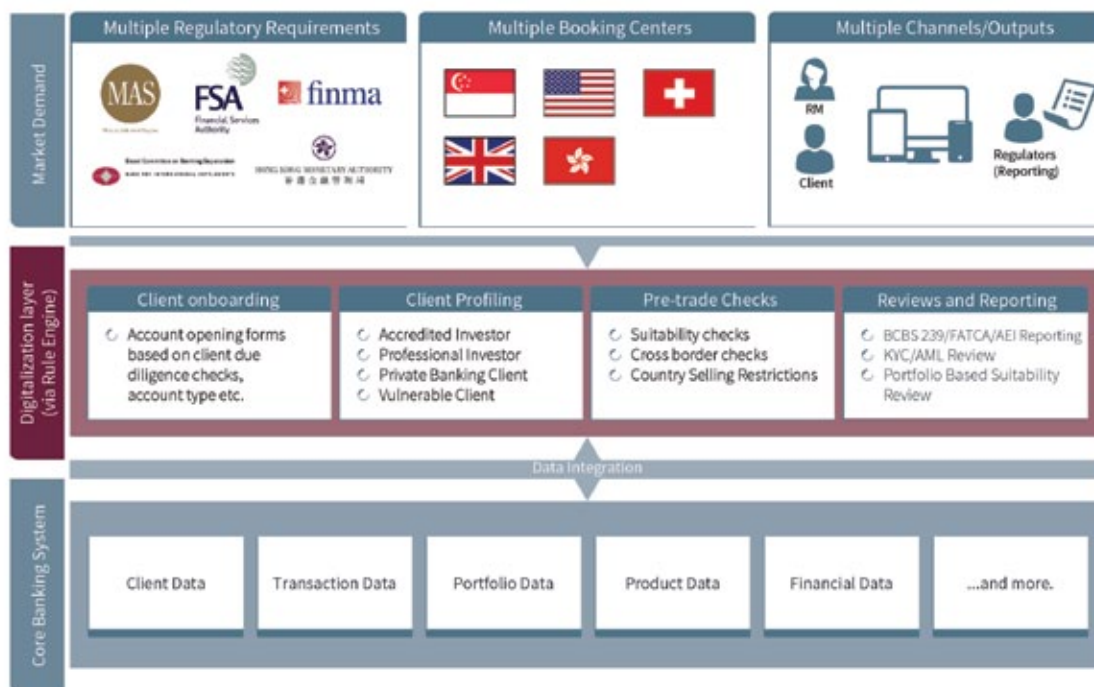
The central maintenance of rules become paramount as regulators across different jurisdictions are coming in with aligned practices. Even in cases of BCBS 239 and CRS (FATCA/AEI) requirements, the rule engine allows central pooling of data and managing output in a bespoke way. A regulatory change needs to be implemented only in one place and standard practices are available across different channels and booking centres.

There are already established technology products in the market that allow such change agility that the banks could leverage. One of the products even offers visually-customisable capabilities where a business user can directly adapt many configurations (for example, product scope) and simple business logic which makes the change even more efficient and controllable directly by business.

Given the rapid increase in client's demand for digital channels that are accessible across the globe, there comes a strong need to explore strategic ways of implementing regulations across different jurisdictions.

Banks that head down this path will definitely have an edge over the others in gaining strategic market advantage. The advantage and agility is even more needed for the mid-sized private banks in order to be able increase their efficiency of conducting business by adopting digitalisation in relevant regulatory and compliance topics.

With our many years of experiences in shaping the topics on regulatory and compliance, Synpulse has developed and showcased specialised skills in this area. Backed by both business and technology solution expertise, Synpulse is well-positioned to offer its support to clients in streamlining their regulatory implementations in an effective and meaningful way. ■



Source: Central rule engine that facilitates ease of implementation and scalability across channels and booking centres