Trying to solve the compliance conundrum

A survey of delegates for Hubbis' 5th annual Compliance in Asian Wealth Management Forum 2017 in Singapore reveals the impact of the overlapping regulatory and compliance demands on institutions across all segments of the industry – but highlights some practical ways to address these in a more effective and less time-consuming way.

The burden of compliance in Asian private banking and wealth management continues to weigh heavily on the ability of institutions of all sizes and types to operate profitably.

This is not only due to the volume and complexity of the rules themselves. The subsequent challenges in terms of implementing new processes, systems and people, for instance, are impacting the business from the perspective of the required time, resources and investment to stay compliant.

Such an outcome is perhaps inevitable, given that regulations have piled-up year after year since 2008.

Today's cost of account-opening, as one example, has become very high as a result. This is not a good sign for either clients or banks.

As a result, there are calls from within the industry for the focus to be on formulating more practical and operationally-feasible regulations.

There are various other potential solutions. Standardisation coupled with IT solutions can alleviate certain aspects of the burden and the need for more headcount. As can greater collaboration across the organisation, along with a greater effort by front-line staff to play their part as the 'first line of defence'.

There is also growing belief among industry insiders that compliance needs to evolve. It should no longer be a departmental function, but rather an attitude, a culture, a mind-set.

This is all reflected in the views of over 140 senior practitioners – who responded to a Hubbis survey – representing a range of local and international private banks, retail banks, IFAs and independent firms plus multi-family offices.

5 top challenges in 2017

- *Dealing with CRS, AEOI*
- *Client onboarding and meeting KYC, AML requirements*
- *Over-regulation and excessive documentation*
- *IT automation of compliance processes*
- *Ensuring adherence to processes and rules by the front-line*

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MULTI-DIMENSIONAL CHALLENGES

Over 40% of respondents said they see tax and transparency-related initiatives as presenting the biggest challenge for the year ahead.

The Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI), in particular, are top of mind for many practitioners, with AML and KYC important concerns too. This is not only from the angle of institutions understanding their obligations and implementing the right framework – but also in getting clients to co-operate and share the required information to enable firms to report properly on CRS.

In line with this, encouraging relationship managers (RMs) and client advisers to 'live' KYC/AML and related requirements – rather than need to be forced to follow them – is a key goal for many senior management and heads of compliance.

There continues to be an urgent need, add some practitioners, for banks to hire employees with the skill-sets necessary for KYC and AML, to identify their 'true' customers from those who are not.

STAYING IN BUSINESS

Against the backdrop of the compliance burden, practitioners say they expect to continue to struggle to find a balance between meeting these obligations and doing business. Yet those firms which can find a way operationally to deal with the requirements will potentially create a competitive advantage, simply by them being able to think more critically and actively.

Protecting the clients' interests amid all this uncertainty is another big concern within the industry.

What institutions now need from clients to ensure sufficient regulatory comfort in relation to investment suitability, domicile, source of funds, and many other aspects of onboarding and managing relationships, means they need to find a way to ensure swift execution. Banks, especially, need to focus on their client interaction, for example when it comes to account opening.

39% of respondents said it takes two to three months longer to open a new private banking account for a client today in comparison with five years ago – based on the increased need to perform the necessary checks and due diligence. For 29%, it is up to a month longer. Further, it has become harder to win clients. The administrative burden for a client to switch to a new bank has in itself become a barrier to entry.

Inevitably, these issues – and costs – are felt most within smaller and independent firms. But all market players are feeling the impact of this on the bottom-line, not helped by the uncertainty in markets and sluggish sales.

10 ways to tackle compliance challenges

1. *Build a good corporate culture via clear corporate governance and knowledge of the entire business*
2. *Top-down commitment by senior management*
3. *Compliance should make business decisions, with the front-office in mind*
4. *A higher level of knowledge within compliance teams about the clients' businesses and industries*
5. *More frequent feedback from the compliance department on the common issues holding back the process to move forward*
6. *More standardisation and IT automation in internal processes*
7. *Outsource compliance to third parties and pay for access to industry tools and platforms*
8. *Increase internal communications and cooperation between all stakeholders*
9. *Greater cooperation between banks themselves*
10. *More channels for compliance teams to engage regulators directly – for example, for clarity on new rules and guidelines*

LACKING CLARITY

Even when firms do comply, the strictness and complexity of the regulatory criteria, combined with aggressive timelines in some cases, makes it difficult for institutions to keep up.

This is not helped by different expectations by regulators in regards to the suitability controls which need to be implemented. Plus, some practitioners are worried about what they describe as “unclear regulatory guidelines and circulars with generic concepts instead of specific requirements”.

52% **Respondents who said their internal compliance team is two to four-times larger today than three years ago.**

SIZE MATTERS

In many cases, wealth managers have been forced to increase the size of their compliance teams in an effort to keep up with the pace of regulatory reform. 52% of respondents said their internal compliance team is two to four-times larger today in terms of headcount than it was three years ago.

One of the biggest complaints across heads of businesses and compliance teams, however, continues to be the challenge in finding enough competent and experienced personnel to fill the roles that have been created.

Firms have therefore also been forced to call on support staff to help fulfil compliance requirements, say practitioners. Generating more revenue to pay for all these resources adds further pressure to already-stretched budgets.

LIVING IN A NEW REALITY

Ultimately, a balance must be struck between both compliance/regulations and room for the business to operate. Yet it is too easy to say that this burden is a drag on performance. The shift to transparency is long overdue. Further, many of the requirements are necessary measures.

Where the gap exists, it seems, is in practitioners fully understanding how best to apply them day-to-day. The key problem, therefore, is not strictness, but instead how clear and practical the rules and guidelines are.

A key development to watch for, is which institutions(s) will have the courage to revise sales compensation schemes so that, finally, clients’ interests and corporate interests are aligned. This ultimately calls for the disintermediation of traditional distributors. As one respondent puts it: “The game is changing and in order for it to be advantageous, corporates have to look to connect with the client directly.” ■