End-to-End Efficiency:
Highlighting crucial bottlenecks for private banks in Singapore and how they can be eased out

PRIVATE BANKER
INTERNATIONAL

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Research Overview and Methodology

The objective of this research was to obtain quantitative as well as qualitative insights from private banking executives in Singapore via a deep-dive survey and one-on-one interviews. The purpose was to gain a comprehensive understanding of how private banking players in this crucial wealth hub are mitigating imminent challenges and roadblocks, achieving end-to-end efficiencies while ensuring client centricity, and establishing best-practices for the future.

Private Banker International (PBI) carried out the exclusive survey during the months of July and August 2016, with 20 senior executives from private banks operating in Singapore.

The respondents to the survey were from the private banks' IT and Operations teams and the job titles include Director – Operations Transformation, Director/Program Manager - Technology & Operations, Head of IT Department in Singapore, Senior Technology Manager and Associate Director - Treasury & Operations among others. The respondents were from banks including Credit Suisse, Deutsche Bank Wealth Management, Bank of Singapore, United Overseas Bank, ANZ, Citi, HSBC, Morgan Stanley, UBS Wealth Management, and DBS Bank.

Six exclusive, in-depth interviews were also conducted for this whitepaper during the months of August and September 2016, by PBI, and quotes used have been attributed accordingly throughout this research. The content has been written by PBI and sponsored by DTCC.

Executive Summary

The private banking and wealth management landscape across the globe has gone through an unprecedented transformation over the past few years. Singapore – a crucial wealth management hub and a magnet for the global wealthy – is also adjusting to the new realities of the industry, battling myriad challenges and trying to find ways to lasting success.

At the heart of these challenges lie increased and evolving regulatory demands and rising cost-income ratios. Adding to those burdens are the rising complexities on numerous levels. While every bank tries to become more customer centric and gain a competitive advantage in Singapore, establishing end-to-end efficiencies on an operational as well as service level remains a top-of-mind objective for C-level executives in the island country.

The crucial bottlenecks to achieving this comes down to the many layers of fragmentation that private banks are currently victims to. Private banks are increasingly looking for ways to make in-house processes simpler, have stronger systems in place and operate within secure frameworks. However a 'growing' middle-office, archaic technology and operational infrastructures and a slow response to change are some of the factors preventing this. Approximately 64% respondents to the PBI survey said that 'more work needs to be done' on their existing middle- and back-office technology infrastructures and processes.

The need for increased automation and standardization has never been more vital for private banks in Singapore. While these institutions are leading the way in digitalising their customer touch-points and embracing FinTech players, they can seek real value from more centralization and straight through processing in their middle- and- back-offices.

Increased standardization and automation will not only allow private banks to become more efficient, secure and accurate, it will also enable them to be agile and, most importantly, cost effective in the short and long term.

Private banks in Singapore, undoubtedly, need a more coordinated approach, and this is where automation can help. Having common processes and standards are crucial elements for private banks to be efficient, compliant and profitable. Even though a majority of private banks are already turning towards automation in order to improve their workflows and cost-income ratios, there is still a wealth of opportunities and untapped potential to be explored.

Highlighting crucial bottlenecks in achieving end-to-end efficiency for private banks in Singapore and how they can be eased out

As a private banking hub, Singapore is showing no signs of slowing down. Asia-Pacific's financial powerhouse continues to build upon its strong reputation and the region's prolific wealth generation.

There has been robust growth in the high net worth (HNW) segment in Singapore, particularly over the last five years. The HNW population is forecast to grow by 18.3%, to reach 188,000 in 2019, according to data from WealthInsight. The island country has, in fact, garnered a status of being regarded not only as a regional but a global wealth hub, and an innovative one at that. Support from the Monetary Authority of Singapore (MAS) and sound legal frameworks have further strengthened its position.

However Singapore also has its unique dynamics that private banks need to navigate in order to find lasting success. These dynamics underscore their current concerns and priorities.

Compliance, Cost and Customer satisfaction challenges

For the majority of private banks in Singapore, the most crucial concern continues to be *regulatory compliance*. This is followed by *regulatory reporting*.

Top five concerns for private banks in Singapore (ranked in order of importance)

1. Regulatory Compliance
2. Regulatory Reporting
3. Squeezed profit margins
4. Digital disruption
5. High cost-income ratios

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, said: "The biggest issue that we face is the ever-changing regulatory environment. There's never been a situation in private banking where we have been so close to the cutting edge of regulation, but in the last two to three years, with Commodity Futures Trading Commission (CFTC), Foreign Account Tax Compliance Act (FATCA) and more, organisationally we are having to ramp up and bring in new capabilities to prepare ourselves to understand the new regulations and then to deploy technical and operational solutions to meet them."

Squeezed profit margins and *high cost-income ratios* are also among the top five concerns for private banks in the country.

Cost-income ratios for private banks have skyrocketed post financial crisis and the business of wealth management has become all together more expensive. Even though many private banks in Singapore have been making profits in terms of their total assets, what is not always obvious are their rising cost-income ratios. Cost-income ratios are particularly soaring due to high talent management costs, as a result of serious competition for advisors in the region, and expensive real estate. The low margin environment is a vital challenge to overcome.

Digital disruption also seems to be a pertinent concern for private banks in Singapore. This is coming from innovative new competitors such as robo-advice firms and digital-only giants such as Alibaba. Private banks in Singapore are proactive about tracking new digital offerings and are making investments in order to keep pace with them.

Top five priorities for private banks in Singapore (ranked in order of importance)

1. Compliance
2. Customer satisfaction
3. Risk management
4. Operational efficiency
5. Building a robust data management architecture

Unsurprisingly, *compliance* is the top-most priority for private banks in Singapore – in line with their primary concern area. This is followed by *customer satisfaction*. Private banks in the country are making significant strategy as well as operational changes to ensure enhanced customer experience, customer engagement and customer loyalty.

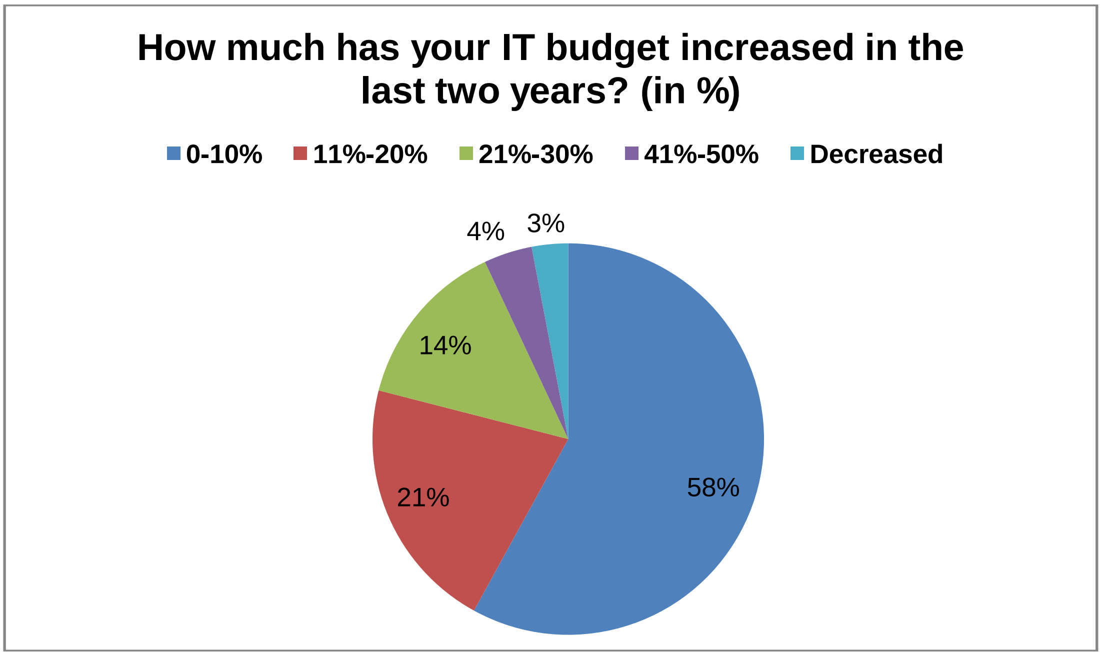
Risk management is the third most important priority for private banks in Singapore, according to the PBI survey. This comes as not much of a surprise either since Singaporean banks have been engulfed in recent regional events that carry the potential of having far reaching ramifications for the industry and causing significant reputational damages.

Operational efficiency is also one of the top five priorities for private banks followed by *building robust data management architectures.* Establishing proficient workflows and having the capability to store, manage, mine and use data effectively are top-of-mind objectives for C-level executives at Singapore's private banks.

Regulatory demands pushing up IT budgets

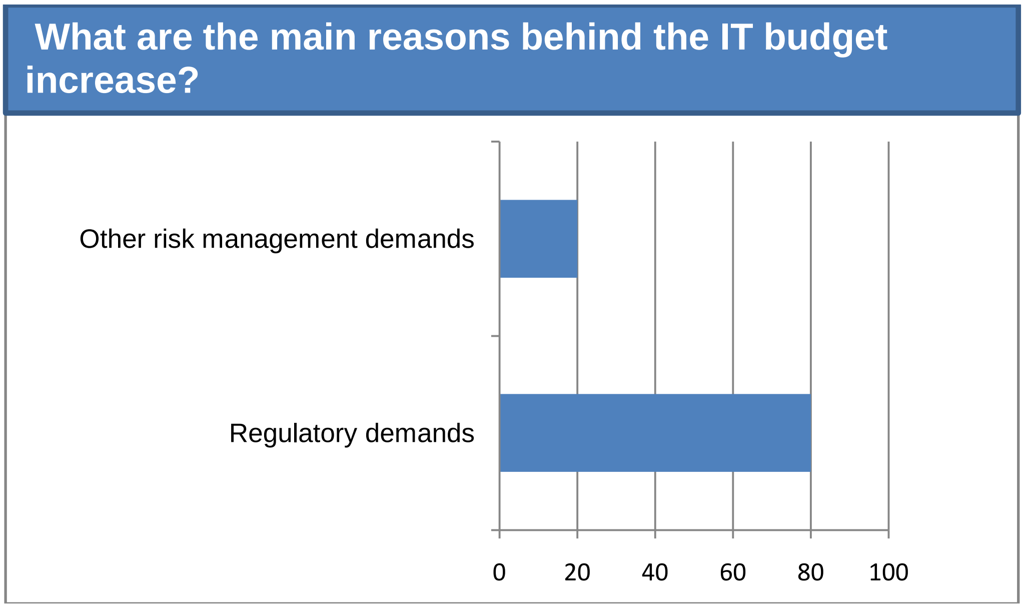
Additionally, 58% of respondents revealed that their IT budgets have increased in the last two years by 0-10%, and 80% of respondents cited *regulatory demands* as the primary reason behind the rise.

Approximately 21% of respondents to our PBI survey said their IT budgets had increased in the previous 24 months by 11%-20%, while 14% of respondents cited a rise of 21%-30% and 4% quoted the rise to be 41%-50%. The smallest minority of respondents (3%) said their IT budgets had actually decreased during this time period.



Alongside regulatory demands, other risk management demands were cited as another reason behind the IT budget increase.

Some banks also cited reasons such as a capability upgrade, business growth requirements, digital disruption and digitization.



For some banks, the increase in IT investment was driven by platform transformation project to help improve end client service.

Eddy Tai, Global Head of Operations & Technology at Bank of Singapore, told *PBI*:

"We saw quite a substantial increase in our IT expenditure in the past two years, more than 20% p.a. Our key investments were in platform transformation, digital capabilities and integration as a result of our acquisition of the wealth and investment management businesses at Barclays Bank PLC in both Singapore and Hong Kong."

A spokesperson from UOB Private Bank said: "We like to think of ourselves as a start-up, which is why our IT budget has and will continue to increase significantly.

"Our IT investments are driven largely by the fundamental focus to grow and to improve our product and service platform as well as to increase our client servicing standards, so that every interaction we have is efficient and consistent for our clients."

The *many* layers of fragmentation that hinder cost-income ratios and efficiency

Fragmentation is an enemy to operational or business success and it is clear through PBI's primary research and survey findings that private banks in Singapore are victims of this phenomenon. However, the nature of fragmentation is not only taking place on the technology front but also on the data, process, and operational fronts.

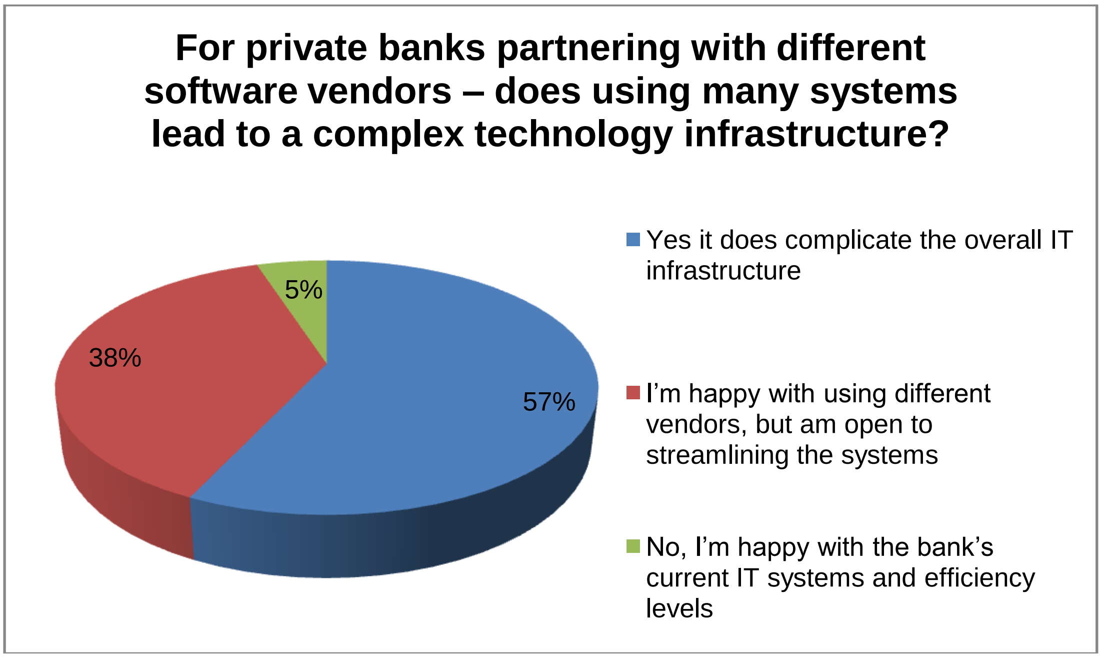
PBI's research reveals that simplification on several layers is an essential next step for Singapore's private banks to ensure improved efficiency as well as returns.

IT vendors and systems fragmentation heightening risks

The PBI survey findings revealed that IT vendors and systems fragmentation is proving to be increasingly risky for private banks in Singapore.

Well over half the respondents (57%) of the PBI survey said that using different software vendors and systems leads to a complex overall technology infrastructure.

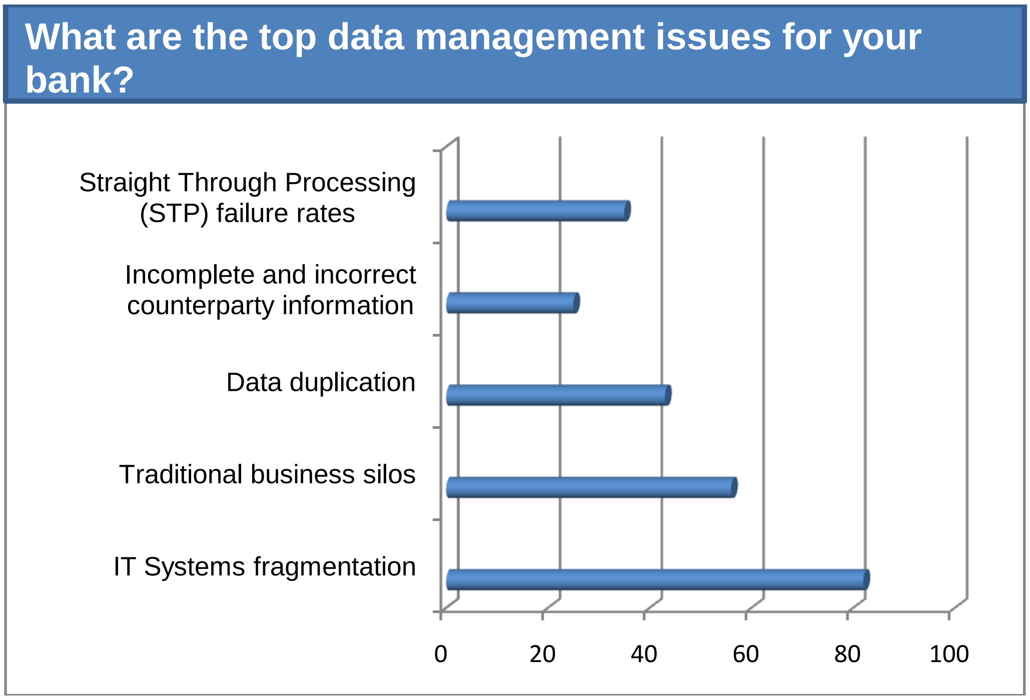
Only 5% of respondents said they are completely happy with the current IT infrastructure at their private bank, while 38% respondents said they are happy with the different vendors but open to streamlining the various systems.



Approximately 82% of the survey respondents also cited *IT systems fragmentation* as the top data management issue for their banks.

This was followed by *traditional business silos* (56%) and *data duplication* (43%).

While building a robust data management framework is one of Singapore's private banks' top priorities, *IT systems fragmentation* is the biggest roadblock along the way to doing so.



The *call for consolidation* is clear. Private banks need to seek out reliable partner institutions that offer a range of solutions that they can choose from to avoid having disparate systems sitting on top of the other and not being compatible.

The IT vendor space is crowded in Singapore with many players offering pieces of technology that add to the existing fragmentation.

""There are many technology vendors in Singapore. Vendor products generally specialize in a particular area and they need to be integrated into the IT landscape for end-to-end processing. Each of the products we buy from the market has its own evolution cycle. That complicates the landscape," said *Sandipan Ray, Head of Wealth Management IT APAC & Head of Global Core Banking platform transformation at Deutsche Bank.*

Additionally, many of the private banks still have legacy back-end systems to deal with, making the all-round infrastructure ever more complicated and rigid. Keeping the overall infrastructure agile and flexible as well as cost-effective will require increased standardization. Private banks need to achieve a harmonious and inter-connected IT framework powering all the different units. Given the volume of vendor deals, ongoing risk assessments, and regulation-required errors, more automation is the only way.

It will also be most rewarding for these private banks to choose *umbrella-partners* – vendors who can act as one-stop-shops and empower the bank with a suite of suitable systems and solutions to fulfil their IT needs and fill in the gaps.

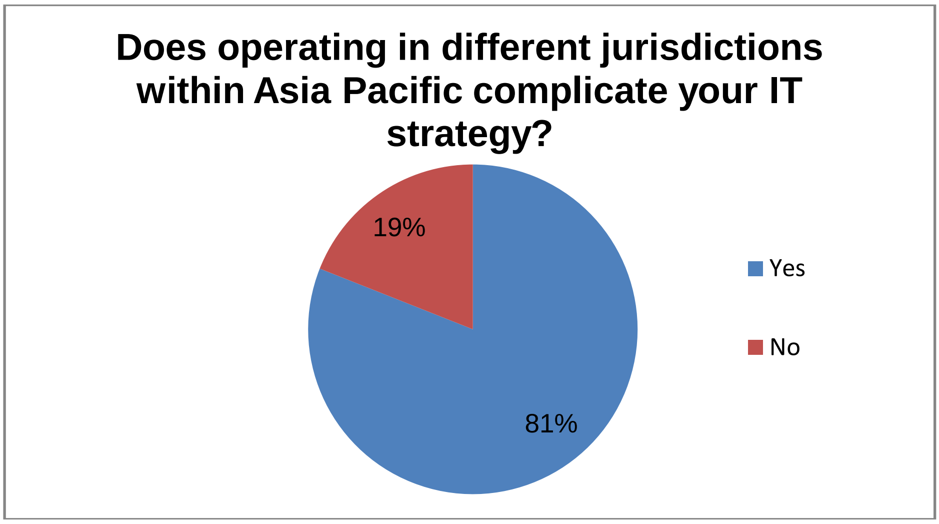
Streamlining the systems as well as providers is an essential next step.

Tackling the multijurisdictional 'Cost and Complexity' fragmentation

Singapore is a melting pot of both global and local private banks and wealth managers. A majority of these banks have booking centres in different countries within Asia Pacific.

Competition is rife among these players to gain more wallet share from the region's wealthy clients, but this is not without its share of complications and expenses.

An overwhelming 81% of respondents divulged that *operating in different jurisdictions within Asia Pacific made their IT strategy more complicated*.



Additionally, according to 75% of respondents to the PBI survey, operating in different jurisdictions within Asia Pacific made their IT spend more costly.

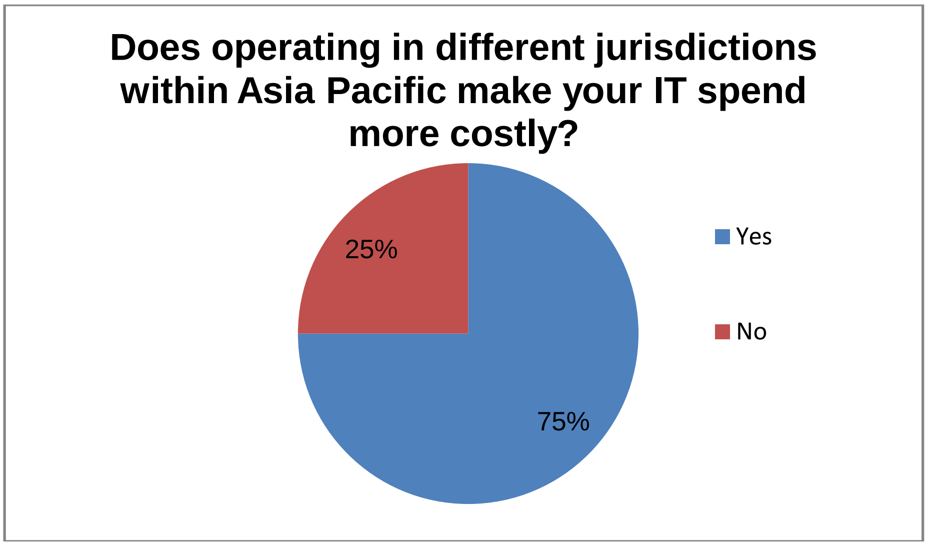
The cost and complexities of being multijurisdictional were the primary reasons behind certain global institutions retrenching from select geographies within Asia Pacific or downsizing their booking centres – for instance, Barclays Wealth & Investment Management sold it's wealth operations in Singapore and Hong Kong to OCBC's private banking arm, Bank of Singapore, in April 2016, in a deal worth $320m.

Prior to this, in 2014, DBS emerged as a big buyer of Western assets after it acquired Societe Generale's Asian private banking activities, paying $220m for the franchise. Coutts

International (including Coutts Asia) was also sold to Union Bancaire Privée (UBP), a Swiss-based family-owned private bank, and the transfer of its Singapore and Hong Kong activities was completed on 11 April 2016.

Kong Eng Huat, Chief Executive Officer at Singapore Branch and Southeast Asia, EFG Bank, said:

"Consolidation will continue to happen. A lot of the big banks have a private banking unit but most of them may not be profitable or have high cost-income ratios. They are not being able to grow it. They are running small units and with all the regulatory scrutiny a lot of these banks will give up private banking as a business and focus on corporate and investment banking, which may be their main business."



Different banks are currently dealing with these costs and complexities differently.

Some banks have built a global platform to support various jurisdictions and on-board the locations on to "one platform". They have a consolidated system that caters to all regions within Asia Pacific, instead of an individual infrastructure set-up per region.

Several banks are looking towards more "consolidation and hubbing" of IT infrastructure for better control over operations and costs. Some banks have also tried to ensure a customizable regulatory reporting infrastructure.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, said: "Being multijurisdictional does mean increased technology investment to ensure that the solutions have the breadth of reporting capacities needed to comply."

He further added: "A majority of the regulations come out of the US and we have a well established compliance capability in the US. Our colleagues there have been busy in the last

12-18 months and worked closely with their counterparts in the industry in the US, as well as the regulators directly.

Eddy Tai, Global Head of Operations & Technology at Bank of Singapore, said: “Operating in different jurisdictions will definitely increase the complexity and costs to manage the different regulatory requirements of each market. In the case of Bank of Singapore, being focused on select markets helps ensure that we spend wisely and only where necessary.

“Although we are multijurisdictional, we are able to maintain one platform and a largely consistent process to support Bank of Singapore in the various markets in which we operate – apart from taking into account location-specific regulatory requirements.”

Being multijurisdictional also impacts the banks’ ability to leverage IT resources, models, architecture and potentially consolidate them for economies of scale.

Many respondents to the PBI Survey echoed the sentiment that while deploying a centralized IT platform was the focus, each jurisdiction has its own complexities and while most of them require lifecycle reporting, minor changes here and there make it almost impossible to have one solution that fits all jurisdictions.

Thus, having modern, state-of-the-art back-office architecture goes a long way in mitigating challenges and costs of being multijurisdictional. Deutsche Bank Wealth Management, for instance, changed its 25-year-old legacy core banking infrastructure and migrated to a new IT architecture in 2015. Julius Baer also announced its migration to a new core banking system across the entire organisation and across countries.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, said:

“We moved to a new operating platform, which gives us a lot more flexibility in the way we can look at our individual clients in the jurisdictions we operate in and understand the different situations they have – the different domiciles, tax residencies and such – to be able to cut the data in the right ways. Previously that would have been very difficult with our old IT architecture. Looking forward, it was imperative to get the right technical and data foundations in place.”

A spokesperson from UOB Private Bank added: “At the back-office – despite challenges such as the inertia to replace outdated technology systems or other related architecture – all private banks have been and will continue to use automation to introduce new technologies and to train their people as they do so.”

Manual intervention in the middle-and back-office amplifying risks and process fragmentation

Another key pain point that has been highlighted is how *manual intervention in the back- and middle-office is making private banks risks prone.* 99% of respondents to the PBI survey were in agreement in their answers.

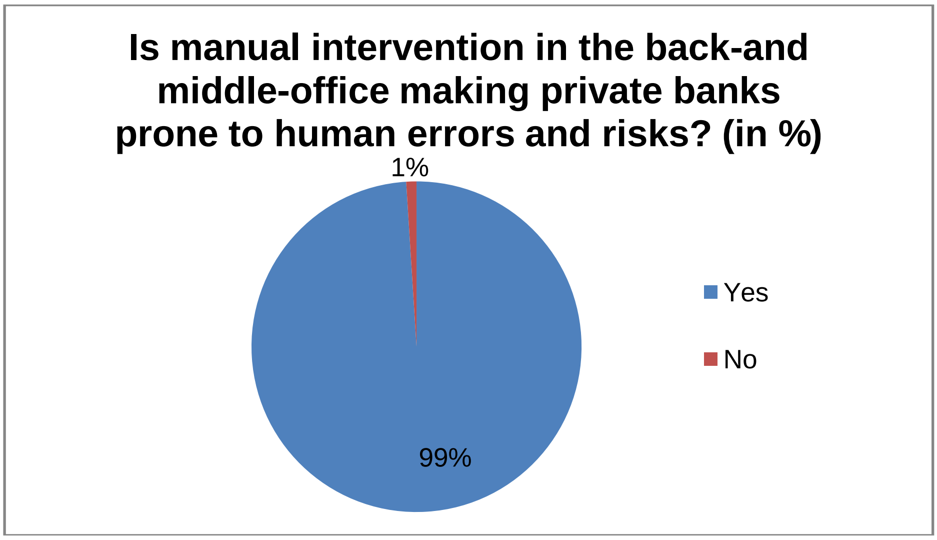
Private banks in Singapore are ahead of the curve when it comes to digitizing their front-office and launching the latest customer facing technology tools for their clients as well as relationship managers/advisors. However, the same level of innovation does not, in most cases, translate to the middle-and back-office areas.

“How do we adopt new technologies and make them available for the clients and connect them through the legacy platform? That is the challenge for many banks currently. We need to offer our clients more streamlined and seamless services,” said *Sandipan Ray, Head of Wealth Management IT APAC & Head of Global Core Banking platform transformation at Deutsche Bank.*

The manual intervention in the middle-and back-office functions are adding to the costs and creating significant risks – thus ultimately hindering profits and customer experience.

One reason behind the existing levels of manual intervention in private banks’ back-and-middle-office areas is the overwhelming pace of regulatory changes.

The majority of these institutions have not been able to cope with the speed of change and regulatory updates in order to put the necessary IT models in place. However, relying on manual systems is not a sustainable business model. There is more standardization and automation required across the whole value chain at private banks. A modern back-office will go a long way in enabling that much needed automation.



Another reason for manual intervention is that historically, across Asia Pacific and specifically Singapore, there has been a cultural inclination towards hiring more staff members to manage more responsibility and tasks. This however is not a sustainable solution – especially at a time when banks are struggling with squeezed profit margins and are in need of slashing personnel costs significantly. Building an agile, scalable, secure IT framework will not be possible by merely throwing more people at the job.

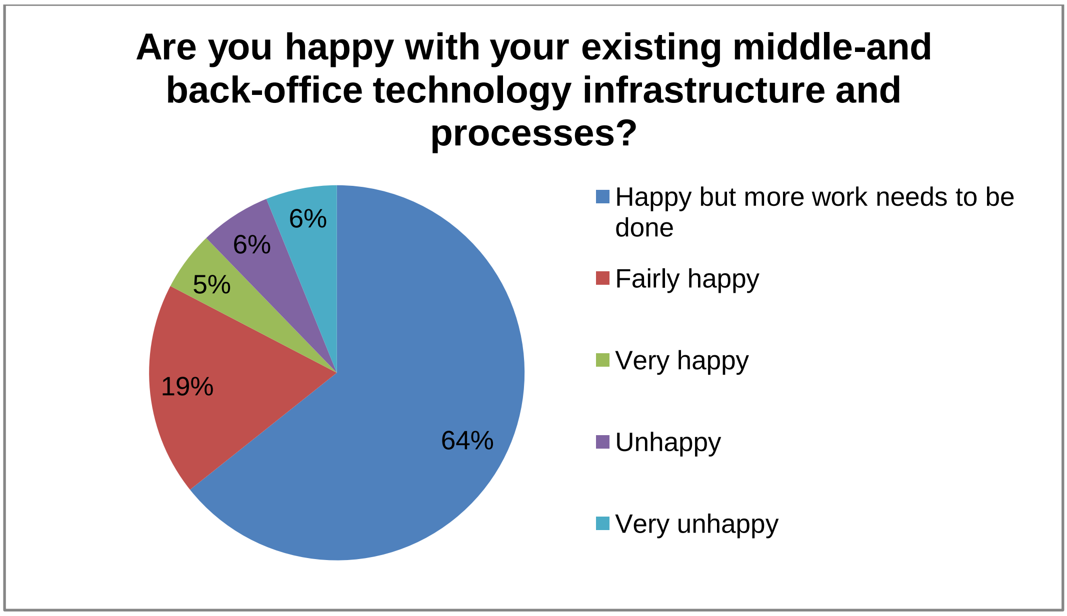
There are some areas, however, where manual intervention becomes unavoidable. One is the perennial area of client-and account-onboarding, Know-Your-Customer (KYC) and rhythmic review of clients. Client static areas in wealth management are manually intensive because of the different types of accounts they have.

Institutions such as Deutsche Bank Wealth Management have had to remediate their database to meet ad-hoc requests of the regulators. "We have now started using optical technology, which has been really beneficial," says *Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management.* In a nutshell, the optical technology software can take scanned or even hand written documents and look for certain key terms in order to use them intelligently and generate automated reports, which saves banks significant amounts of manual effort.

Another manually intensive area that is not specific to private banking, but pertains widely for securities processing, is the way in which banks manage corporate actions. Eliminating manual efforts in corporate actions is difficult, particularly in wealth management, as enormous amounts of data taken from the market or from the issue of the security needs to be boiled down to bite sized chunks that wealth management clients can understand. This decanting of information in the corporate actions space is something banks are reliant upon human beings to do.

There needs to be a fundamental understanding, however, among the management at private banks around where true value can originate when processes are IT enabled. Barring the few areas where manual intervention cannot be avoided, private banks can seek real value from more automation and standardization. Creating a truly cross-functional ecosystem consisting of members of the IT, operations, business and strategy teams is important.

In the PBI survey, on being asked if private banks are happy with their existing middle-and back-office technology infrastructure and processes, 64% of respondents said they are 'happy but more work needs to be done'. Only 19% of respondents said they are 'fairly happy' while an even smaller segment said they are 'very happy' (5%). Small groups of respondents were also 'unhappy' (6%) and 'very unhappy' (6%) with their existing middle- and back-office technology infrastructures.



This is a straightforward indication that many private banks' technology infrastructures need changes and upgrades.

It is also important to give the banking staff the correct digital tools to boost productivity and security – to allow them to work successfully with counterparties to resolve any issues. Paper free work flow in client static data management is the nirvana for private banking operations, but the aim for private banks should be to create a purpose-built environment that enables them to address manual interventions, where existent, in an efficient, timely and complaint fashion.

Embracing digital to get smarter in the way private banks communicate with the clients and within the entire value chain of the firm between the different business units — from front-middle-back-offices to finance and HR departments — will also potentially have a direct impact on relieving costs by increasing efficiencies.

Data fragmentation: The importance of achieving smooth data-flows (especially for big banks)

The modern economy is a data-driven one and for the private banking industry, gathering personal client information is of paramount importance. It is also increasingly more important for private banks to have a singular view of every client, aggregating the data efficiently and effectively for key insights, cross selling, customization of offerings as well as meeting on-going compliance requirements. This data also needs to be handled whilst keeping in mind the highest security standards.

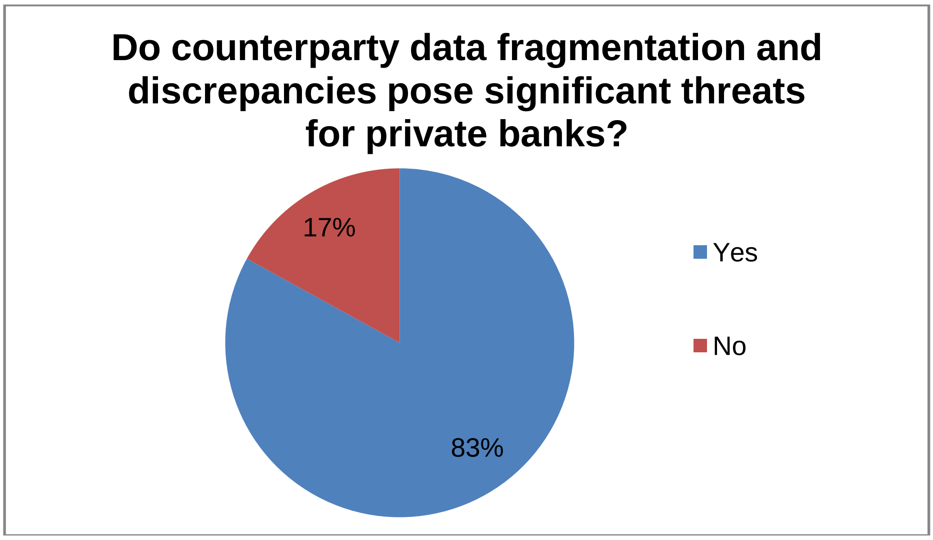
Private banks in Singapore, currently, not only have client sensitive data to worry about but also counterparty data. The post-trade ecosystem is critical, but it is often an overlooked part of the private banks' data management prerogatives. However, it requires the highest levels of execution, risk mitigation, integrity and resiliency.

While some banks have gone the distance to bring in increased automation to greatly reduce the cost of processing financial transactions as well as eliminate errors, there is a long way to go for most private banks in Singapore to adopt and implement a centralized approach to collateral data management.

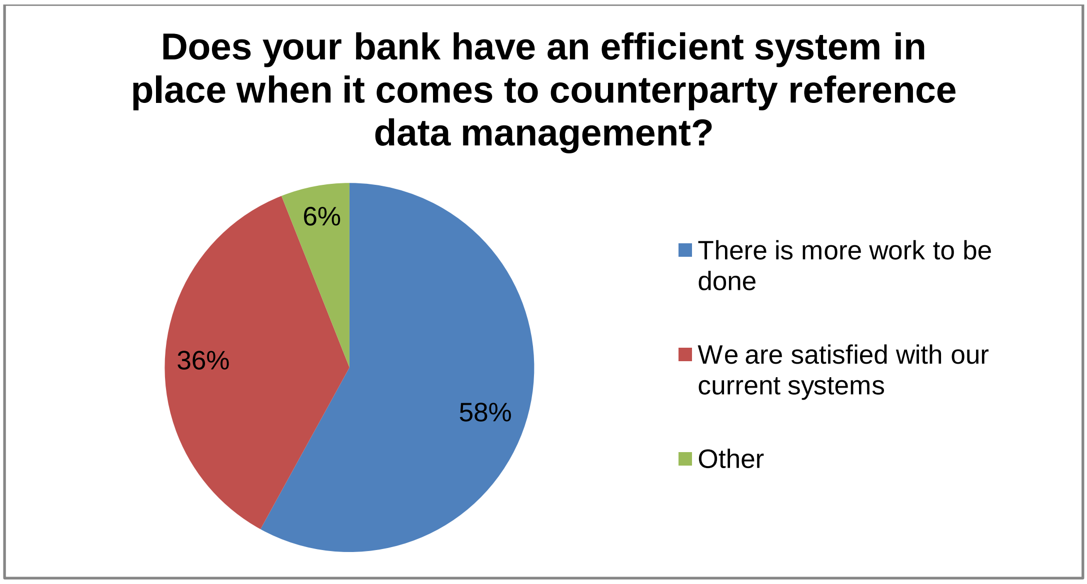
Overwhelmingly, *100% of respondents to the PBI survey revealed that private banks need to centralize and automate their reporting activities to respond to high regulatory demands as well as ensure data quality*.

Achieving smooth data flows is one of the most urgent requirements for private banks in Singapore. The bigger the bank is in size, the more important it is for the institution to have an organised and efficient data management framework in place.

As data volumes and variety increase, however, counterparty data fragmentation and discrepancies pose significant threats for private banks. Approximately 83% of respondents agreed with this statement.



Worryingly, though, despite strongly acknowledging that counterparty data fragmentation and discrepancies pose significant threats for their firms, 58% of respondents also said that 'there is more work to be done' when it comes to having efficient systems in place to manage counterparty reference data.



Eddy Tai, Global Head of Operations & Technology at Bank of Singapore, said:

“For counterparty data, we do have an efficient system in place to manage them. Some issues we face in managing counterparty data, however, include data quality, timeliness and accessibility.”

The need to centralize data systems to achieve efficient and uninterrupted flows has been further highlighted by 93% respondents agreeing that a master data system to validate, store and distribute Legal Entity data across products, business lines and jurisdictions is the need of the hour.

Private banks need to understand the rationale for centralizing their reporting activities.

The goal of centralization should be to reap the benefits of having a single and validated data source as well as having common reporting processes and standards, all of which are crucial elements for private banks to become efficient, compliant and profitable.

“Fragmentation of data is definitely a problem in banks. For instance, as banks have grown inorganically, they have introduced products as and when customers have asked for them. They have bought some products over the counter and some products have been produced within the banks. But as the number of products increase, fragmentation increases as well — especially since all the products come from different places, as they have grown in size.

“Can all that data be put into one system and be efficiently tracked? That is the holy grail of what we are trying to do,” said *Pritash Mathur, Head Asset Management & Wealth Management Centers at Deutsche Bank.*

The data elements banks need to build are becoming increasingly more scripted and standardization will be useful on the regulatory front and also from the perspective of making data efficient for clients at the same time.

It will only be beneficial for these private banks to partner with specialist third party firms that can allow for more centralization and assist in bringing in automation across the gamut of data management requirements such as settlement instructions to counterparty data records and to tie that back to, potentially, documents required for banks to run KYC refreshes for clients.

Another vital challenge to data management that private banks in Singapore are facing currently is around pricing.

Getting rhythmically quick pricing, particularly around the more exotic securities instruments, is getting harder for private banks, especially as clients want to actively and constantly understand what their portfolios are worth.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, said:

"As clients are trading in more exotic instruments, finding ways in which we can price them quickly is challenging. That is a big issue for the industry. We have always used traditional providers but we may need some sort of market utility, which helps us with the more complex and exotic instruments that we are trading with each other. Deriving quick pricing is extremely important."

Rise of RegTech to ensure a coordinated and compliant approach

What is RegTech and why does it matter?

Much like the amalgamation of the words 'finance' and 'technology' to create FinTech, the words 'regulation' and 'technology' come together to give us RegTech. Though the terminology is far from being as popular as its FinTech cousin, it essentially means the use of technology to overcome regulatory challenges, which warrants its own category.

The essential difference between the two would be that while FinTech players pose themselves as nifty disruptors, highlighting future trends and innovative moves, the purpose of RegTech players is to be cost effective, flexible, secure, accurate and most importantly agile when it comes to tackling regulatory reporting and compliance processes.

Automation is at the core of RegTech. It brings clarity to the way private banks interpret and manage compliance and regulatory reporting, enabling the much-needed freedom from the cumbersome, largely spreadsheet-based approach.

Singapore – the global FinTech hub – is only warming up to RegTech

Singapore has garnered global spotlight and adulation when it comes to positioning itself as a FinTech hub. Private banks (alongside retail banks) have been highly vocal about their partnerships with FinTech firms, setting up innovation hubs and getting inspired by up-and-coming technology trends.

The country's regulator, the Monetary Authority of Singapore (MAS), is also heavily involved with the growth and development of FinTech in the country, having launched a FinTech Innovation Lab (to promote a culture of innovation in the financial sector) and signed FinTech agreements with Switzerland and the United Kingdom.

However, the industry is still at the early stages of understanding how FinTech can really be incorporated in the daily business operations at private banks. In the payments space, peer to peer (P2P) space and investment advice space, there are lots of opportunities but it is yet to be seen how FinTech makes its real impact.

When it comes to the importance of RegTech, private banks have recently started taking note of its far-reaching potential.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, said: "Regulatory technology solutions are something we have to focus on now."

Since private banks now know the size of the challenge for 'Reg' and the fact that it's not going to go away, they must start looking at ways in which they can use external companies and experts to interpret regulations, bring in different tools to work with the databases and extract the right information to provide to the regulators.

Unlike a lot of FinTech players that are small start-ups, RegTech firms could mainly be the larger, more trusted and established players who have a track record of being good at what they do.

The volume and velocity of client-sensitive data that private banks have to manage is significant and at the forefront of their objectives, but a key – often overlooked – challenge for private banks is non-client sensitive regulatory reporting and this entails managing collateral data efficiently and securely on an everyday basis.

Private banks are looking to develop an increasingly coordinated and automated approach to collateral data management, which is a clear need-of-the-hour. This has been a largely decentralized activity overseen by individuals and teams within banks, and, occasionally, select third-party providers. But the future volume and complexity of collateral movements is making centralization, automation and standardization mandatory.

Regulatory Reporting was the second most pressing concern cited by private banks in Singapore, in the PBI survey. The industry is trying to find its feet with regards to Regulatory Reporting changes. For instance, the interpretation and differences between counterparties and how these banks match and report trades is a risk.

Private banks need a more coordinated approach, both to ensure access to all types of collateral data required for reporting, as well as to handle the higher volume of collateral data transfers by eliminating any existing error-prone manual processes.

There is no doubt that RegTech can help Singapore's private banks increase efficiency, reduce such operational risks associated with meeting regulatory and reporting requirements, automate mundane compliance tasks and provide a clear view of the volume and variety of data coming in with the help of a centralized approach.

Private banks in Singapore have not yet tapped into the full potential of RegTech in order to largely automate as well as improve their regulatory compliance in terms of the actual workflow – but there are a wealth of opportunities ahead.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, added: "Any operation is judged on its cost effectiveness and risk management. Automation, when properly scoped, delivered and tested, is ever more crucial."

Automation and standardization can ensure data quality, accuracy and drastically reduce costs – especially the potentially recurring costs. The return on investment with implementing a standardized approach, therefore, is high. Eventually, such RegTech adoption can mean private banks being able to make informed decisions based on insightful, visual data when it comes to managing and mitigating compliance risks.

There are other new technologies that can influence the RegTech landscape in the future. Though Blockchain has not yet had ramifications on the private banking industry, it cannot be ignored.

Pritash Mathur, Head Asset Management & Wealth Management Centers at Deutsche Bank, said:

“No one bank can develop Blockchain – you have to have a consortium to do it. If you don’t engage with other experts in the space you won’t get to the point where you are getting the best inter-operability. Blockchain needs collaboration with others as its bedrock.

“Even though private banks will deal with private clients, the settlement and payment processes in the back-end are consistent across banks. So if Blockchain is going to impact them, by design it will impact us. To say that the private banks will not be impacted is not true. It is all about finding a different way to authenticate and confirm, and will affect private banks as well."

Simpler, safer, stronger: The importance of STP in managing the 'new middle-office' and back-office functions

There is an obvious need for private banks to increase straight through processing (STP) rates to reduce manual intervention and manpower costs.

Several respondents to PBI's survey said they want to achieve more efficiency in areas such as Transaction Processing – where there is a potent need to increase STP rates to reduce manual intervention and manpower costs.

The following are some drivers for STP incorporation that respondents to the PBI Survey repeatedly outlined:

- Product and process simplification and cost reduction
- Compliance to changing regulatory requirements
- Automating manual data entries and authorizations
- Data quality assurance and data mining
- Reducing operational risks
- Financial accounting and simplifying workflow to reduce the many level of approvals
- Settlement confirmations
- Systems stability

The research findings clearly indicate that current workflows in the middle-and back-office of private banks are sub-optimal, and in some cases, there have not been adequate investments in achieving efficiency in these operational frameworks.

These sections of the bank's IT infrastructure act as the powerhouses of the institution and work under immense pressure daily as there are thousands of issues to tend do.

Human intervention is still prevalent in many areas of the banks' middle- and back-offices, and various parties and teams need to work together, often resulting in complex, inefficient processes that only slow the institutions down. This ultimately hampers the banks' speed and ability to deliver excellent customer experience/satisfaction. Simplification, security and speed are urgent requirements.

Advent of the 'new middle-office'

In the years gone by, many banks have attempted to, on occasion, combine some of the middle-and back-office functions. The middle-office of the bank typically includes functions that are both client specific – such as onboarding and KYC – as well as non-client sensitive dealings such as reporting of securities and trades (this can however differ from institution to institution).

With the increasing private banking regulatory requirements – such as anti-money laundering (AML) provisions, investor protection and disclosure transparency – private banks are starting to 'grow' their middle-office once again. This gives more of a reason for private banks to turn to automation in a bid to become more efficient and manage the surging headcount costs.

IT solutions are key to developing and managing this 'new middle-office' successfully and private banks must know how to implement automated processes to successfully manage the everyday operations, according to a *spokesperson at UOB Private Bank*.

"These include processes that do not require human discretion or an opinion as well as those with outcomes that can be derived from a series of translated rules and algorithms," added the *spokesperson from UOB Private Bank*.

UOB Private Bank, for instance, has automated some of its middle-and back-office functions over the past few years, and has also made deliberate efforts to combine middle-and back-office functions to achieve greater cost efficiencies.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, explains how the bank differentiates its middle-and back-office functions.

"Typically back-office processes for banks are functions that are utilitizable. For us, the differentiator between the middle-and back-office is the line of client confidentiality."

A majority of private banks retain, within their middle-office, client-onboarding and outsource functions such as settlement and corporate actions processing.

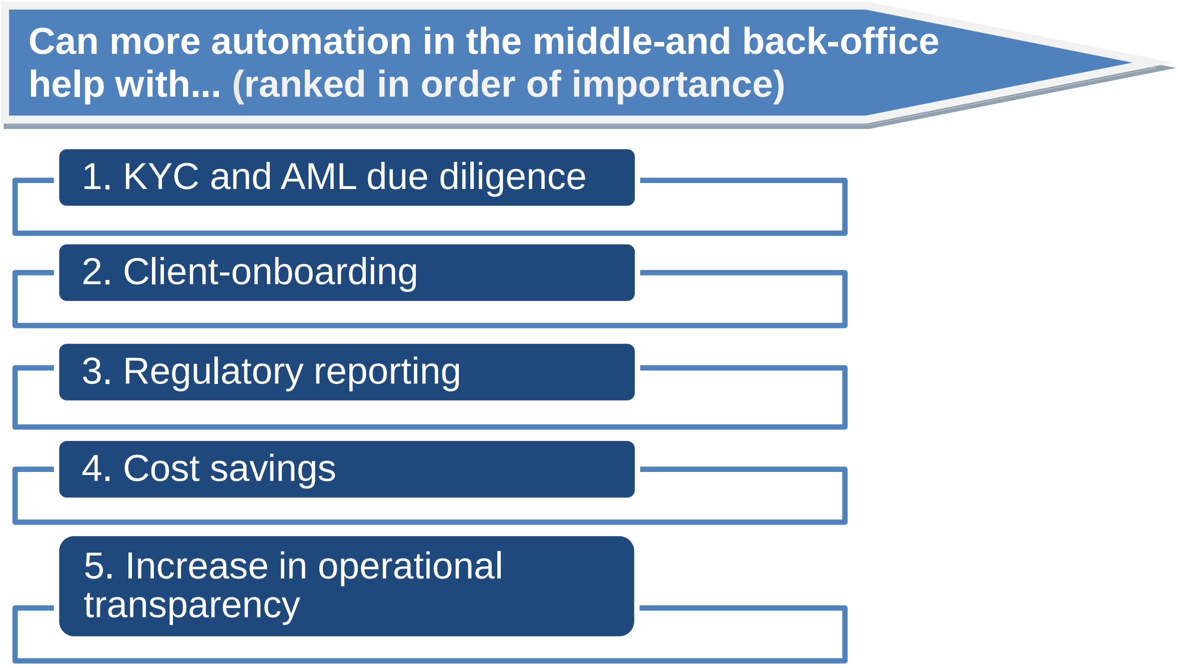
Deutsche Bank Wealth Management is a leader in the Singaporean private banking market when it comes to incorporating high levels of STP in the middle-office. "You look at the processing of payments, of processing securities basics – vanilla securities, exchange traded securities – we have high degrees of STP. We have been doing it for years. We work with market utilities to ensure our trade matching is done upfront, which gives us a higher degree of settlement efficiency," Purell added.

"I think as the need for customization for our clients increases, the middle-office will need to keep up with the speed of supporting that growth. That's where STP comes in. We need to make sure that the middle-office is not overloaded with routine work and with automation, we are able to create the capacity to handle customised work," said *Sandipan Ray, Head of Wealth Management IT APAC & Head of Global Core Banking platform transformation at Deutsche Bank.*

The important next in STP, according to Purell, is looking to find ways in which banks can work – not only internally but with their counterparts – to derive more STP as clients become increasingly sophisticated and look to trade more complex structured products.

KYC and AML due diligence, client-onboarding and regulatory reporting were cited as the top areas where more automation in the middle-and back-office can help, in the PBI Survey. This was followed by cost savings and increase in operational transparency.

If technology is harnessed appropriately, it would give private banks the advantage of being able to open accounts efficiently, while at the same time ensuring a robust standard of due diligence checks.



There is always going to be the need for a settlement team but private banks in Singapore today do not need the settlement teams that they used to have in the mid-90s or even early-2000s, when the majority of the securities operations was about managing settlements.

"That's no longer the case," explained Purell. "The majority of our securities operations nowadays are working on client-onboarding and KYC. When I first started working at a private bank in 1994, 40%-50% of people we had were involved in doing settlement activity. If we look at the environment we operate in now, I would be surprised if 10% of the staff is working in settlement related activities.

"The emphasis is on making sure we meet compliance and policy standards on client-onboarding. Back in the day, client-onboarding was something you did quickly. Now, of course, we are extremely cautious and selective regarding the people we do business with. It's been a real flip. We are now looking to explore ways in which we can optimize workflows, with the use of things like optical technology, as they are the new liberators from an STP perspective."

A UOB Private Bank spokesperson added:

"To achieve the true advantage of automation, there is a need for private banks to recognise their middle-and back-office functions as co-drivers, together with bankers and product teams. By deploying the right IT solutions, the front-, middle-and back-offices can work closely together to provide clients with dedicated advisory and customized solutions while meeting risk management objectives and regulatory obligations."

It is vital for private banks to take a 360 degree view of the middle-and back-office functions. Increased STP provisions in the correct capacity will act as testament of the high performance standards of private banks and allow them to drive value and efficiency in the way they do business. It will enforce them as leaders in terms of operations, accuracy and service quality.

Decision makers at private banks must keep in mind that incorporating STP and the essential layers of industrialization will also result in de-risking the organisation while enhancing effectiveness of the middle-and back-office functions, and, ultimately, allow for seamless client experiences.

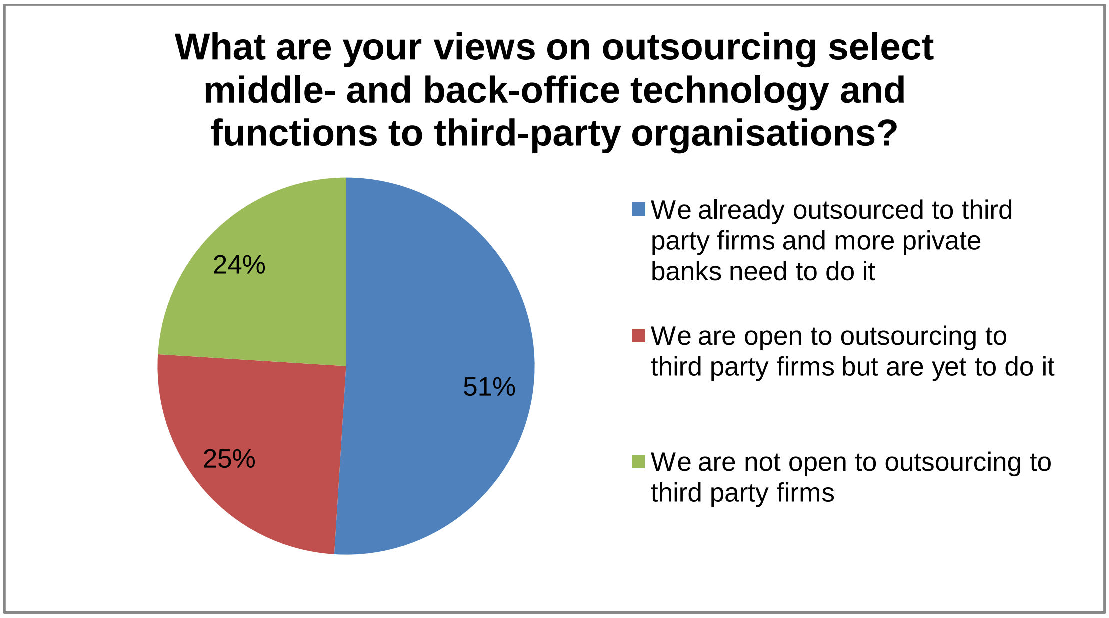
Losing out on this competitive advantage is not optional for private banks.

Need for non-captive outsourcing alongside automation rife in lower margin environment

More than half of the private banks in Singapore, according to the PBI survey, understand the value of outsourcing and are willing to do more. Half of the respondents said they have already outsourced select middle- and back-office functions to third party firms and more private banks need to do it.

A quarter of the respondents said they are open to outsourcing to third party firms and are yet to do it. Approximately another quarter of the respondents, however, said they are not open to the outsourcing prospects yet.

Despite outsourcing being prevalent, however, private banks need to combine it with bringing in appropriate amounts of automation and standardization in their middle- and back-office to reap prime results in a lower margin environment.



Private banks in Singapore have been and are involved in outsourcing select middle- and back-office functions, but a majority of this activity has been limited to captive outsourcing – working with a vendor that is part of the bank such as a subsidiary company.

Historically, the Monetary Authority Singapore had shown a degree of reticence and caution in their attitude towards outsourcing of wealth management and private banking processes to non-captive players or a complete third party organisation. There have also been legal and language barriers to building open outsourcing hubs, like the kind there are in Europe, and it potentially comes down to the question of where the hub can potentially be in Asia.

However, PBI's research reveals that both the regulator and banks are, currently, getting increasingly more open to non-captive outsourcing and are on the lookout for more trusted partners. But outsourcing in and of itself is not the final solution. At the crux of all activity, private banks need to find the right third party organisations to bring in more standardization and streamline complex processes to better focus on areas of core competence.

A key takeaway from PBI's research is that in spite of the margin pressures, private banks in Singapore have been focusing on the short-term impacts and continuing to form new departments to take care of select functions, further adding to their costs. However, as banks are required to increasingly focus their best people on going after the ever dwindling population of clients that are out there, in the lower margin environment, the need for workforce optimization and increased automation is becoming paramount.

If the functions are utilizable and not a private bank's core competence then bringing in higher levels of standardization alongside sensible outsourcing is the optimal solution. Private banks, currently, cannot afford to expend time and resources capabilities on utilizable processes.

Respondents to the PBI survey said that some of the functions they would be eager to outsource to trusted third parties are functions such as trade settlement operations, reconciliations, customer name screening, transaction monitoring, and precision printing. Private banks can only achieve better efficiencies by outsourcing these activities to specialist third parties to optimize their workflows.

Some banks are doing this. For instance, Deutsche Bank outsources its core settlement, asset servicing, payments and securities static functions to a non-captive, local market vendor.

A *spokesperson from UOB Private Bank* said: "Partnerships are about taking risks and making key decisions together, as we work towards operationalising the IT structure and processes with relevant solutions. We recognise the importance of having a partner that sees the value of middle- and back-office functions, in particular how these functions fit into the private bank's business strategy."

When it comes to factors that influence a private bank in choosing their non-captive outsourcing partners, *cost effectiveness* seems to be the most important decision making factor. *Operational efficiency and robustness of offerings* is another key aspect private banks will base their selection on. *Past Experience, stability, reputation and risk management* are equally crucial factors when it comes to choosing third party partners for outsourcing.

An advantage that local banks in Singapore have is the volume of their retail and corporate banks to support them, and help achieve economies of scale. They have not felt as much of a push yet, unlike their foreign, global counterparts that have a higher cost footprint. However, even for the local banks, the need for more automation is inevitably gathering pace.

Eddy Tai, Global Head of Operations & Technology at Bank of Singapore, told *PBI*:

“Currently, we leverage on resources of the OCBC group and do not outsource to other third parties. If we were to consider that option, it would depend on the business case and risk assessment.

“I do believe more automation in the middle- and back-offices will drive operational efficiency and reduce operational risks.”

Developing vendor management capabilities crucial

The key to achieving success in non-captive outsourcing as well as in partnerships with other third party firms is for private banks to be thoroughly prepared. In order to do so, private banks need to be able to build a Vendor Management capability within their own organisations.

Darren Purell, Head of Operations APAC at Deutsche Bank Wealth Management, highlighted its importance: “Outsourcing can be a cost effective way of managing operations, but you have to diligently test that you are in control before you make the move. When you have an operation that’s especially split in two [having a core back-office that is outsourced and a middle-office], one of the primary responsibilities of the middle-office is to manage the vendor operations. That is a specific skill and a profession.

“You can’t have a couple of operations staff becoming good vendor managers overnight. They can develop into them but you need to make sure you have the right ways of measuring both the performance and the risk with the third party vendor, and that is something that needs hard professional consideration.”

Defining control frameworks, service level agreements and agility change processes are paramount in delivering successful arrangements with specialist third party players.

Another perspective on innovation

Understanding the value of STP and identifying where automation can be beneficial can be looked upon as a non-flashy ‘innovation engine’.

There are many fuzzy definitions of innovation and, on the whole, we struggle to understand what can be truly innovative about private banking and wealth management. Being innovative, however, does not necessarily mean ‘radical’ and ‘out of the box’. It can mean to reconfigure and reorganize. Re-evaluating can be innovative if it leads to increased returns and enhanced client engagement.

The traditional revenue models for private banks are, currently, under continued threat in Singapore and even the biggest banks are losing money. Digital propositions are mushrooming – providing easy and independent alternatives to traditional, fee-based private banking models. Many private banks have also faced due diligence breakdowns. During such times, it is important to rethink the business model, make essential changes and ensure that institutions are not getting stuck in their past strategies, and becoming archaic.

Innovation will mean different things for different private banks. Sometimes, it could be as simple as getting your head out of the sand and finding a new perspective to incorporate small changes and the most suitable third party partners.

For private banks in Singapore, it is more important than ever to understand who they are, who their clients are, what they can do for their clients and what essential value to add to that relationship. It is equally important to identify which areas can benefit from more standardization to dramatically increase efficiencies and optimize workflows, and reduce recurring costs for private banks.

To embark on a transformational journey and empower a private bank with stable and secure partners can indeed be deemed as truly innovative in the long run.

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Private Banker International (PBI) is an editorially independent briefing service aimed at banks, financial services companies, related intermediaries, and technology vendors in the private banking and wealth management sector.

PBI delivers timely news and insight to C-level executives and financial services professionals by providing valuable and credible information on global private banking strategies, products and services, regulation and compliance, M&A activity and deals, technology, security, competitor developments and the future landscape.

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