

# A new risk regime takes hold

The private banking industry has to adapt its business model to face increased client scrutiny and the changing regulatory environment

By CHRISTIAN CAMENZIND

THE face of private banking has altered over the last few years, with Asian economies motoring ahead despite the global uncertainties. This has resulted in a tectonic shift in global wealth distribution, with China and India taking the lead in the creation of newly minted millionaires, driven by the strong underlying economies and entrepreneurial spirit of individuals in the region. In fact, industry forecasts suggest that almost one-third of the world's high net worth individuals (HNWIs) will reside in the Asia-Pacific region by end-2013 – surpassing North America and Europe as the world's dominant wealth region.

With Asia leading the way for growth and regional markets continuing to deepen and grow in sophistication, the private banking industry today faces a transformed marketplace. Put simply, private banks now need to follow this flow of wealth, while adapting their business models to increased client scrutiny and new global financial regulations.

This has resulted in ongoing global and regional discussions on the new risk regime governing the private banking industry and how we should be levelling control standards to meet the risks of an increasingly complex and interconnected financial services sector.

As such, it is no surprise that a much more demanding regulatory agenda will continue to challenge existing business models as we progress further into 2012. So with distinctly positive long-term prospects for the private banking industry and the need to move up the value chain in a more competitive industry, what does this mean for private banks, which will find it more compelling to adapt their business models to the new realities to ensure far greater operational efficiency?

## Tougher stance

To start, consider how the regulatory environment has changed since the last business cycle.

Regulatory agencies have become increasingly prescriptive, actively publishing guidelines and requirements to restore confidence, reiterate professionalism, and maintain balance throughout the financial system. Throughout the region, these agencies are re-examining how private banks should sell products, train staff or maintain client information, among other key topics.

Regulators have also taken a tougher stance on the legitimacy of assets. Governments in countries such as Switzerland, the UK and Germany



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are instituting information-sharing programmes and obligating banks to be the source of information in the process. The US is implementing extra-territorial rules and agreements with foreign financial institutions to share information with the intention of ensuring proper declaration of offshore US person accounts.

Beyond regulatory mandates, non-regulatory groups have been established to define best practice operational models and codes of conduct. These forums allow private banks to align their risk management initiatives with those of their peers and take ownership in setting control standards for the industry.

In Singapore, for example, the Private Banking Advisory Group and the Private Banking Industry Group, formed by industry executives and working closely with local authorities, seek to address challenges and opportunities in the continually evolving private bank landscape in Singapore.

In the short term, there can be implementation challenges as each jurisdiction ultimately publishes requirements and guidelines individually. In most scenarios, the immediate impact of new regulations is an increase in administration required of front offices and supervisors.

Driven by a shift in thought among auditors and the style of inquiries, there is an increasing need to show proof that specific actions were tak-

en, and given the challenge for technology to keep pace with the requirements, this often increases paperwork in the short term. Especially for large organisations with many interconnected legacy technology systems, it is more cost effective to bundle certain system upgrades together, thereby creating a time lag for automation during which an interim – often manual – solution must be established.

Further, as the front office role continues to evolve from the traditional salesperson model to that of a front-line risk manager, there is an increasing need to focus on training programmes and day-to-day support resources such as manuals or reference sheets available to front, middle and back office staff.

Along with regulatory requirements come licensing, certification and continuing education requirements. While training may require additional time allocation from both trainer and trainee, it is a critical area of focus to ensure staff maintain competencies in key control topics.

These challenges create good opportunities for wealth management firms to continuously redesign their operational platforms and create flexible, scalable risk management platforms which enable the delivery of their business strategy. They also create opportunities to examine processes end-to-end and ensure there is balance and control throughout the client life cycle.

## Consolidation

Banks with a strong global footprint are well-positioned to meet different new local regulatory requirements, as internal initiatives to standardise practices may already have been established to equalise requirements.

Global firms can also leverage processes and systems across regions, and have the knowledge base within the firm to share across different areas. As a consequence, we are already seeing increasing consolidation in the private banking industry, as recent examples in Switzerland and other parts of Europe show. This process will accelerate in the future, as apart from risk management the overall cost pressure for the industry will be a main challenge.

Additional long-term benefits can be achieved by further partnering strategic business development initiatives with risk management programmes. The regulatory environment will continue to evolve as the industry moves forward, thereby continuing to create opportunities to improve on existing processes.

Ultimately, for a wealth management institution to survive, and more



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importantly grow, risk management principles, such as taking the right risk, must be the backbone of everything it does. From developing business cases for technology investments to deciding which clients to adopt, adequate risk management principles must be inherent in the decision-making process throughout the organisation.

The new risk culture is not one in which such topics are reserved for specific departments or individuals, but rather an environment where risk management concepts are fundamental for each member of the team.

In conclusion, since reputation is paramount, only financial centres with adequate governance and a pro-

fessional risk culture will succeed in the future. From this perspective, financial hubs such as Singapore and Hong Kong are well-positioned to continue to play a crucial role in the global wealth management industry.

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