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Investment Suitability: Transforming your Advisory Framework

It's time to look beyond regulatory compliance.

Recently, the MAS issued a consultation paper on 'Proposals to Enhance Regulatory Safeguards for Investors in the Capital Markets' that touched on many regulatory dimensions. This paper came about when the private banking industry was still struggling to adapt to the tightening regulatory landscape in APAC. More importantly, the paper reinforced that the regulators did not take their eyes away from the area of investment suitability. Solution Providers now provides its view in dealing with suitability, especially in the light of the new MAS paper.

The consultation paper is now forcing the banks to rethink their business model in serving clients who can no longer be classified as Accredited Investor (AI). While, there is no proposal to change the threshold of net equity (S$2 million) to qualify an individual as an AI, the paper talks about tightening the criteria by limiting the asset value contribution from individual's primary residence to maximally S$1 million. The most interesting aspect of the paper is where MAS mandates the banks to implement an «opt-in» regime. Under such a regime, all investors other than institutional investors would by default be treated as retail investors. Banks may either need to transfer these clients from the private banking arm to the retail banking arm where possible or ring-fencing these clients with centralised operations with no access to investment (AI) products.

Looking at the many things the consultation paper talks about, it is clear that several aspects of investment suitability are now being looked into by MAS in detail. The paper even advocates methodologies on how to rate the riskiness and complexity of various investment products which may not be in line with how the individual banks rate their products today. While, the rules in Singapore may still not be extremely prescriptive when compared to Hong Kong, the regulatory landscape around investment suitability is seen to be tightening considerably. Moreover, the regulatory landscape in Singapore and Hong Kong now not only covers mis-selling of products but also advocate banks to monitor client's portfolio for suitability risks. It is also worthwhile to read the recent paper from HKMA on 'Issues and good practices in relation to the sale of investment product'. The paper reveals that whilst the Banks in general have put in place policies and procedures to comply with relevant regulatory requirements, a list of issues and good practices require further improvements.

Only few of the private banks have found the right 'mantra' in dealing with suitability. While most banks are struggling with intensive paperwork and transaction delays prior to each trade execution to meet suitability requirements, others leverage strongly in their investor profiling process at the time of client on-boarding and portfolio health monitoring systems in minimising the suitability concerns at a trade execution stage. Through its experiences in consulting private banks on this topic, Solution Providers believes that the right way to deal with suitability is to integrate it as a part of advisory process.

If implemented the right way, a 'portfolio approach' to suitability can generate business opportunities for the relationship managers to have discussions with their clients on re-balancing portfolios or even letting the bank manage client's money in the form of discretionary products. By integrating suitability into advisory process, relationship managers can discuss with the client about their existing investments that are now sellrated, positions resulting in concentration risk and lack of diversification leading to potential negative performance, investments that are causing the overall portfolio to be riskier than the client's preference etc. By knowing the client's investment preferences, knowledge and experience banks can recommend products that are suitable for the client. While some may think that this view to suitability can only be fictional, Solution Providers has already seen it become a reality.

Given that banks are going more digital in order to be continually attractive to the next generation tech-savvy investors, it is more a matter of time when clients would want to start monitoring their portfolios on their tablets, expect a real-time notification on investment switches their bankers may recommend and do trade execution via their e-Banking platform. Although seen as extremely painful on a standalone basis, suitability can be a value driver for relationship managers and the clients if shaped in the right way.

Most of us recognise that the private banking industry as we speak is reshaping itself. Banking secrecy has almost disappeared as being a competitive advantage. Demanding Asian clients are driving the transactionbased margins to the lowest levels. While some industry players have started differentiating themselves with their value added advisory products and client experience, others are pushing towards driving their costs down in an attempt to improve margins. Given the consolidation of the private banking industry in APAC, the big players have realised they need to continue making investments in the right areas to sustain their business on the longer run. While some institutions are still contemplating on how much to invest in their front to back advisory process, suitability is not an area that one can afford to ignore for long, especially in the context of advisory excellence and the ever tightening regulatory landscape.

With our many years of experiences in shaping the topics on regulatory and compliance, Synpulse has developed and showcased specialized skills in this area. Backed by both business and technology solution expertise, Synpulse is well positioned to offer its support to clients in streamlining their regulatory implementations in an effective and meaningful way.

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