Global Compliance and Innovation Trends in Wealth Management:

Examining Key Private Banking and Wealth Management Developments in Europe, Switzerland, the UK, the US, Canada, Singapore and Hong Kong.

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FROM OUR RESEARCH PARTNERS

Appway

For many years, the banking industry - especially wealth management and private banking institutions - have been dealing with greater complexity in the areas of compliance and regulation. Global and international companies are experiencing this pressure more intensely, because, as the number of jurisdictions they cover increases, so does their potential liability.

By participating in this research partnership with Deloitte and *WealthBriefing*, Appway aims to guide financial services institutions with an overview of global and local regulators and the procedures they may implement in both the mid and long term. Furthermore, this research offers guidance on how to balance compliance and technology decisions in a manner that simultaneously supports business goals and maintains flexibility in a constantly changing regulatory landscape.

To manage the global compliance challenge in the short and long term, financial institutions need to implement a system that is both flexible and adaptable. Appway has more than a decade of experience as an enabler of digitalisation and thus offers products and services that seamlessly adapt to current regulatory requirements and is designed for forward-compatibility.

On top of the compliance challenge, financial institutions must install a system that supports continuous innovation. By laying a flexible software foundation, financial institutions can better engage customers who expect personalised products, differentiate themselves from their competition, and adapt to changing market dynamics - all in a cost effective and efficient way.

Appway has guided international and domestic banks to adopt award-winning technology as the core of business so they can build sustainable, flexible, and scalable solutions.

Andrea Buzzi
Head of Solutions
Appway

Deloitte

In recent years, regulatory bodies across the globe have worked very hard towards the goal of developing and introducing new regulations to the financial industry for the benefit of society. The challenge for the industry – and for wealth managers in particular – has been and will be to adapt to regulatory change in the smartest and most cost-effective way possible. Failure of institutions to achieve this could result in spiralling compliance costs, which could have a significant impact on the bottom line. Non-compliance is simply not an option. For many firms, part of the solution has been to reduce their global footprint by withdrawing from certain markets – such is the complexity and risk involved with global compliance these days, particularly in cross-border scenarios.

The recent fintech, and subsequent regtech, revolutions have opened up a world of new opportunities. Increasing compliance costs can be mitigated by sophisticated solutions that introduce automation and efficiency into processes, while remaining adaptable to change. In addition, technology combined with the right subject-matter expertise may even transform the compliance function into a value-adding activity, thereby providing a competitive advantage.

These developments have inspired regulators across the globe, who are – next to their core function of regulating markets – keen to enable an environment where innovation can thrive. Deloitte is pleased to collaborate with Appway and *WealthBriefing* in researching regulatory landscapes around the world and offering insight on regulators' attitudes to, and support for, innovation in this space.

Regulatory complexity, but also changing customer preferences and technology-enabled innovation are coalescing to create a wave of unprecedented change in the way we bank. At Deloitte, we're helping our clients to adapt to an uncertain future with the latest insights and solutions.

Micha Bitterli
Partner, Head of Managed Services
Deloitte Switzerland

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FOREWORD

WealthBriefing, Appway and Deloitte are delighted to launch *Global Compliance and Innovation Trends in Wealth Management* - our first report examining these themes in tandem across seven key global markets and one which we hope will shine a light on the industry's most pressing issues as a whole. Foremost among these is the squeeze on wealth managers' revenues and profitability, which, combined with spiralling compliance costs, has been the dominant theme of industry dialogue in recent years.

Average operating income barely increased last year,[1] while pre-tax margins have plummeted in the past decade.[2] At the same time, compliance costs are eating up 4% or even more of revenues, with many warning that this toll could increase to as much as 10% in the coming years for firms unable to effect significant efficiency savings. Of course, the ever-heavier compliance burden is not the only force at work. The growing popularity of low-cost investment platforms is exerting huge pressure, as is clients' greater ability and willingness to seek out the best possible value for money from traditional providers.

However, the barrage of tightened - or entirely new - regulations wealth managers continue to face has amounted to nothing less than an existential crisis for those firms less able to absorb escalating costs. Industry consolidation has continued apace as new entrants have piled in to tap growing global wealth, and even the biggest players have had to make dramatic moves to protect their profitability.

Some of this has been about rationalising workforces, office networks or business activities. Yet it is accelerating digitalisation and "regtech" adoption that have really shifted the sector's narrative: wealth managers of all types are turning to new technologies to help them *thrive* and not just survive amid myriad challenges. Conditions are tougher than ever before, and competition more fierce. But, facilitated by technological advances, the industry's fightback has now really begun. Wealth management is rapidly catching up to other sectors on digital provision and forward-thinking firms are starting to fully harness the power of new technologies to streamline, automate and reduce risk across their operations.

Thus, while compliance and innovation may seem to be two opposing forces, they are increasingly recognised as ones that can and *should* be united – and by regulators as much as institutions themselves. As will be seen, authorities around the world are showing themselves to be remarkably supportive of technological innovation even as they enhance their regimes.

Robust regulation and strong innovation are equally necessary, and it is finding the right balance which now preoccupies firms and their overseers alike. We hope that these pages help point wealth managers towards the right path for their businesses.

Wendy Spires
Report Author; Global Head of Research
WealthBriefing

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THE GLOBAL VIEW - MANAGEMENT SUMMARY

Compliance and innovation trends are developing at a dizzying pace all over the world, but it is clear that some jurisdictions are very much pulling ahead in certain areas.

Both the UK and Singapore have been going into "fintech overdrive" recently, with the Monetary Authority of Singapore collaborating with the Association of Banks in Singapore to harness blockchain technology for more efficient interbank payments and the UK's Financial Conduct Authority pushing much more manpower into a new authorisation process that is very obviously aimed mainly at fintech start-ups.

The UK appears to be ahead of the game among the world's fintech-friendly regulators, with take-up of its so-called "regulatory sandbox" (a temporary waiving of some rules for start-ups) reaching stratospheric heights.

Next comes Switzerland, whose canton of Zug has been attracting new virtual currency businesses in their droves. Blockchain technologies and cryptocurrencies fell into the lap of the canton almost accidentally, as a by-product of Switzerland's decentralised federal structure which gives each of its 26 cantons wide latitude in deciding how to tax corporations. Zug's taxation is very low and the canton takes a very "hands-off" approach to blockchain technology projects and businesses. This has led to the flowering of a blockchain ecosystem, including the law firm MME and Bitcoin Suisse (which both handle numerous Initial Coin Offerings). Close proximity to technical universities such as ETH Zurich and Hochschule Luzern also brings talent and innovation to the area. Finally, local leaders formed the Crypto Valley Association this year to further spur activity, and have received a great deal of support and encouragement.

Singapore and Hong Kong appear to be next: Jim Rogers, the American "investor's investor", is funding ITF, a new fintech bank that will set up its headquarters in Hong Kong next year and work with the city's fintech companies to develop products and services in response to the regulator's "smart banking" drive. Market watchers are viewing this as a vindication of the jurisdiction's forward-thinking regulatory policy. The Hong Kong Monetary Authority has also just released plans for a faster payment system; a fintech "sandbox 2.0"; the promotion of virtual banking; a "banking made easy" initiative; an open Application Programming Interface; and closer cross-border collaboration with other regulators. Most of these initiatives will take shape at the end of the year, but some will go over into the summer.

Meanwhile, in November last year, the Monetary Authority of Singapore and the Association of Banks in Singapore boosted their jurisdiction's fintech sector by awarding 10 financial software companies a total of S$1.15 million (around US$800,000) in prizes at the Singapore FinTech Festival. Much else is being done in Singapore to promote innovative software set up by IT start-ups, financial institutions and technology companies.

FINTECH
Technology used to support (or enable) the delivery of financial services, often in innovative or disruptive ways. Businesses leveraging new technologies, or whose model relies completely upon them, may be described as "fintech firms".

REGTECH
Technology created to help financial services firms meet their compliance obligations efficiently, often aiming to simultaneously slash regulatory risks and costs while upping operational efficiency and improving the client/advisor experience.

The US is a hotbed of financial technology, but its regulators are doing little to promote it. Indeed, with the Trump administration's crusade against the Dodd-Frank Act in full swing, the Government is cutting regulation for the first time in years. This makes the US a country of contrasts, with technological spending going up but not with the help of regulators. The New York Department of Financial Services' heavy-handed treatment of Bitcoin exchanges – which led to a mass exodus to the Isle of Man in 2015 – is another symbol of official American ambivalence.

Bringing up the rear are Canada and the EU. Canada's fintech-related initiatives are on a lesser scale than elsewhere, but still substantial. In the summer, the country's Client Relationship Model Phase 2 (CRM2) programme came into operation, overhauling the way in which the investment industry reports and discloses information to clients. The Bank of Canada decided against deploying Distributed Ledger Technology for an interbank payment system in May, but innovation is being strongly supported through the LaunchPad innovation initiative and international agreements.

Meanwhile, the EU has its hands full with the second Payment Services Directive and the second Markets in Financial Instruments Directive, both of which are causing an unprecedented investment in fintech but which are also not specific fintech initiatives.

As the rest of this study will underscore, compliance and innovation are not necessarily oppositional forces for the industry and its regulators. While care is certainly being taken, generally speaking both sides are keen to for technologies to be leveraged in the pursuit of more efficient, cost-effective and safer business practices. Exciting times lie ahead.

Chris Hamblin
Editor
Compliance Matters

Deloitte.

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Europe

"The EU is in the process of centralising all financial regulation under the three European Supervisory Authorities and the European Central Bank. It is responsible for some huge pieces of legislation aimed at safeguarding the world from another financial crash, protecting clients' data and counteracting crime, and these are understandably taking up the greater part of its effort at present." - Chris Hamblin, Editor, *Compliance Matters*

Regulatory Hotspots

- MiFID II (comprised of the revised Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation) will "go live" in January 2018 after a one-year delay; as will the Packaged Retail and Insurance-based Investments regulation, which aims to improve the quality of information provided to consumers.
- The EU General Data Protection Regulation will replace the Data Protection Directive from May 2018, harmonising data privacy laws across Europe.
- EU Money Laundering Directive IV came into effect in June 2017, but revisions to tackle current weaknesses and emerging threats are already in progress.
- The second Payment Services Directive (PSD2) comes into force in January 2018. It sets requirements for firms providing payment services aimed at promoting innovation, improving customer protection, making payments safer and more secure, and driving down costs. Among them are the imposition of two-factor Strong Customer Authentication for all remote access to accounts and Strong Customer Identity Verification for initial and re-issuance of authentication credentials.

MiFID II: A "Big Implementation Burden" Remains

The Markets in Financial Instruments Directive II will finally go live in January 2018, updating and broadening the original 2007 legislation in one of the sector's biggest ever overhauls.

MiFID II is intended to prevent systemic risk and disorderly trading, while promoting transparency (the disclosure of information about the way in which processes work by financial firms to clients or to the state), competition and good business conduct right across the industry. Much of its requirements centre on improving the data regulators have available to combat abuses, thereby imposing far more onerous documentation and reporting requirements on all manner of institutions.

Investment managers will have to do several things differently as a result of the new law. They will have to disclose more information to clients (a process known as client reporting), keep more records of communications with current (and future) clients and create and maintain financial products to make them fit customers' financial goals more strictly (a process known as product governance) – another facet of the international drive towards 'suitability' (the imperative to make investment strategies meet the objectives and means of investors) and one which is prompting many firms to invest in systems that can ensure that only appropriate products are marketed to and sold to clients. Using such systems, firms need no longer rely solely on advisors' skill in keeping abreast of ever-changing rules.

To make the costs of trading and investing far more explicit, MiFID II will also overhaul how firms calculate and report fees for investment products (whether manufacturing or selling them), while "unbundling" rules will force them to reveal charges for procuring investment research (although many larger firms have decided to cover these themselves).

Achieving (and proving) "best execution" on trades is also proving problematic for asset managers. Research suggests just 6% of asset managers are ready to execute trades in the best possible way for their clients, although 61% have some kind of policy in place for this.[3]

> "There is a big implementation burden created by MiFID II and some challenging requirements in the area of disclosure and inducements."
> - Andrew Bulley, Partner, Risk Advisory, Deloitte UK

The sheer breadth of the reforms has hit the industry hard. As Andrew Bulley, Partner, Risk Advisory, Deloitte UK, observes, "There is a big implementation burden created by MiFID II and some challenging requirements in the area of disclosure and inducements", meaning that even with a one-year delay many institutions are still struggling to get all the necessary data, tools and processes in place. Indeed, as late as April 2017, 64% of affected firms were *not* confident of complying by the deadline.[4] With such question marks over firms' readiness, many business leaders must surely be fearing regulatory censure at this point.

Yet there are also significant business gains to be had from setting up "Know Your Client" (KYC) processes for the purposes of MiFID II, according to our commentators. As they pointed out, there may be *great* commercial power in having the depth of knowledge required to meet the requirements for client suitability and appropriateness, client classification and marketing controls. However, enhancing and automating onboarding procedures so that the maximum amount of investor information can be collected with the least labour for both clients and advisors will be key.

The GDPR: Client Data Regulation "With Teeth"

From May 2018, the EU's General Data Protection Regulation - the first significant update in over two decades - will create a number of risk areas experts fear firms are ill-prepared for.

The GDPR dramatically tightens consent, accountability and transparency rules, and under article 54(2) will vigorously enforce the principle that institutions have a "duty of professional secrecy" to protect and properly use client information, with penalties of 4% of global turnover/€20m for breaches.

Importantly, the GDPR imposes statutory responsibilities on "data processors" as well as "data controllers" (in broad terms, a processor is an organisation that handles personal data on behalf of the data controller - control, rather than possession, of information being the determining factor). Even more so, the rules could apply to any organisation globally handling European citizens' data. Key enhancements include:

- Breach notification: security or other breaches will require *immediate* notification of clients, and of government within 72 hours unless their harmlessness is assured.
- Consent and transparency: clients/prospects must be kept informed of why their data is collected, where it is being stored and what is being done with it, along with proof of consent to hold data obtained.
- Subject Access Requests: a revolutionary measure enabling individuals to see exactly what information is held on them and how it is shared (perhaps with a view to using it in litigation) within a month.

"Further complicating matters is the principle of 'data minimisation' (data retained for no longer than is necessary) as well as 'right to erasure' rules. As Jayme Metcalfe, Director, Cyber Risk Services, Deloitte UK, said: "There is an acknowledged overlap between MiFID II and the GDPR, since the former requires financial services organisations to record and store all electronic communications intended to lead to a transaction for a period of five years, which could have GDPR implications. Organisations will also need to be mindful of GDPR compliance going forward, as they look to use the information initially gathered for MIFID2 for other purposes than regulatory compliance."

Here, the advice is to privilege data retention over erasure as long as a well-documented rationale is in place. Institutions' legitimate (and timely) data needs are *not* the target of the GDPR. Rather, and quite reasonably, the GDPR insists businesses understand the data they hold and can access it easily when required. Experts have warned that an increase in SAR volumes (due to the abolition of standard administration fees) along with shortened timeframes may prove *very* problematic for institutions labouring under disparate systems and information silos.

"The End of a Phase, Not a Process": Regulatory Agility is the Key

By mid-2018, the financial services sector will have come through a maelstrom of new or revised EU regulations across a huge array of areas. Yet a complete respite from further change is unlikely, meaning that having the agility to adapt efficiently to an evolving regulatory environment will become even more of a competitive advantage.

"With MiFID II, PRIIPS, IDD and GDPR we have seen a massive corpus of conduct regulation and there is some reason for saying we are at the end of a large and important reform agenda. However, this marks the end of a phase, not a process, as regulation must always react to issues and problems that crystallise in the market."
- Andrew Bulley, Partner, Risk Advisory, Deloitte UK

As Andrew Bulley from Deloitte UK, said: "With MiFID II, PRIIPS, IDD and GDPR we have seen a massive corpus of conduct regulation and there is some reason for saying we are at the end of a large and important reform agenda. However, this marks the end of a phase, not a process, as regulation must always react to issues and problems that crystallise in the market."

Henry Jupe, Associate Director, Risk Advisory, Deloitte UK, added: "We have seen, for example, with Solvency II in the insurance market, how the introduction of new regulations continues to be tweaked and refined according to the market impact."

As this report underscores, continuous regulatory change seems to be the "new normal" globally. Therefore, Chiara Gelmini, Business Practice Manager at Appway, believes "taking a reactive approach to regulations is no longer sustainable". Instead, forward-thinking firms are aiming for "compliance by design" by assiduously monitoring trends and blending them into systems and processes – a proactive approach she sees as both profitable *and* scalable (i.e. increasable on demand without incurring a penalty in cost or effectiveness) in the long term.

"When compliance is dynamically and holistically embedded in systems, new requirements are easy to apply across the entire system," she said. "If regulators request that more data is to be captured and processed, the system would need minimal changes since the orchestration of data from various sources is already embedded into adaptive systems."

This need for easy adaptability is arguably particularly acute for EU firms, since there is always the interplay of national and European laws to be borne in mind. The EU is a highly fragmented market and so firms operating across the continent (let alone around the rest of the world too) face a particularly complex compliance burden.

EU Signals Tighter Fintech Supervision

Like other regulators, the EU authorities have indicated a wish to support the transformative potential of fintech while still prioritising core regulatory aims like crime prevention and consumer protection. Firms should not only anticipate changes that the EU might make in future to these fresh regulations, having taken account of their effects on the market; they should also forecast entirely new EU rules that are likely to relate to innovation.

In August 2017, the European Banking Authority published a discussion paper signalling tighter fintech supervision as a result of an EU-wide mapping exercise covering 24 countries and 282 fintech firms.

Future work was proposed in six areas, with consultation closing in November 2017:

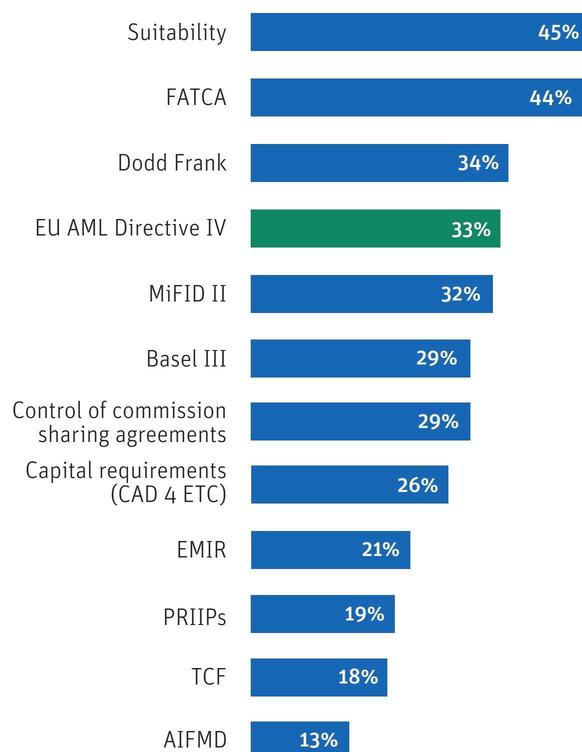
1. Authorisation and regimes for "sandboxes" (lighter-touch regulatory environments where fintech firms can perform a controlled test of their products and services).
2. The impact on prudential and operational risks for credit institutions, electronic money institutions and payment institutions.
3. The impact of fintech on these institutions' business models.
4. Consumer protection and retail conduct of business issues.
5. The impact of fintech on the resolution (orderly failure) of financial firms
6. The impact of fintech on Anti-Money Laundering and countering the financing of terrorism.

As discussed below, concerns over virtual currencies are already being addressed in AML legislation. It is difficult to tell how many new rules regulators will feel compelled to impose, and in which areas, as technological progress marches on.

It also remains to be seen how the huge variation in digitalisation and fintech penetration across EU member states will affect regulatory initiatives – and whether this fragmentation will prove to be a barrier or a boost to the sector.

More Stringent AML Measures Already Tabled

Figure 1 - Proportion of wealth managers indicating a high or very high impact on operations and systems.[5]



Money Laundering Directive IV only went live on 26 June 2017, but revisions are already proposed to take account of criminals' evolving tactics and introduce new regulations not prepared in time.

MLD V is intended to remedy weaknesses in five key areas:

1. Inconsistencies in AML requirements between member states that result in financial institutions ineffectively monitoring transactions involving high-risk third (non-EU) countries.
2. Institutions not currently being required to monitor suspicious transactions in virtual currencies.
3. Inadequate current measures to tackle the risks presented by anonymous prepaid cards.

4. The fact that financial intelligence units (FIUs) lack timely access to information held by reporting entities, while also not being able to exchange that information with each other in a consistent way.
5. FIUs' inability to rapidly access information to identify the holders of bank and payment accounts.

Although still in its early stages, institutions are being advised to prepare for:

- Far heavier scrutiny obligations for transactions and relationships involving high-risk third countries, such as additional information on beneficial owners, source of funds/ wealth and the intentions behind account use.
- A reduction in opportunities for simplified client due diligence (slashing the anonymity threshold on pre-paid cards from €2,500 to €150 will mean full checks will realistically always apply).
- Regulation of issuers, administrators, intermediaries and distributors of virtual currencies, as well as custodian wallet holders, obliging them to carry out AML and client due diligence checks (whether this would increase "off-exchange" transactions remains to be seen).

The detail of MLD V is subject to change. But, as with its predecessor - and so many other new regulations - enhanced capabilities to gather, store, manage and analyse vast amounts of data from various sources will be vital to compliance. As Figure 1 highlights, a third of wealth managers globally already see MLD IV as having a high or very high impact on their operations and systems.

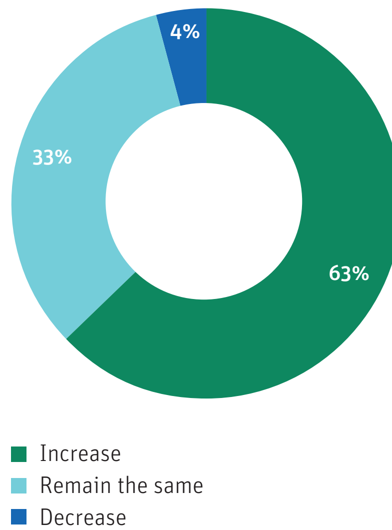
Appway's Gelmini believes the wealth management sector in particular *must* be equipped with automated KYC and AML checks if it is to effectively combat escalating risks and yet not suffer hampered growth. She concluded:

"Cross-border activity is becoming increasingly challenging, especially under the new MLD IV and upcoming MLD V requirements. Additional checks and rules will have to be incorporated across all processes and - as institutions navigate this complexity - having the digital tools in place to reduce risk, and ensure proper conduct and integrity, will be essential.

"Integrated and interconnected digital capabilities allow firms to identify the right information at the right time while a process - such as changes to high-risk country lists or PEP lists - generates accurate output. As such, technology really is a safety net for firms to spot, monitor and report any suspicious client, prospect or transaction."

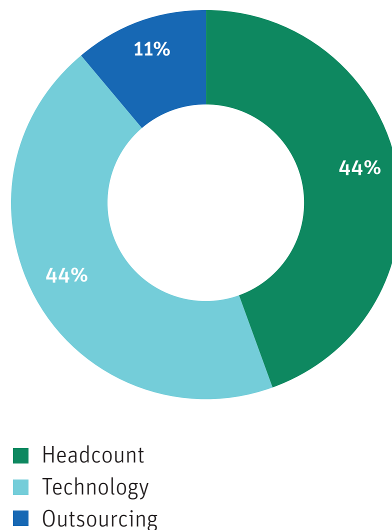
A recognition that technology investment is just as important as adding compliance personnel certainly seems to be reflected in budgets. As Figures 2 and 3 show, 63% of firms globally predicted increased client due diligence spend over 2017 with 44% focused *mainly* on technology investment.

Figure 2 - Predicted Client Due Diligence spend over 2017.[6]



Increase
Remain the same
Decrease

Figure 3 - Focus of Client Due Diligence spend over 2017.[7]



Headcount
Technology
Outsourcing

"Technology really is a safety net for firms to spot, monitor and report any suspicious client, prospect or transaction."

- Chiara Gelmini, Business Practice Manager at Appway

Switzerland

"The Swiss Financial Market is unique in its composition of huge international banks, lots of very small retail banks, and a significant wealth management industry. The reasons for the recent legislation are well understood. They ask not for fewer regulations, but smarter regulations that take into account the diversity of institutions complying with them."

- Micha Bitterli, Partner, Head of Managed Services, Deloitte Switzerland

Regulatory Hotspots

- The Swiss Financial Markets Infrastructure Act became effective in January 2016, aiming to ensure the proper functioning and transparency of the securities and derivatives markets, and the equal treatment of investors.
- The Financial Services and Financial Institutions Acts (largely inspired by the EU's MiFID II) will follow, but are subject to change from parliamentary debate towards the end of 2017 and will not come into force before mid-2018.
- New measures to support innovation approved at the end of 2016 include a "fintech licence" simplifying regulations for these firms relative to incumbents; several other highly-supportive proposals are also in view.

Sweeping Reforms Afoot in the Alpine State; FIMs Face Radical Change

"The Common Reporting Standard remains a huge challenge for Swiss institutions because it has multi-jurisdictional implications and is unclear in certain aspects."

– CEO of a Geneva-based trust and family office business

Switzerland has been tightening regulation across a number of areas in the years following the financial crisis. International disputes have made tax transparency a huge priority, but the Swiss are also moving with the times to increase market oversight and improve investor protection through enhanced disclosure and suitability strictures.

As a result, institutions are grappling with a barrage of recent and incoming domestic reforms, in addition to external ones such as the extraterritorial US Foreign Accounts Tax Compliance Act (FATCA), Automatic Information Exchange and MiFID II which must be abided by to protect its precious financial services sector.

Incorporating key elements of the kind of transaction reporting requirements found in the EU's European Market Infrastructure Regulation or EMIR, the Swiss Financial Markets Infrastructure Act (also known as FinfraG) went live in 2016.

Meanwhile, together the proposed Financial Services Act (FinSA) and Financial Institutions Act (FinIA) will form what the authorities are calling "a new financial market architecture", levelling competitive conditions for financial intermediaries (FIMs) and improving client protection. The former's rules cover offering financial services and distributing products; the latter sets the authorisation and organisational requirements for supervised institutions.

"The future FinIA will ensure one supervision for all kinds of financial service providers active in the asset management sector," explained Gilbert Schur, Senior Manager, Regulatory Compliance & Legal, at Deloitte Switzerland. "In addition to securities dealers, fund management companies and asset managers of collective investment schemes, asset managers of pension schemes and private assets, and trustees will be under regulatory supervision."

"There is some tension with regards to international and Swiss regulations. Large banks need to apply international standards and would prefer this alone to be satisfactory, whereas smaller Swiss-focused banks prefer a less far-reaching, simpler Swiss approach."

- Micha Bitterli, Partner, Head of Managed Services, Deloitte Switzerland

A dramatic shake-out of the External Asset Manager (EAM) sector is predicted due to the increased compliance burden.

Both Acts are subject to change from parliamentary debate towards the end of 2017 and will not come into force before mid-2018. However, significant weakening is believed unlikely given their importance to MiFID II equivalency, despite the fact that institutions both large and small have concerns.

"There is some tension with regards to international and Swiss regulations," said Micha Bitterli, Partner, Head of Managed Services, Deloitte Switzerland. "Large banks need to apply international standards and would prefer this alone to be satisfactory, whereas smaller Swiss-focused banks prefer a less far-reaching, simpler Swiss approach."

That said, while enhanced customer protection requirements are frequently perceived as a burden, they also represent ample opportunities to boost profitability if approached in the right spirit and with well-designed systems and processes in place, argues Chiara Gelmini, Business Practice Manager at Appway:

"Assessing clients' knowledge and risk orientation with laser precision, and matching and re-aligning portfolio allocation to the investor type is becoming increasingly important for firms operating in Switzerland and other leading jurisdictions. But through better segmentation and a deeper understanding of clients' needs, Swiss financial institutions can differentiate and strengthen their value proposition.

"Regulations compel institutions to design focused marketing campaigns, and offer suitable products, accurate financial advice and tailored investment services. This builds trusted relationships with clients and paves the way for stable business growth. Therefore, we see firms focusing more and more on onboarding and investment processes that enrich the customer experience by seamlessly capturing data and analysing this information with smart profiling engines."

"We see firms focusing more and more on onboarding and investment processes that enrich the customer experience by seamlessly capturing data and analysing this information with smart profiling engines."
- Chiara Gelmini, Business Practice Manager at Appway

The desire to achieve efficiencies seems particularly strong in Switzerland compared to other jurisdictions, with high labour costs and the prevalence of smaller institutions like EAMs and cantonal banks being significant factors (Business Process Outsourcing has gained real traction in recent years). Previous *WealthBriefing* research has shown that reducing effort spent on standardised processes to focus on value-adds is a high or maximum priority for 70% of Swiss institutions and that leveraging technology to improve advisors' efficiency is taking strategic precedence in a far more pronounced way than elsewhere.

Figure 4 - Focusing on value-adds as a priority against region.[8]

Location	No priority				Maximum priority
UK	9%	8%	22%	48%	13%
Switzerland/Luxembourg	0%	0%	30%	50%	20%
Rest of Europe	25%	0%	0%	75%	0%
Singapore/Hong Kong	17%	24%	17%	42%	0%

Figure 5 - Enhancing advisor technology a big priority in Switzerland.[9]

Location	Client-facing technology	Enhanced technology for advisors	Expansion into new locations	Increased headcount	Marketing	New products
UK	50%	18%	5%	9%	9%	9%
Singapore/Hong Kong	59%	8%	0%	0%	0%	33%
Switzerland/Luxembourg	22%	45%	11%	11%	0%	11%

FINMA's Push to Place Switzerland at the Forefront of Innovation

The Swiss have rapidly recognised that following the weakening of banking secrecy, digitisation and innovation are *the* competitive differentiators of the future. Echoing the watch industry's reinvention of itself in the 1980s, the financial services sector is shaking off its traditionalist image to fully embrace digital disruption.

The Swiss regulator, FINMA, has shown itself to be very open to new technologies, and in several regards is far ahead of its peers in promoting innovation and making the regulatory changes necessary to support fintech growth – despite the wider reforms already taking place. As Schur from Deloitte Switzerland notes: "The regulator has been proactively developing efficient, effective regulation while announcing a number of new rulings to reduce obstacles for fintech start-ups".

Being at the forefront of innovation and the digitalisation of financial services shows Switzerland really playing to its economic strengths, according to Schur. "Switzerland has a very strong financial industry, but also strong research and technology sectors, so FINMA is bringing experts from across these sectors together," he said.

In fact, such is the level of regulatory support that FINMA advocates the implementation of a new licensing category for financial innovators carrying out some banking activities, but which hold client assets in only a limited way and do not participate in lending activity. Companies operating in the Swiss "sandbox" will be exempt from the obligation to obtain a banking licence when accepting deposits of up to SFr1million, giving start-ups more time to test their business concept.

> "With only the UK and the Netherlands offering similar regulatory aids - and these only to selected firms rather than all fintechs and start-ups - the proposed sandbox could put Switzerland ahead of most other European countries on innovation."
>
> \- Johannes Schlotmann, Manager, Swiss Monitor Strategy practice, Deloitte Switzerland

The Swiss Federal Council (Switzerland's "seven-headed president") has also proposed extending the holding period in settlement accounts to 60 days without a banking licence being necessary, providing a big boost to organisations like crowdfunding firms (of which there are 50 incorporated in Switzerland), payment service providers, wealth managers and Blockchain solution providers due to the way they work.

"The fact that BaFin, the German regulator, has explicitly distanced itself from implementing a sandbox could particularly benefit the Swiss financial centre as it will be the only German-speaking hub with such an offering," observed Johannes Schlotmann from Deloitte Switzerland.

Online Onboarding: Another Major Competitive Advantage?

Switzerland is already a pioneer in digital client authentication methods. Recent moves by the regulator to facilitate online onboarding represent another strikingly supportive development for innovation in the Alpine state that may help new entrants grow – and perhaps give Swiss firms across the board a significant competitive edge by streamlining a notoriously onerous process beset by inefficiencies and the risk of client drop-outs.

As Schur from Deloitte Switzerland explained:

"FINMA has released a new circular on video and online customer identification allowing financial intermediaries to onboard clients by means of online and video transmission, putting these means of identification on the same level as in-person identification.

"This new ruling will allow digital business to prosper and reduce the regulatory barriers that innovative businesses face."

More cautious industry figures question how far online onboarding is fit for purpose in a "true" wealth management sense due to complexities such as verifying source of funds.

However, done correctly, online onboarding may well prove a game-changer in the mass-affluent space.

Bitterli concluded: "The increasing shift towards online onboarding, self-service and digital channels means that the smart implementation of regtech becomes critical to ensuring all regulations are adhered to in a time-efficient, cost-effective way."

United Kingdom

"The UK's regulator, the Financial Conduct Authority, is the world champion of innovation in financial services. Its example is being copied in many places, especially Singapore."

- Chris Hamblin, Editor, *Compliance Matters*

Regulatory Hotspots

- The Senior Managers and Compliance Regime is set to encompass almost all regulated companies in 2018, bringing many wealth managers into its scope for the first time.
- The FCA's scrutiny of disclosure and suitability practices right across the investment industry continues to be intense, with its "Assessing Suitability Review", "Asset Management Market Study" and "Investment Platforms Market Study" all being published in recent months.
- MiFID II's 2018 implementation means that UK firms will still be affected, irrespective of the eventual outcome of Brexit. Firms wishing to conduct new "MiFID II activities" (like operating an organised trading facility) that now require regulatory authorisation have been advised to submit service passport notifications to the FCA by the start of December 2017.
- The Criminal Finances Act came into effect on April 2017, enhancing law enforcement agencies' powers to tackle tax evasion, money laundering, corruption and terrorist financing; June introduced the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (replacing the 2007 Money Laundering and Transfer of Funds Regulations).

Wealth Managers to Come within Scope of SM&CR

The FCA has proposed extending the Senior Managers and Certification Regime to almost all regulated companies in 2018, bringing many wealth managers into its scope for the first time.

Intended to protect consumers and bolster market integrity, the SM&CR formalises an institutional culture of good governance, via rigorous responsibility mapping, along with enhanced monitoring and documentation; it also imposes personal accountability for high standards of professional behaviour and competence, requiring staff at all levels to observe five "Conduct Rules".

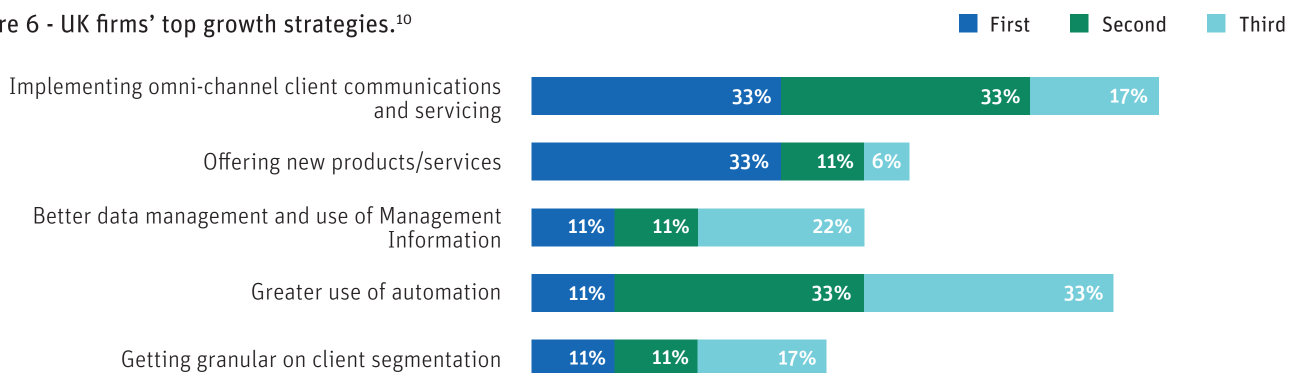
As Cindy Chan, Partner, Risk Advisory at Deloitte UK, observes, the extension of the SM&CR "will place individual accountability at the forefront of senior executives' minds". Concerns over increased personal responsibilities are likely to be particularly acute within large, complex organisations subject to the "enhanced" regime.

But as Paul Caccavale, Senior Manager, Risk Advisory, Deloitte UK, explained, business leaders are increasingly seeing that they can powerfully leverage new technologies to respond to several strands of the SM&CR challenge.

"More often we are seeing sophisticated systems, rather than manual processes, being used to collate management information which can then be analysed to drive discussion, debate and challenge within the governance fora," said Caccavale.

"Likewise, we are seeing firms looking at ways in which technology can enhance the coverage and robustness of compliance monitoring. This can give executives greater comfort that controls within their operational areas of responsibility are working effectively and generate better reporting, with less room for manual error."

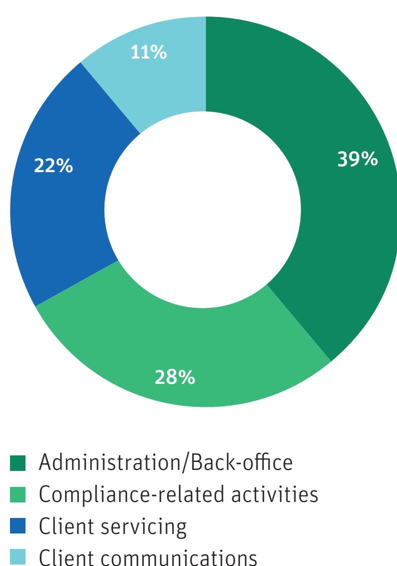
Figure 6 - UK firms' top growth strategies.[10]



As Figure 6 shows, recent *WealthBriefing* research has found enhanced data management and better use of management information (data collected and used to measure performance in some area of business) to be integral to UK firms' growth strategies, with 44% citing this as a top-three priority.

Meanwhile, 77% are focusing on increasing automation amid an industry-wide drive to simultaneously slash costs and compliance risks. As Figure 7 illustrates, UK wealth managers are very keen to make efficiency gains in compliance activities and, as elsewhere, a plethora of highly-specialised technology providers have sprung up to assist in challenging areas.

Figure 7 - UK firm's top efficiency ambitions.[11]



- Administration/Back-office
- Compliance-related activities
- Client servicing
- Client communications

More broadly, Appway's Gelmini sees wealth managers leveraging enhanced technology as a means of gaining greater control over what are typically very complex businesses, which might furthermore be working under a plethora of regulators.

"Firms understand that technology is helpful beyond activities connected to tracking and auditing; it can also ensure that compliance is integrated into processes that direct activities and influence decisions," she said. "Technology is crucial to gain transparency into processes so they can be monitored and analysed – and that's exactly where an orchestration solution fuelled by business activity monitoring capabilities comes into play".

Intense Disclosure and Suitability Scrutiny Continues

Brexit notwithstanding, UK firms will still have to be MiFID II-compliant by the start of 2018. But in many ways the UK regulator has actually led the way internationally for some years, most notably in its insistence that advice is objective and advisors transparently remunerated.

"You have to be able to demonstrate suitability, and to automate and streamline that documentation so it's not just scatterings of client information. You need safeguarding systems capturing every interaction so records are never lost and advisors aren't spending their time writing endless meeting notes."

- COO of a UK private bank

The Retail Distribution Review imposed sweeping changes to the way UK advisors are qualified and remunerated at the end of 2012, ramping up cost disclosure and banning commissions to drive out bias. (The risk that unscrupulous financial advisors may be tempted to charge commissions that benefit them if they recommend certain products, at the expense of the customer's interests, is of course one of the key regulatory issues of our time.)

Five years on, inducements and the clarity of costs and charges disclosures remain the subject of intense regulatory scrutiny, with the FCA continuing to delve deep into industry practices.

As Chan from Deloitte UK highlighted, perceived attempts to undermine the commissions ban (such as product providers being charged to appear on advisor panels) have been severely punished amid "persistent challenge from the FCA on the adequacy of firms' disclosure of advice costs". In its May 2017 "Assessing Suitability Review", the FCA highlighted the quotation of hourly rates without likely service totals and using charging structures with a wide range as unacceptable practices.

"Given that the FCA has previously communicated these concerns, they are likely to have limited patience where firms continue to fall short of the disclosure requirements," said Chan.

Investment suitability also remains top of the FCA agenda, it being named a priority in both its current and previous business plans going back several years.

According to Caccavale from Deloitte UK, the persistence of suitability failings - despite years of heightened scrutiny - are largely attributable to inadequate record-keeping and ensuring

sufficient information is retained to *demonstrate* suitability (notably, firms have been fined for evidencing failures even where no client detriment was found).

In response, he sees firms becoming far more proactive in areas like regularly contacting clients and documenting conversations to prove information on their circumstances, investment objectives and risk appetite is current, and to flag up any inconsistencies in the information being held on customers. Technology is also playing a dual role in improving documentation and *enforcing* sound advisor practice.

> "Increasingly, we are seeing technology being used to ensure robust records are kept. Examples include fact find tools that require all required information to be recorded before the advisor can complete the exercise and risk-profiling tools that can identify inconsistent answers and prompt clarification with the customer."
> - Paul Caccavale, Senior Manager, Risk Advisory, Deloitte UK

"Increasingly, we are seeing technology being used to ensure robust records are kept," said Caccavale. "Examples include fact find tools that require all required information to be recorded before the advisor can complete the exercise and risk-profiling tools that can identify inconsistent answers and prompt clarification with the customer."

As in other jurisdictions, the FCA's quest to ensure efficient markets and value for money for consumers is rippling throughout the investment industry.

It published the final findings of its "Asset Management Market Study" in June 2017, concluding that the fund management sector requires radical reforms to increase competition, ensure investors' best interests are served and improve the effectiveness of intermediaries.

Proposed remedial measures included: benchmarking/performance reporting improvements; the presentation of a single, all-in fee to investors; using the Senior Managers Regime to increase fund manager accountability; and the possibility of investment consultants being brought under regulatory oversight.

The sustained high profits the FCA wishes to tackle certainly seem under threat – and perhaps active managers generally. "What is so important about the FCA enquiry into asset management are the potential implications for the business models of active fund managers against a backdrop where passive investing has become ever more popular and economical," said Andrew Bulley, Partner, Risk Advisory at Deloitte UK.

The FCA's "Investment Platforms Market Study" also put this part of the market on guard in July, questioning whether platforms offer value-for-money solutions and promote sound investment decisions.

A World-Leader on AML Regulation and Innovation

The UK leads the world with its continually tightening regime for the prevention of tax evasion, money laundering, corruption and terrorist financing. Institutions well prepared for UK compliance have therefore arguably met the "gold standard".

Law enforcement agencies' powers were enhanced by the April 2017 enactment of the Criminal Financing Act, while June introduced the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. Then, in July 2017, the FCA published its "Finalised guidance FG 17/6 The treatment of politically exposed persons for anti-money laundering purposes".

As Chris Hamblin notes, this paper only represents the regulator's opinions on how PEPs should be dealt with, rather than new rules or laws; Treasury approval is pending and even this "merely provides courts with something they ought to consider when deciding whether to convict staff at financial firms and/or money-laundering reporting officers with failing to report their suspicions".

However, with AML such a hot topic, firms would arguably still be well-advised to take the FCA's guidance into account (as the paper encourages), such as by being sure to examine risks on a case-by-case basis, rather than them taking a generic approach to all PEPs. There is also much content focused on how to apply the definitions of a PEP and how close family members and associates need to be to a PEP to trigger Enhanced Due Diligence on their financial dealings.

As the volume of industry commentary on this topic testifies, the rules concerning PEPs and issues around their legal enforceability are incredibly complex in the UK (and internationally) due to subtleties concerning the precise roles held by PEPs, the risk ratings of any other countries involved and the proximity parameters for associated persons, among others.

Clients who have been subjected to EDD are also perhaps likely to issue writs against their financial institutions (the UK is a Common Law jurisdiction, where such action is common). The EU, moreover, is now going to amend its Money Laundering Directive (see page 9). Because of these developments, firms would be wise to brace themselves for further changes to their KYC/AML policies and systems in fairly short order.

For firms operating globally, Appway advocates the development of "gold standard" processes which can then be adjusted relatively painlessly where appropriate.

As Gelmini explained:

"Ever-stricter and continuously-evolving KYC and AML requirements are changing the way financial institutions deal with these topics, especially for firms operating in multiple locations.

"We observe (and also advise) that, for these players, the most efficient way to enforce KYC/AML rules is to establish a global standard that responds to the most stringent requirements across various jurisdictions toward full compliance. Local adaptations can then be added dynamically, ensuring compliance and best practices are followed with our solutions."

The FCA is also acknowledged as the world leader on innovation in financial services and its openness to new technologies is extending as much to AML as other areas.

The regulator is positive towards the use of "utility technologies", by which it means service/technology providers offering a centralised outsourcing of key common tasks, potentially across an entire industry.

In an AML context, this would mean institutions sharing KYC, transactional or other data through a third party – an approach which in turn would likely draw on Distributed Ledger Technology. (Other technologies with AML applications include biometrics/video KYC, advanced data analytics, natural language processing and machine learning).

Many believe the FCA's "regulatory sandbox" would be perfect for the level of data-sharing necessary for larger-scale utility trials. It is easy to see that any AML data-sharing initiative across institutions and jurisdictions would have to be huge in scope to have any effectiveness.

As Suchitra Nair, Director, Risk Advisory, Deloitte UK, observes, the UK provided a blueprint for regulators internationally with its 2014 launch of "Project Innovate". As well as the world's first sandbox, the FCA also created its Advice Unit, which helps disruptor firms understand the regulatory landscape and acquire the necessary authorisations. ("Disruptors" displace existing markets, industries or technologies to produce something newer and more efficient in a manner that is simultaneously destructive *and* creative.)

The FCA's guidance has been supportive of robo-advisors, provided that its consumer protection objectives are met. This is probably due in part to the fact that low-cost solutions are needed to plug the "advice gap" stemming from increased regulation. But innovation is being (carefully) encouraged right across the board.

"Firms describe the FCA's approach as a game-changer in their journey to authorisation, praising the FCA's open and frank dialogue with innovators."

- Suchitra Nair, Director, Risk Advisory, Deloitte UK

"Firms describe the FCA's approach as a game-changer in their journey to authorisation, praising the FCA's open and frank dialogue with innovators," said Nair. "They also recognise that the regulator's approach helped them not only to understand how the regulatory environment would apply to their innovations, but also how they could improve their business models to better serve their customers."

Huge benefits for both clients and businesses are on offer. But with innovation happening at such pace and in so many directions all at the same time, Appway's Gelmini advises that a wise, cost-effective approach to adopting new technologies is crucial.

She said:

"Legacy systems are silos; channels are silos; regional regulatory requirements are silos. There are already enough silos and technology shouldn't encourage building more. Instead, it must orchestrate and integrate, so that silos can connect without major changeovers."

"Solutions must be designed for fast, incremental updates while still allowing firms to get value from previous investments."

United States

"Regulators are innumerable in the US because of its federal nature. One of the most go-ahead is the New York State Department of Financial Services which, together with the US Securities and Exchange Commission, spearheads the regulatory crusade against financial crime and market instability."

- Chris Hamblin, Editor, *Compliance Matters*

Regulatory Hotspots

- The Department of Labor (DOL) Fiduciary Rule came into effect in June 2016, expanding the "investment advice fiduciary" definition to retirement advisors. However, modifications may be coming to both the Fiduciary Rule and the "too big to fail" provisions of the Dodd Frank Act under the Trump administration.
- SEC modernisation rules, known as Form N-PORT and Form N-CEN, that came into effect on 17 January 2017, will enhance the quality of information available to investors and allow the Commission to more effectively collect and use data reported by funds.
- The FinCen Customer Due Diligence rule, which imposes new beneficial ownership requirements, will come into force in May 2018.

Fiduciary Rule Fosters Fintech Amid Wide-Ranging Regulatory Flux

Instigated under President Obama, the Fiduciary Rule expands the "investment advice fiduciary" definition (under the Employee Retirement Income Security Act of 1974) to treat advisors to retirement investors as fiduciaries obliged to adhere to "impartial conduct standards". In keeping with the international Treating Customers Fairly and transparency drive, the Rule has been hailed as a landmark investor protection measure barring misleading statements and unreasonable compensation, and ensuring that advice is in clients' best interests.

The path to implementation has not been smooth, however, and modifications are expected under a review by the Trump administration. The Rule came into partial effect on 9 June 2017 following a two-month delay, but will not be enforced until its scheduled full implementation (including required disclosures and contracts) on 1 January 2018.

New economic analyses and both industry and public consultation could result in further delays or even a repeal, with fears centring on the Rule possibly limiting investor choice and encouraging specious litigation. Uncertainty notwithstanding, it remains among the most impactful regulatory changes facing US wealth managers, notes Eric Piscini, Global Lead for Blockchain in Financial Services at Deloitte. Like others globally, it is also one that could privilege new entrants developed in line with prevailing regulatory trends.

"The Fiduciary Rule has been a significant regulatory driver in recent months and will continue to drive activity, even if the administration modifies it. It is creating an opportunity for fintech players, such as robo-advisors, to differentiate themselves as they were built with a client-interest-first approach."

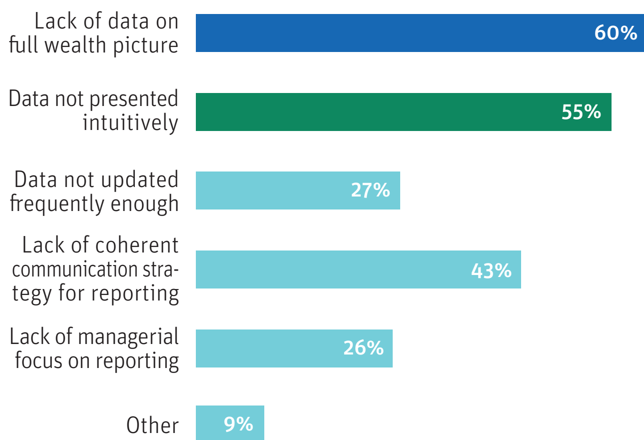
- Eric Piscini, Global Lead for Blockchain in Financial Services at Deloitte

"The Fiduciary Rule has been a significant regulatory driver in recent months and will continue to drive activity, even if the administration modifies it," he said. "It is creating an opportunity for fintech players, such as robo-advisors, to differentiate themselves as they were built with a client-interest-first approach."

Whatever the final form of the Rule, immaculate evidencing of the advisory process will clearly be key. Tellingly, 55% of North American risk and regulatory experts are worried about having to improve data aggregation and reporting, and 35% do not trust the accuracy of their firm's data (data lineage and governance being the top reason).[12]

As previous *WealthBriefing* research has found, data inadequacies (such as it not being timely or representing a complete picture) are a key reason that client reporting does not meet expectations.

Figure 8 - What are the reasons why your reporting might fail to meet expectations?[13]



> "It is crucial for banks in the US to understand and profile investors in granular detail, as well as provide them with transparent information about the costs of products and services, and a good onboarding process must support firms in these goals."
> - Andrea Buzzi, Head of Solutions at Appway

"It is crucial for banks in the US to understand and profile investors in granular detail, as well as provide them with transparent information about the costs of products and services, and a good onboarding process must support firms in these goals," added Andrea Buzzi, Head of Solutions at Appway.

"For example, an onboarding solution must allow relevant documents such as fee and fiduciary agreements to be given to end-customers and automatically match suitability assessment results to various asset allocation scenarios. In this way, the systems transparently ensure the best possible allocation with the lowest possible costs, with investors fully understanding the proposed asset allocation and services."

The US sector also awaits alterations to the Dodd-Frank Act (namely its "too big to fail" provisions), with this incertitude again likely to benefit newer entrants, according to Piscini from Deloitte.

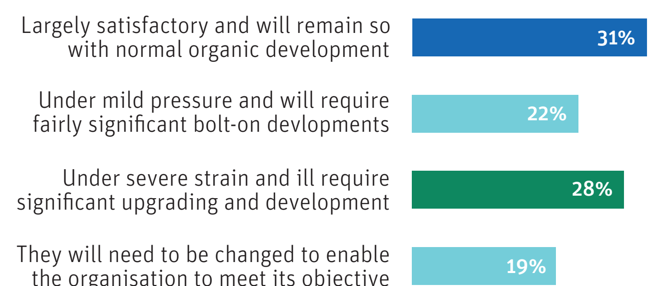
"Uncertainty under the new administration is having a huge effect; Dodd Frank has been another target, but it is too early to understand the impact of potential modifications," he said. "However, nimble organisations are more likely to adjust to the new set of rules in a timely fashion, which provides an edge to fintech companies."

> "Without the ability to present a client's wealth to them in a way that resonates, we really can't have a constructive dialogue about how to manage and ultimately enhance their wealth."
> - Chief Operating Officer at a US private bank

A widespread scrapping of rules is set to be the hallmark of the Trump administration, with an Executive Order in place requiring federal agencies to cut two existing regulations for every new one implemented. Flexible systems and processes will be vital amid this unprecedented regulatory flux, yet it seems that many firms are not as adaptable as required: 66% of North American risk and regulatory experts are worried about adapting to upcoming regulatory changes.[14]

Indeed, as Figure 9 shows, almost a fifth of firms globally expect their systems and processes will need to be completely overhauled to enable the organisation to meet its objectives.

Figure 9 - What best describes your firm's systems and processes on a two-year view?[15]



As Appway's Buzzi points out, legacy systems are a major obstacle in implementing new regulatory requirements and innovation initiatives.

"Projects that aim to replace past tools and processes are usually destined to fail, and in Appway's experience, the key differentiator in such efforts is introducing an orchestration layer on top of multiple silos," he said. "Connecting silos with

technology that prioritises and streamlines work across departments makes institutions more flexible and connected, and grants users a customised access point and working environment: this makes the difference."

"Connecting silos with technology that prioritises and streamlines work across departments makes institutions more flexible and connected, and grants users a customised access point and working environment: this makes the difference."
- Andrea Buzzi, Head of Solutions at Appway

Fintech Charter a Further Innovation Boost (But Caution Still a Byword)

In addition to new-guard regulatory amendments, start-ups are also promised a significant boost via the creation of a Fintech Charter by the Office of the Comptroller of the Currency that will allow non-financial institutions to operate in the US and provide financial services.

The US authorities seem to be lagging on the creation of regulatory sandboxes to facilitate the testing of such ventures, but Piscini from Deloitte expects them in time (the federal nature of regulation poses distinct barriers). Moreover, as he points out, US financial services innovation has hitherto been strong even without these "safe spaces" and funding continues to pour in from capital markets, venture capital and private equity firms.

In his view, the memory of the financial crisis means the US authorities are risk-averse and broadly favouring market stability over innovation at present. Therefore, "the most major innovations will occur in less regulated, smaller markets first".

That said, he observes that several US regulators are pursuing innovation agendas for their own benefit, as well as for their constituencies. "For example, the Federal Deposit Insurance Corporation has initiated various efforts to digitise its own business as well as to facilitate the exchange of data between regulators," he said. "Meanwhile, the SEC has been considering cryptocurrencies to support the digitisation of money.

FinCEN CDD Rule Creates Fifth "Pillar" for AML

The Financial Crimes Enforcement Network (FinCEN) Client Due Diligence rule requiring the identification and verification of the beneficial owners of a legal entity at account-opening was announced in May 2016; compliance with the final rule is required by May 2018.

Beneficial ownership reporting carries myriad legal, compliance, operational and technical challenges, but is a priority internationally due to its role in fighting financial crime and has been kept at the top of the agenda due to several high-profile scandals involving labyrinthine corporate structures and prominent figures hiding behind opaque ownership.

Importantly, the final FinCEN rule creates a fifth pillar for banks' AML procedures focused on risk-based ongoing due diligence. Risk-profiling clients, monitoring for suspicious account activities and updating records more assiduously will be required in addition to the original four AML pillars implemented by the USA Patriot Act, these being 1) policies, procedures, and internal controls; 2) independent testing; 3) designated compliance officers; and 4) staff training.

As Appway's Buzzi notes, ensuring that the laws and regulations of various jurisdictions are correctly enforced is a major pain point for the financial services sector globally, with any failures exposing firms to *huge* risks.

"By automating compliance checks like KYC and AML profiling via guided, out-of-the-box questionnaires, institutions can proactively identify issues and drive the process through the appropriate approval path," he said.

Canada

"A properly functioning, efficient financial system in which Canadians can place their trust and confidence is essential to Canada's economy and the Office of the Superintendent of Financial Institutions provides it, in tandem with other state and federal regulators. Fintech and regtech are encouraged."

- Chris Hamblin, Editor, *Compliance Matters*

Regulatory Hotspots

- July 2017 saw the full go-live of Client Relationship Model - Phase 2 (CRM2), Canada's overhaul of how the investment industry reports and discloses information to clients. CRM3 - an extension of disclosure requirements to investment funds - is also expected.
- Tax information sharing has doubled between the US and Canada following FATCA, while enhancements to the country's AML regime may also be on the horizon following its FATF review.
- While the Bank of Canada decided against deploying Distributed Ledger Technology for an interbank payment system in May 2017, innovation is being strongly supported through the Ontario Securities Commission's LaunchPad innovation initiative and international agreements.

Reporting and Disclosure Overhaul Creates Huge Differentiation Opportunities

July 2017 saw the full go-live of CRM2, Canada's overhaul of how the investment industry reports and discloses information to clients (Reforms were phased in from 2013 and firms had to begin delivering annual reports on charges and other compensation, as well as annual performance reports, in July 2016).

CRM2's main objectives are twofold: 1) enforcing greater transparency over the fees levied and performance data on investment accounts; and 2) improving investors' ability to assess their progress towards financial goals.

As part of the latter - and somewhat contentiously - CRM2 requires investment performance to be reported on a money-weighted return (MWR), rather than time-weighted return (TWR) basis.

The former includes the effect of deposits and withdrawals, while the latter measures returns on a more standardised basis excluding external cash flows (and therefore market timing) beyond the manager's control. So, while most investors will want to see the actual dollar return generated on an account, detractors argue that TWR can often be a more meaningful measure, particularly for those wishing to compare investment managers against benchmarks.

Correspondingly (and because investors may not have seen reporting of such depth previously), many firms have decided to present both MWR *and* TWR metrics. Not only do the CRM2 reforms make immaculate evidencing of the advisor process and data integrity more vital than ever, they also greatly heighten the need for enhanced investor education/engagement and customisability in performance reporting.

"To guarantee full disclosure from the beginning, institutions need to make sure that the investment time horizon, fee set-up and product selection take place during client onboarding."

- Andrea Buzzi, Head of Solutions at Appway

As such, Andrea Buzzi, Head of Solutions at Appway, emphasised the need for Canadian firms to not only improve the information they provide to clients, but also their end-to-end record-keeping to ensure investment suitability is well evidenced and good governance observed throughout the client lifecycle.

He said:

"For institutions to ensure they stay in line with CRM2, they must provide investors with comprehensive account information through various channels: statements and confirmations, mandatory biannual reports and conversations with relationship managers.

"More broadly, they also need to document the entire advisory process; to guarantee full disclosure from the beginning, institutions need to make sure that the investment time horizon, fee set-up and product selection take place during client onboarding.

"This means that firms should equip themselves with digital tools that automate tracking and auditing processes, and

offer enhanced reporting and profiling features with intelligent business rules by design."

As with so many compliance challenges, CRM2 also creates abundant differentiation opportunities for wealth managers that are able to demonstrate added value.

Record ETF inflows over 2017 are testament to the growing popularity of low-cost alternatives in Canada, while research suggests widespread inadequacies in the provision of holistic, transparent advice: last year, only 54% of Canadian investors said their advisor had effectively helped them set goals and discuss risk, and just 27% completely understood their fees.[16]

> "Once firms embrace CRM2, they will not only be better at gaining their clients' loyalty, they will also boost profitability through improved operational efficiency, client experience and retention."
> - Andrea Buzzi, Head of Solutions at Appway

Even wealth managers themselves concede widespread inadequacies in helping clients understand their affairs. Previous *WealthBriefing* research has found that in North America around a fifth believe clients are insufficiently informed about their overall wealth picture and progress towards their goals – something which is unsurprising when we consider that only around 40% of firms' reports address long-term objectives and how clients might attain them (see Figures 10 and 11).

As Appway's Buzzi summed up:

"It's crucial that institutions adapt in this new era of transparency and demonstrate that they are offering their clients sound advice and products that fit their needs. This creates long-term value for wealth management customers and, in turn, revenue for providers.

"Once firms embrace CRM2, they will not only be better at gaining their clients' loyalty, they will also boost profitability through improved operational efficiency, client experience and retention."

The relatively consolidated nature of the Canadian market is also a big factor in how it is evolving, particularly as regards technology adoption and the survival prospects of smaller firms. As Joy Savage, Partner, Monitor Deloitte, Deloitte Canada, observed: "Canada represents a great regtech opportunity, but it's not necessarily a question of new technologies and rather the potential to automate processes to deliver services at great scale. The wealth market is dominated by big banks that are busily upgrading legacy systems and investing in capabilities and partnerships deemed critical to their strategies."

Figure 10 - How much do you agree with the following statments about your firm's reporting:[17]

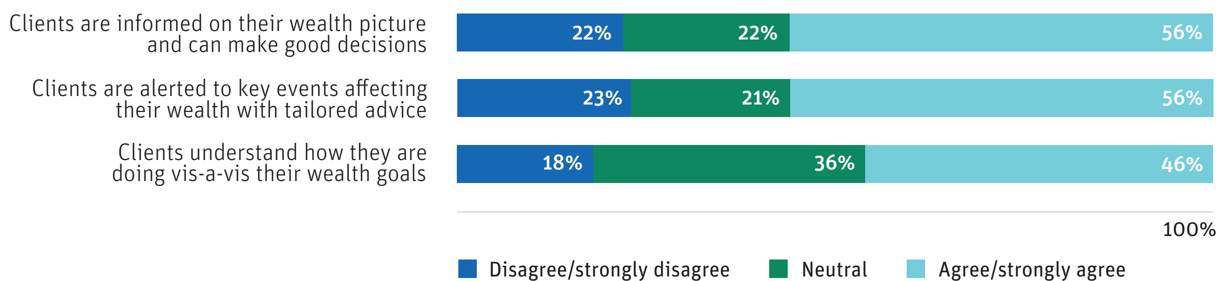
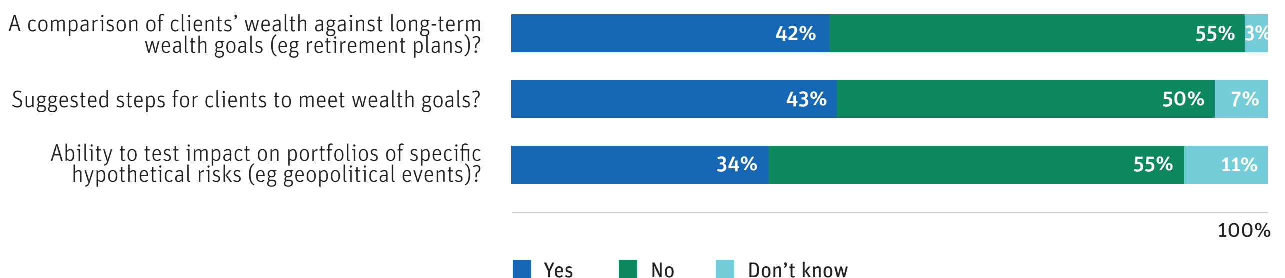


Figure 11 - Do your reports offer...[18]



"In contrast, established independent players are resource-constrained and generally less able to upgrade, while new independent players are emerging but less frequently due to a smaller 'size of prize' being on offer."

Importantly, Canada's transparency drive is rippling right across its investment sector and further regulatory upheaval – and incertitude - look likely.

CRM3 - an extension of disclosure requirements to the full Management Expense Ratios of investment funds - is expected, with talks between regulators and the funds industry in motion. "At present, there seems to be great uncertainty on how to implement CRM3 and what the impact will be," said Savage.

Canada Backs Away from Blockchain, But Innovation Broadly Well Supported

The Bank of Canada decided in May 2017 that there were "too many hurdles" to deploying Distributed Ledger Technology for an interbank payment system, after having worked for a year on a trial with the country's largest banks, Payments Canada and the R3 consortium (a group of 80 financial services organisations, including Hong Kong's Securities and Futures Commission). Chain technology promises to slash inefficiencies in areas like payments, syndicated loans and equity clearing. Yet the central bank's investigations with the "Cad-Coin" cryptocurrency resulted in concerns around privacy, resilience and scalability, leading it to consign this particular infrastructure innovation to the future.

Generally, however, the Canadian authorities have shown great support of financial services innovation, matching international peers in recognising the potential of IT to help firms meet their compliance obligations, helping fintech firms navigate the sector and collaborating with other regulators. The Ontario Securities Commission unveiled its LaunchPad innovation initiative in October 2016 and in February of this year signed a cooperation agreement with the UK's FCA to give regulatory support facilitating firms in cross-border business.

With new structures like the OSC Launchpad being implemented but still in stand-up phase, Savage generally characterises the Canadian regulator's stance on innovation and digitalisation as "encouraging but nascent".

For their part, wealth managers themselves are pressing ahead as much as possible. "Canadian wealth providers are, on the whole, pursuing a tech-enabled human approach to providing wealth services," she said. "Overall, there has been lots of activity – it's not 'blue sea' anymore."

Appway's Buzzi also sees Canadian institutions of all kinds rapidly moving to leverage fintech to enhance their operational efficiency and growth prospects, with CRM2 having acted as a significant spur to innovation.

> "Fintech has gained significant market traction, with the adoption rate expected to grow from 18% to 34%, and in many cases relationship managers already using digital onboarding solutions to increase transparency and ensure compliance, all while advising clients in their best interest."
>
> - Andrea Buzzi, Head of Solutions at Appway

"Fintech has gained significant market traction, with the adoption rate expected to grow from 18% to 34%, and in many cases relationship managers already using digital onboarding solutions to increase transparency and ensure compliance, all while advising clients in their best interest," he said. "A good onboarding solution must have the flexibility to allow banks to easily adapt to regulations like CRM2 and still maintain their focus on the customer."

Tax Transparency and AML Measures are Hot Topics

Proactive cross-border relations also resulted in a doubling of information sharing between the US and Canada last year under a deal brought about by the former's extra-territorial tax-enforcement regime, FATCA. Banking data on more than 315,000 Canadian relatives was reportedly passed to US tax authorities in 2016 – surging 104% on 2015 - as due diligence and the identification of reportable accounts gathered pace.

In fact, information sharing has progressed to the point that an additional 30,000 reports containing confidential Canadian banking records were said to have been passed directly from institutions to the US Internal Revenue Service, without the Canadian government's knowledge.

Meanwhile, it seems that AML tightening measures are likely to be on the horizon. Canada's tackling of terrorist finance and international cooperation were broadly commended in the Financial Action Task Force's 2016 evaluation. However, it observed that "law enforcement results are not commensurate with the money laundering risk and asset recovery is low", while advising Canada to focus on co-ordinating resources and expertise more effectively.

Singapore

"Singapore's Monetary Authority, which is also its central bank and promoter of the island-republic's financial services abroad, has a long regulatory reach through its chain of agreements with other regulators and is keen to foster innovation."

- Chris Hamblin, Editor, *Compliance Matters*

Regulatory Hotspots

- The MAS set up a dedicated AML Department in June 2016, both streamlining and enhancing oversight, followed by the establishment of a dedicated supervisory team to monitor how risks are handled.
- As part of its collaborative approach to balancing robust regulation with the innovation imperative, the MAS has convened a remarkably broad International Technology Advisor Panel.
- Singapore's regulatory overhaul, the Financial Advisory Industry Review, has been reforming the distribution of life insurance and investment products since early 2015; and in November 2016 the MAS expanded on the existing requirement for full fees and commissions disclosure by private banks. Sophisticated data capture, storage and analysis is becoming a priority for firms in Singapore in response, as elsewhere in Asia.

"Global banks operating in offshore jurisdictions like Singapore are under multiple levels of compliance pressure and that can be really positive for independents as they are in a much more flexible position to manoeuvre through the multiple regulatory inputs coming in."

- Asia Wealth Management Head at a Global Banking Group

Singapore's Enhanced Supervisory Focus on AML

The 1MDB scandal over the misappropriation of Malaysian state funds (which first began to emerge in 2014) sparked the most comprehensive financial crime and compliance review ever undertaken by the Monetary Authority of Singapore.

Singapore was certainly not alone in being brought under its shadow, with the MAS uncovering "a complex web of transactions involving numerous shell companies and individuals operating in multiple jurisdictions, including the US, Switzerland, Hong Kong, Luxembourg and Malaysia". However, a two-year thematic review greatly focused on private banks revealed serious AML weaknesses in client due diligence and transaction scrutiny (and senior manager misconduct) which led to a series of branch closures, hefty fines and banking bans across a range of institutions and individuals, both domestic and foreign.

Today, the Southeast Asian powerhouse's regulations are generally in line with FATF standards and would be comparable to jurisdictions which are FATF-compliant; Singapore is now well advanced on a path towards tighter, better-structured AML supervision.

"In June 2016, the MAS formed a dedicated AML Department that will streamline the existing responsibilities for regulatory policies relating to money laundering and other illicit financing risks," said Dawn Lim, Senior Manager, Financial Services, Deloitte Singapore.

"In addition, a dedicated supervisory team will be set up to monitor these risks and carry out onsite supervision of how financial institutions manage them. These functions used to be carried out by different departments within the MAS and the new structure will enhance supervisory focus."

Felix Kan, Head of Services APAC at Appway, warns that institutions will have to tighten up their KYC and AML processes - if they have not already - for both new and existing customers as a result of the MAS' new measures.

"Customer data and internal processes will be routinely scrutinised," he said. "If the review processes are not automated,

the investment will be huge, day-to-day business operations will be interrupted and there could be significant impacts on revenue."

Innovation Still Supported Within a Reinforced Regulatory Regime

Singapore may have been reinforcing oversight, but as one of the most digitally mature markets in the world, its authorities have been careful not to stifle the digitalisation of financial services. For example, as with Switzerland, "frictionless" client onboarding procedures are being facilitated to an impressive degree.

As Ross Scott, Consulting Director at Deloitte Singapore, explained: "To open a wealth management account in a local Singaporean institution you can request an appointment via an interactive phone app. Then, at the appointment, wealth managers have the ability to process KYC data and confirm compliance immediately, thereby allowing the issuance of new card, online account activation and mobile banking within the hour."

However, he added that while Singapore's forward-looking regulatory environment supports enhancing the client experience in this way, actually attaining these gains depends on a firm's ability to process and analyse digital data in a fast, effective manner. Significantly, 53% of risk and regulatory executives in Singapore say they do not trust the accuracy of their organisation's data at present (against 35% in the US), with inadequate data lineage and process governance the top reasons.[19]

As Figure 12 shows, *WealthBriefing* research has found that over a third of wealth and asset management professionals in Singapore are dissatisfied with their firm's systems for constructing, managing and monitoring portfolios. This chimes with Appway's Kan's view of technological progress in Singapore being very much two-speed, with some firms not moving forward at any great rate.

"We see institutions focused on data and pushing for (or already adopting) innovative solutions such as chatbots, digital signatures, video KYC identification, and seamless omnichannel client onboarding platforms," he said.

"Then, there are other institutions burdened by decentralised data distributed across various legacy systems - different teams entering multiple amounts of data into numerous systems and databases, using Excel spreadsheets, and passing around stacks of paper - and struggling to justify the cost and risk of overhauling the entire client lifecycle. In the latter case, it makes sense to first choose an applicable platform with a proven track record than to approach digitalisation step-by-step."

Ensuring that investments deliver maximum impact will clearly be absolute priority as cost pressures mount. *WealthBriefing* research has found that for just over a third of firms in Singapore, more than 50% of their total technology budget is being eaten up by compliance.

Figure 12 - Satisfaction with portfolio management systems.[20]

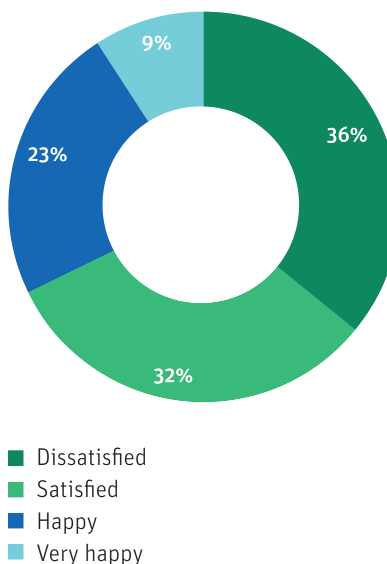
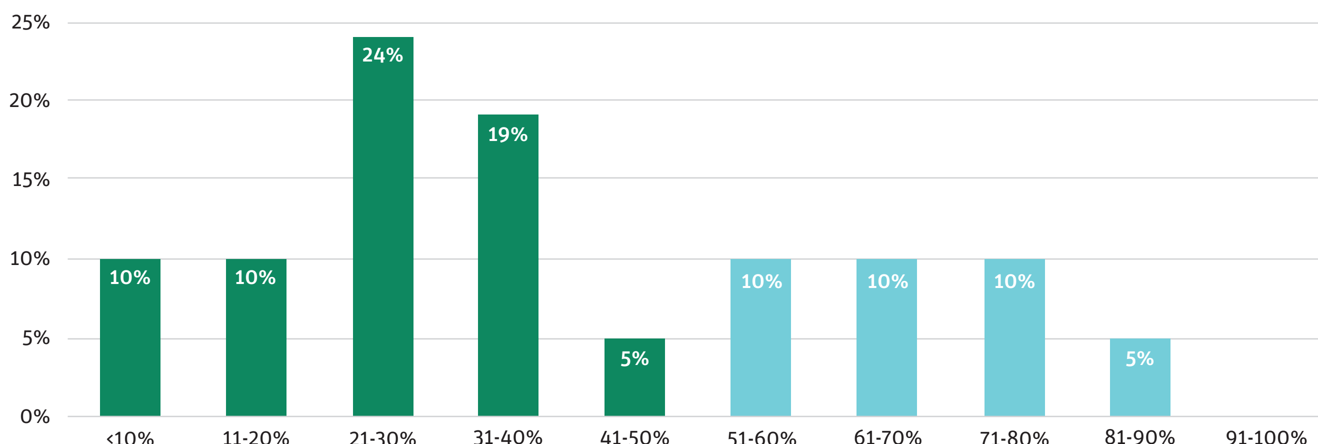


Figure 13 - Percent of total tech budget eaten-up by compliance.[21]



A Highly-Collaborative Regulator - both Domestically and Internationally

The MAS' recent testing of Distributed Ledger Technology was undertaken in partnership with technology provider R3 and a consortium of financial institutions, forming another strand to the collaborative spirit that marks the Singaporean regulator perhaps more than any other and which extends to "workaday" regulation as much as the innovation agenda.

As Scott explained the MAS proactively engages with industry to comprehensively understand issues and ramifications before rolling out new regulations and requirements, typically issuing a consultation paper to garner feedback before any change. (Importantly, inclusiveness is prioritised, with smaller industry participants like EAMs heeded in a way they perhaps aren't as much elsewhere.)

"The MAS' proactive industry engagement facilitates effective rollout as it takes into account entities' operating models and practical constraints in effectively implementing regulatory change while still remaining competitive," said Scott. "Such an approach enables improved collaboration between industry and regulator, leading to increased compliance without prohibitive implementation costs."

In a similar vein, in 2016 Singapore convened its first International Technology Advisor Panel, bringing together 500 industry professionals, academics and university students to discuss the impact of technologies like Blockchain, wearables, and telematics, as well as new business models for the banking, fixed income and foreign exchange markets.

"ITAP highlighted the importance of a regulatory regime that facilitates innovation and the adoption of new technologies while maintaining trust and confidence," said Lim. "It also provided the industry with useful ideas on how to promote both competition and collaboration in the technology space to provide cost-efficient financial services to individuals, SMEs and corporates."

The MAS' open, cooperative approach is also in evidence in its collaborations with peers both near and far seeking to develop new regulation for fintechs without hampering growth. For example, in 2017 it inked co-operative agreements with the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers of France to create synergies for the two markets, extend the global reach of fintechs and allow firms to learn from their foreign counterparts in the furtherance of innovation.

In the view of Kan from Appway, the MAS is at the forefront of digitalisation along with the global leader, the UK's FCA, meaning that Singapore is particularly poised to thrive.

He said: "The MAS was one of the first regulators to launch regulatory sandboxes and pilot shared KYC databases with other banks. With sanctioned leeway in terms of rules and regulations, fintech firms in Singapore are thriving and achieving financial technology milestones that benefit the rest of the world.

"We see tremendous opportunities for business collaborations within the financial industry ecosystem here, and we strongly believe that the commitments and efforts in fintech will pay off and place Singapore as a leader in fintech innovation in both the region and the world."

Notably, the MAS is taking a particularly progressive stance on Distributed Ledger Technology. Having successfully completed a proof-of-concept project to conduct domestic inter-bank payments via DLT, in March 2017 the MAS announced its readiness for international testing and the commencement of discussions with other countries to allow cross-border settlement via central bank accounts.

In Focus: Suitability and Appropriateness in Asia

Ross Scott, Consulting Director at Deloitte Singapore, explains why firms in Singapore – and across Asia – are focusing on sophisticated data capture, storage and analysis to wring business benefits from regulatory change.

Across Asia we are seeing increasingly onerous regulatory requirements around suitability and appropriateness. Regulations are quickly matching, and even surpassing regulatory requirements in European countries. As a response, financial institutions are increasingly looking at regulations as an *opportunity* to redefine their business model, ranging from technology solutions that facilitate relationship managers' insight into suitability products, to directly matching client profiles to products. At the heart of these developments is data and sophistication of data capture, storage and analysis. More sophisticated data strategies are ensuring at client onboarding that all data points are captured, aggregated and stored; this information can then feed directly into technology solutions to match clients' profiles to the most suitable products that the financial institution has to offer.

This increasing use of IT solutions allows these financial institutions to better drive revenue generation, and understand profitability at a client and product level.

Hong Kong

"Hong Kong's most go-ahead regulator is the Securities & Futures Commission, which is active in every kind of initiative that other regulators around the world think important."

- Chris Hamblin, Editor, *Compliance Matters*

Regulatory Hotspots

- Guidance Notes 15 and 16 (issued by the Office of the Commissioner of Insurance in January 2015 and April 2016) represent a crackdown on insurance-linked advice and were followed in June 2017 by an updated Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, as part of a Treating Customers Fairly drive.
- In November 2016, the Hong Kong SFC proposed changes to the Fund Manager Code of Conduct to better protect investors' interests and ensure market integrity, with significant moves to improve fee and cost disclosure.
- Amendments to Hong Kong's Persons with Significant Control rules were proposed in June 2017, ahead of the Financial Action Task Force's review of the jurisdiction scheduled for 2018.

Private Wealth Firms Bound by Five Principles under TCF Charter

In July 2017 the Hong Kong Monetary Authority and Private Wealth Management Association announced the development of a "Treat Customers Fairly Charter" binding all authorised wealth managers to five customer-centric principles. Closely modelled on the UK FCA's "consumer outcomes", these are that:

1. Products and services will be designed to meet clients' needs (rather than maximise profits).
2. Products' key features, risks and terms will be clearly set out and explained.
3. All marketing material and client information will be accurate and comprehensible.
4. Clients will be provided with reasonable channels to submit claims, make complaints and seek redress, and will not face unreasonable barriers to switching provider.
5. Private wealth managers will join forces with government, regulators and other parties to promote financial literacy.

The Charter is intended to complement rather than replace current laws and regulations (and existing bank-client terms and conditions). However, the HKMA expects senior managers and boards to ensure their firms and employees honour it, advising that policies, procedures and literature are reviewed for compliance with the Charter's principles.

As with other cultural reform programmes, enhanced process documentation, monitoring and data management will be key – not only in proving compliance and defending the institution, but also in allowing firms to recognise (and reward) good practice.

According to Felix Kan, Head of Services APAC at Appway, amendments across a number of business processes linked to identifying the most suitable products and services for clients will be necessary to enable staff to work in accordance with the Charter, with equal attention paid to both client take-on and relationship maintenance.

> "The existing KYC and suitability rules for onboarding and ongoing reviews must be enhanced through process automation and analytics, to ensure that frontline staff have a deep understanding of their clients and only recommend the right products to them based on centralised, pre-set guidelines and logics."
>
> - Felix Kan, Head of Services APAC at Appway

"TCF culture and practice should be instilled in client onboarding processes and day-to-day interactions with existing customers, such as customer reviews and risk remediation processes," he said. "The existing KYC and suitability rules for onboarding and ongoing reviews must be enhanced through process automation and analytics, to ensure that frontline staff have a deep understanding of their clients and only

recommend the right products to them based on centralised, pre-set guidelines and logics."

In Kan's view, technological enhancements are the best way to make all the cultural changes mandated by the HKMA concrete, and maximise the benefits to all sides. As he points out, automated systems tracking all staff activity - and the rationale behind it - will deliver significant efficiency and governance gains; but by combining them with toolsets for tailored client engagement, institutions will also be able to promote a culture of financial knowledge sharing in line with the Charter's fifth principle.

"Increasing transparency is the most important trend in Hong Kong, Singapore and wider Asia. While I don't think regulators will abolish commissions, full, European-style disclosure will be here within five years; at the same time, clients' attitudes towards advisory fees are changing slowly but surely."
- CEO of a Hong Kong-based EAM

Fee Transparency Accelerates in Asia's Asset Management Powerhouses

Although they currently lag behind their more progressive peers, significant moves to improve fee and cost disclosure, and curb potential conflicts of interest, are afoot in both Hong Kong and Singapore as they seek to reinforce their reputations for robust regulation and further enhance their attractiveness on the global stage. As Figure 14 shows, asset management fees appear to be an increasingly important part of the revenue mix - and trail/commissions less so - for independent advisors based in Hong Kong.

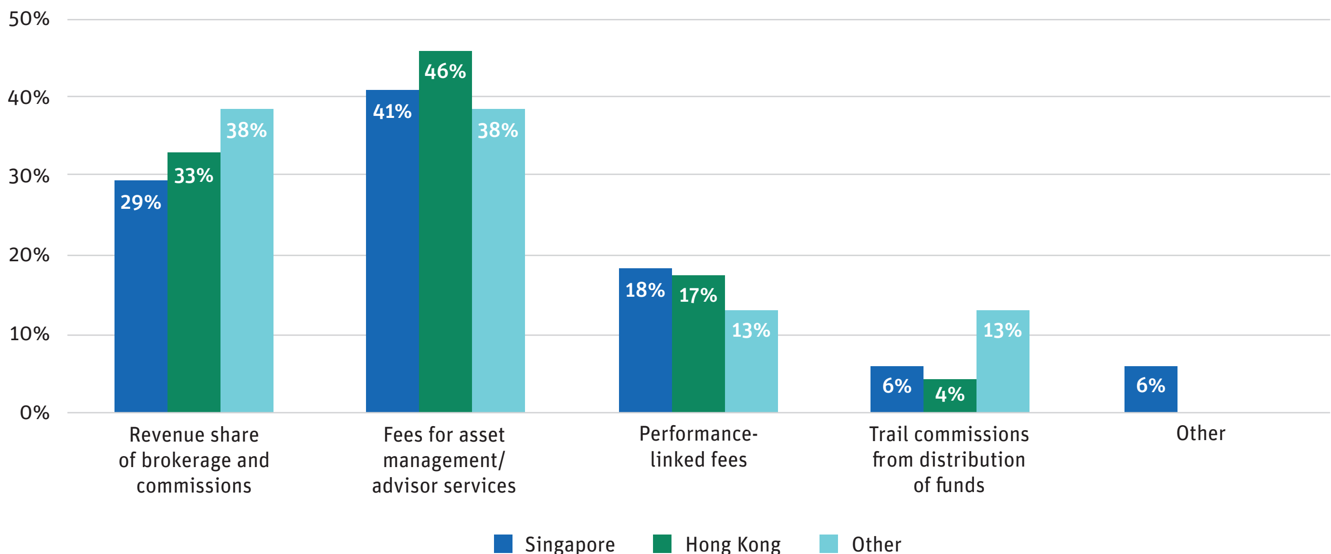
It seems the trend in Asia is towards *disclosure* of trail fees and commissions rather than outright UK-style bans, however, as the advisory, fee-based model is still very much gaining traction among a client base largely held to be more comfortable with transactional relationships. Yet improved competition - and therefore greater market penetration for the sector - are hoped for without too much pain.

"Competition becoming more transparent is a good trend for Hong Kong," said Paul Sin, Fintech Partner at Deloitte China. "Brokerage firms and wealth management companies alike have been investing a lot in their back-office platforms, so technically they have the required data for disclosure already."

Nonetheless, Sin believes the transparency drive may act to cull smaller, more commissions-focused firms in the Asian powerhouses – to the extent to which "only big brokers and small fintechs will remain".

"We are already seeing stringent regulations causing some small firms to become introducing brokers that just refer clients

Figure 14 - The most important part of Asian EAMs' revenue mixes vs location.[22]



to overseas brokerages for commissions, instead of onboarding them in Hong Kong," he said.

Regulatory Brakes on Robo; Regtech, Rather than Fintech, the Main Focus in Hong Kong

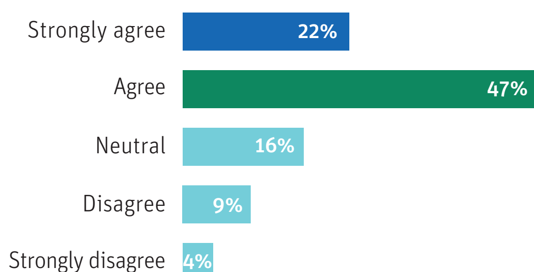
While innovation continues apace in other areas, Hong Kong's regulators seem to be stalling the march of robo-advice by taking a very much more cautious stance than some international peers. Barriers centre on both the designation of robo-advice and the practicalities of online distribution and advisory platforms, meaning that robo-advisors can only *support* relationship managers in delivering advisory services rather than this being fully automated.

"There are several challenges and no sign of a loosening of the regulations: KYC still requires face-to-face interaction; withdrawal still requires physical signature; and a third-party cannot be delegated to deposit, unlike with banks," said Sin.

"There are also serious distribution restrictions: most brokerage firms are holding Licence #1 for securities dealing, but robo-advisors are considered discretionary portfolio management and so require Licence #9, which can only serve 'Professional Investors', not the general public."

According to Sin, the regulatory brakes being applied to robo-advice form part of a broader "regtech over fintech" picture whereby the SFC's interest is focused on technologies that improve compliance and monitoring. "Regtech will help reduce the cost of compliance in the sector significantly, but it may not create much in the way of innovative products and services," he observed.

Figure 15 - Do cross-border regulations reduce the number of markets EAMs can acquire clients in?[23]



As it battles for international assets (and jostles with Singapore for supremacy), Hong Kong seems to be pegging its hopes on an attractive tax regime and ease of doing business cross-border. Compared to some peers, it may be concentrating on the slightly less glamorous sides of innovation, but this regtech focus could arguably generate commensurate competitive benefits. As Figure 15 shows, efficiently dealing with cross-border compliance is imperative for institutions in offshore-orientated centres (and particularly Asia's newer ones).

"Hong Kong has an edge in its simplistic tax system with pretty low rates, and the HKMA is also working on digital identity to reduce KYC effort and fraud loss," Sin concluded. "The regulators are also keen in communicating and collaborating with other countries on data standards and protocols, so synergies can be harvested, especially in areas like Blockchain."

Here, Appway's Kan highlighted client authentication as a particularly exciting area of development for wealth managers that has significant support from the authorities.

"The government-established Hong Kong Applied Science and Technology Research Institute is now collaborating with companies such as TransUnion to develop digital identity solutions," he said. "Drawing data from such solutions, institutions can experience a boost in both the efficiency and quality of their KYC processes, moving away from the current non-standardised, semi-manual, paper-based procedures."

Appway's Kan sees Hong Kong-based institutions increasingly upgrading their client take-on procedures in a bid to improve the client experience, cut costs and reduce regulatory risks – with the latter now maximum priority amid Hong Kong's tightening KYC/AML regime.

The FATF is due to evaluate Hong Kong's AML framework in July/August 2018. Ahead of this, the government has put in motion several enhancements to its AML and counter-terrorism financing (CTF) regulations to better meet FATF standards.

June saw the publication of the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Bill 2017, which will impose statutory client due diligence and record-keeping obligations on institutions from March 2018; also published was the Companies (Amendment) Bill 2017, proposing that Hong Kong-incorporated companies must ascertain the identity of individuals and legal persons with significant control over them, and maintain a register of this information available to law enforcement officers.

With the rules becoming tougher so rapidly, experts are advising Hong Kong's wealth managers to ensure they have sufficiently strengthened and automated their AML compliance operations to deal with far higher volumes of regulations and data.

The authorities have already ramped up enforcement action, levying large fines on big-name banks for failing to set up proper procedures for PEP identification, for example. Institutions can only expect further scrutiny in the run up to and aftermath of the FATF review next year.

CONCLUSION

While certainly not completely exhaustive, it is hoped that this report has provided wealth managers with valuable insights into the most prominent compliance and innovation trends shaping the industry's future globally.

In surveying trends across the EU, Switzerland, UK, US, Canada, Singapore and Hong Kong it was our intention to help wealth managers hone a strategy fit for purpose across many markets, but also to assist single-market firms to see where developments may be heading generally.

It has been beyond the scope of this report to delve too deeply into the "back-story" of each jurisdiction and how oversight has developed over the decades, but hopefully a notion of these arcs has been delivered. Which jurisdictions tend to follow others' rule-making and why is one of the most interesting elements of the industry's compliance narrative.

On financial services innovation, things become more interesting still – and as we have seen there have been many recent developments that may surprise those who have not been closely following the fintech revolution. Here, Switzerland's very strong moves to facilitate digital disruption are a case in point, while on the flipside some may be surprised by the relative caution being shown by the US towards innovation, despite it being home to so many of the world's cutting-edge technology companies.

These differing approaches to fintech aside, the world's regulators are very much united in their crackdown on tax evasion, money laundering and terrorist financing, and increasingly in their commitment to promoting the fair treatment of customers and ensuring good governance and behaviour from all industry participants.

Regulatory standards can clearly be seen to be converging across the world's leading regimes and moves to support innovation are being closely matched as centres vie to remain competitive globally. Although, as these pages have highlighted, the various jurisdictions and their regulators are moving ahead at differing speeds in different areas, with some very much leading in some over others in accordance with their individual priorities.

Correspondingly, industry experts have long advocated that wealth managers develop "gold standard" procedures compliant with the toughest rules that may apply to their business, and then to make local amendments where appropriate. It is this kind of practical thinking which will ensure that costs can be contained as much as possible, and allow firms to focus on realigning their models with the dizzying pace of change affecting every area of wealth management operations.

These are very exciting times for the industry, but also very challenging ones. To a large extent, all business leaders now need to be experts in both compliance *and* technology innovation to stay ahead of the curve.

Wendy Spires
Head of Research
WealthBriefing

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