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All the players in Singapore's world-class financial ecosystem together have the intellectual firepower to develop risk and regulatory compliance systems that are relevant for developing Asia. PHOTO: DESMOND WEE/THE STRAITS TIMES

Banking compliance: will one-size-fits-all do?

Imposing rules and frameworks from different economic contexts may not be relevant, desirable or even fruitful for Asian banks. BY JOSEPH CHERIAN, BERNARD YEUNG AND ANIL KISHORA

BANKING the world over is grappling with an ever-growing list of compliance concerns, be it combating money laundering or the channelling of terror funds, policing clients for their tax behaviour, international sanctions, or regulatory compliance.

Enormous resources have been deployed in ensuring compliance, chasing shifting goalposts, fixing gaps in the regulatory framework, or responding to regulators' demands.

Under-staffed – and potentially under-trained – regulators are equally overworked, diving deep to identify breaches, expose potential non-compliance, and enforce regulations to protect customers from the banks, as well as protect the banks from themselves.

In the quest for a banking sector that is perfect, the world has been busy implementing all the rules – or rather, remedies – designed in the wake of the global financial crisis. Many Asian countries have adopted these en masse, and are moving rapidly towards convergence with the West.

In terms of the rigour of execution, some, like Singapore, even appear to have taken a lead over many developed jurisdictions. In a lecture in Asia last November, Bank of England governor Mark Carney praised Singapore for its excellence in execution, describing it as a "world leader" and an example for all countries to follow.

To be sure, banks are an integral and necessary part of all national economies, which have to address priorities and requirements depending on the stage of development they are in.

Almost all Asian economies, with their youthful demographics for example, need rapid growth, which in turn demands investment and financing in infrastructure, manufacturing, agriculture, cross-border trade, small-scale enterprises, service sectors and other strategic areas.

Bankers in Asia will need to be part of this growth story to stay socially relevant, and continue to receive and deploy capital and other resources.

CONTAIN COMPLIANCE COSTS

However, imposing rules and frameworks that have originated elsewhere and from different economic contexts – for example, the Volcker Rule in the United States – may not really be relevant, desirable or even fruitful.

Banks operating primarily in the emerging markets have space to profit from funding the real economy and, as such, they may need growth nutrients, rather than the medication developed for banks mired in malfunctioning business and economic contexts.

The traffic rules meant for players who weave in and out of speculative trades, subprime lending and securitised junk could hardly be relevant for all banks.

National stakeholders probably need to ponder if one-size-fits-all regulatory solutions will work for the rest of us in Asia, even though the world has opted for near-total convergence.

While one hopes the regulatory train will change tracks sooner than later, we need to contain the side-effects for the present. Indeed, a 2013 report by global consultancy PwC stated that it expected risk and regulatory compliance expenses to account for 10 per cent of Asia Pacific banks' annual revenue by 2015, up from 7 per cent.

A key area where a major Asian financial centre – or centres – can take the lead is in containing this escalating cost of compliance.

Not only do Asian financial centres host many banks, they usually are accompanied by a large financial ecosystem comprising prudent regulators, audit firms, consultancies, legal experts, specialist boutiques, and all that is needed to run a major financial centre.

Singapore, for example, hosts more than 100 banks, and supports a world-class financial ecosystem. All the players in this ecosystem together have the intellectual firepower to not only design and develop risk and regulatory compliance systems that are relevant for developing Asia, which is a meta-discussion topic in itself, but also cost-effective delivery models for compliance advisory.

Given the plethora of rules and regulations, irrespective of whether they originate from the West, the risk of key requirements falling through the cracks is high.

STANDARDISE THE BASE

The industry would be able to handle compliance much more effectively, and at a much lower cost in terms of dollars incurred on implementation (or management time spent on repairs), if solutions for various regulatory compliance requirements could be provided in pre-developed, standardised base versions.

This could then be customised to the scale and complexity of a bank's operations, be part of its enterprise-wide technology solution, and integrated into its existing processes.

In terms of implementation, banks and regulators often rely on external vendors to carry out diagnostics and suggest enhancements. The process is usually time-consuming and expensive.

As regulations proliferate and standards expected of banks soar, the costs are ballooning. Vendors often find it difficult to commit the right resources, while banks frequently grudge – in private – the quality of inputs they gain from these engagements.

The subsequent independent testing and examinations continue to flag problems, exposing the deficiencies in the current approach.

Casual conversations with some experts indicate that outcomes may also be sub-optimal, due to the narrow scope and piecemeal nature of the work assigned, or on account of inconsistent implementation.

TAKE LEAF FROM IT SECTOR

What is needed is a solution that is easy to understand and implement.

Can the regulatory compliance consulting industry then take a leaf or two from the IT solutions business, which offers standard tools to manage a business's requirements?

Case in point – the industry does not look for a bespoke technology product every time it needs to process words or crunch numbers; many simply buy Microsoft Office. How do we replicate this approach in regulatory compliance?

The systemic strain that the current compliance focus is creating across jurisdictions is ultimately a huge drain on the real economy.

A more effective delivery model would not only bring down costs, but may also lead to a standardised compliance landscape amenable to effective testing, monitoring and periodic enhancements across industry.

A standardised approach could potentially also help build trust that is so critical. The consulting community in Asia can take the lead in making compliance frameworks standardised.

It will probably make life simpler for the auditee and auditor alike, reducing scope for interpretational flip-flops, extended learning curves and expensive repairs, which often lead to higher costs, truncated productivity and more systemic stress, but at times even engender more distrust in the system.

The revolution taking place in the financial technology, or FinTech, space may also aid in this process of designing and implementing prudent rules, regulations and compliance systems that are relevant for developing Asia.

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