Regulation….Is it good for you?
Regulation ... is it good for you?

- Don’t “look behind you”... “you ain’t seen nothing yet”
- International trends and issues
- The True cost of Compliance
- Oooops....not everything is compliant !!
- The route to Trusted Advisor status and a successful business
- A few questions to think about
A wind of change was forecast and is now upon us
... the Obama effect

“You’ve got a building in the Cayman Islands that supposedly houses 12,000 corporations. That’s either the biggest building or the biggest tax scam on record. And we know which it is” Senator (now President) Obama, 5 Jan 2008 : (note…no mention of Delaware Trusts!!)

“Each year the US loses an estimated $100 billion in tax revenues due to offshore tax abuses...The Department of Treasury and the IRS have failed to take effective action to stop dividend tax abuse...Much more is needed if US dividend taxes are to be collected from offshore stockholders” Permanent Sub Committee on Investigations September 2008

“This is a basic issue of fairness and integrity. We need to crack down on individuals and businesses that abuse our tax laws so that those that work hard and play by the rules are not disadvantaged” President Elect Obama, 2008

’We can no longer turn a blind eye to the massive loss of revenue through the diversion of public and private funds to third countries,” Angel Gurria, Secretary General of the OECD, November 2008
The Result: regulatory framework has changed irrevocably.

- The regulatory impact of carrying on existing business let alone introducing new products is a real challenge.
- Suitability, enhanced KYC, TCF, Codes of Conduct, CAD4, increased capital requirements, transparency, RDR, FATCA, Dodd Frank, new MiFID to name but a few are threatening the core Wealth management business model
- International Regulatory pressure in growing against offshore models
- Risk management and compliance is still not fully embedded in wealth managers, nor in particular is it being monitored in outsourced operations.
- The cost of compliance is growing and will continue to grow, affecting profitability
- Regulators are no longer sympathetic, and fines or sanctions can be increasingly serious or even terminal.
- The Conclusion, there is no option.........Comply or die
THE NEW WORLD

- Move from ‘Principle’ to ‘rule’ based with moral overlay…a new ‘hybrid’ model
- Playing within the rules is not seen as acceptable. Tax/estate planning illegitimate?
- GCC fear used to justify everything, no cost benefit analysis
- Governments have taken control from Individuals in name of democracy
- Regulation not just to protect customers but to raise taxes to mitigate deficits
- It is not a tax issue- HNWI’s already pay substantial taxes ….it is a SPENDING ISSUE
  - Apparently only 12% of people in Scotland pay more in taxes than they receive in benefits and more than 50% of UK households pay less in tax than get in services!!
  - Top 1% of UK taxpayers pay approx. 30% of all income tax

HNWI’s were not the problem….but they are seen as the answer

”They say that you cannot take your money with you, but I had assumed that I could at least hang on to it whilst I was still alive”
Morality of rule makers (USA) is at best questionable

Excerpt from Dubai Gulf News October 7, 2012

‘’A short list of offenses by Members of Congress (435 voting members) based on research of public records….. indicates that :

- 29 are accused of spousal abuse
- 7 have been arrested for fraud
- 19 accused of writing bad cheques
- 117 have bankrupted at least two businesses
- 3 have been arrested for assault
- 71 cannot qualify for a credit card due to ‘bad credit’
- 14 have been arrested on drug related charges
- 8 have been arrested for shoplifting
- 21 are current defendants in law suits
- 84 were arrested for drink driving in one year …but released after claiming Congressional immunity ‘’

The UK is not immune, it had its issues with MP’s expenses.

…..and these are the elected ones….most rule makers are appointed by them !!
The Big Picture..... Regulation of the global financial system

Global Financial Stability

- OECD
- CFA
- CTP
- GFTEI
- FATF
- FSB
- BIS
- Joint Forum on Financial Conglomerates
  - BCBS (banking)
  - IAIS (insurance)
  - IOSCO (securities)

Standards

- Core principles for financial conglomerates

Compliance with the Standards

Technical Assistance - Standard Setting Bodies/IMF/WB/Regional Style Bodies

1/21/2012
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View from Anthony Brown, CEO of British Bankers Association

“’Here’s a radical idea: let’s take stock before introducing more regulation !!’”

“’How about finding out whether all the reforms (enacted and planned)….. actually do what they are intended to do’” before introducing yet more…

“’No industry has gone through such wide-reaching and rapid regulatory reform. Privately, policymakers admit that regulatory over reaction is politically inevitable, so are resigned to it.”

Source: BBA blog 4/10/12
A barrage of impending legislation a la KPMG

Source: KPMG Regulatory Centre of Excellence
### Regulatory change timeline a la PwC

<table>
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<tr>
<th>2012</th>
<th>Q3 2012</th>
<th>Q4 2012</th>
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<tr>
<td></td>
<td>EBA recapitalisation</td>
<td>RDR</td>
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<td>UK CASS resolution packs</td>
<td>COREPS</td>
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<td>Short-selling</td>
<td>FSB resolution planning</td>
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<td>Insurance Mediation Dir.</td>
<td>Solvency II</td>
<td>Investor Com. Scheme Dir.</td>
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<td>MAD II/ MAR</td>
<td>Transparency Directive</td>
<td>Closed-out netting</td>
<td>PRIPS</td>
<td>IORP</td>
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<td>MiFID II/ MiFIR</td>
<td>CRA II</td>
<td>Central Securities Depositories</td>
<td>UCITS V</td>
<td>Insurance Guarantee Dir.</td>
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<th>2019</th>
<th>Q1 2019</th>
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<td>Full implementation of Basel III, including: liquidity coverage ratio, conservation buffer and net stable funding ratio</td>
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<tr>
<td></td>
<td>Full implementation of the UK Independent Banking Commission’s structural reforms including the retail ring-fence</td>
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TRADING AS WEATHERILL
Breaking news….WealthBriefing

The EU has agreed that there will be a new Pan-European Regulator…. Details to be worked out in 2013.

Expect even more Rules and legislation ….and standardisation.

Singapore will not be immune…nor will you or your clients!!!
What is good and bad ??

Good:
• Increased Transparency
• Better training and competence (Part of RDR and similar)
• Attention to KYC, TCF, Suitability, Risk communication
• Increased client centricity

Bad:
• Draconian levels of documentation and ‘proof’ of advice
• FATCA and similar initiatives (‘’it’s mine….all mine’’)
• Compensation culture
• Disproportionate cost of compliance vs benefit to Clients
"Our fees are totally transparent - that's why you can't see them."
Only 24% of Clients in Singapore (global 46%) feel that their Wealth Manager’s charges are clear and transparent.

**Singapore/HK Mean Score = 6.43**

**Global Benchmark Mean Score = 6.83**

Source: The Value of Trust
The real cost of Compliance

Based on ComPeer research data and seminar with:

- Andrew Tyrie, Chairman UK Treasury Select Committee
- Angela Knight, CEO of BBA
- Tim May, CEO of APCIMS
- David Harvey, CEO STEP Worldwide
- Bruce Weatherill, NED of ComPeer
UK Compliance Staff Costs

- Overall staff numbers have increased by 18% for the last 5 years
- Full service stockbrokers – 31% increase in staff numbers

Costs went up again in 2011 and again in 2012 with new regulatory requirements
Hidden Compliance Costs

High year on year increase in hidden costs:
- 32% for senior management
- 50% for front office professionals
- 11.3% for other departments (IT and Ops)
Hidden vs Direct Compliance Costs

- Hidden costs are equal to direct compliance costs
- Total UK cost of compliance in Wealth managers extrapolated to be nearly £450 million pounds annually
- This excludes regulatory projects such as RDR, suitability etc
- Compliance is approx 10% of cost base .....often equal to Net profit for shareholders
- Ultimately clients pay.......and they don’t appreciate it !!

![Graph showing comparison between Hidden Compliance Costs and Direct compliance costs for 2010 and 2011]
Main Compliance Projects

- RDR spent increased 51% from 2010 to 2011 and further still in 2012
- Suitability has increased x 11 fold
- Very little spend on FATCA as yet….but it will be significant
- Dodd Frank, MiFID 2, Basel, etc are largely 2013 and subsequent costs
It is becoming harder for firms to balance the demands of three competing stakeholders:

**Client:**
- Investment objective
- Best advice and return
- Fee transparency

**Firm:**
- Risk appetite and capital
- Client money
- Quality advisers
- Profitability

**Government and Regulations:**
- Consumer protection
- Systemic risk
- Saving for retirement in a low returns environment

Source: KPMG Wealth Management at the tipping point
Whilst all firms are dealing with regulation and markets, their response to changing customers and competitors will decide the winners and losers.
However….Wealth Managers have not ‘helped themselves’

A few home truths that have helped Regulators challenge otherwise good work

A quick gallop through some data……sourced from

‘The Value of Trust ‘
Only 43% of Singapore & Hong Kong wealth managers are operating business models that promote financial relationships based on trust and client-centricity.

**Source:** The Value of Trust
Only 40% of Singapore Wealth Managers feel that their clients fully understand the products, advice and risks of products provided to them.

Singapore/HK Mean Score = 7.15
Global Benchmark Mean Score = 7.46
A small 29% of Clients feel that their wealth manager understands their specific needs.

**Singapore/HK Mean Score** = 6.19

**Global Benchmark Mean Score** = 7.36
Despite the importance of Fair Treatment of Clients…the perception of clients as to its success is low with less than 50% feeling that their Wealth Manager treats them fairly.

SINGAPORE/HK MEAN SCORE = 6.71
GLOBAL BENCHMARK MEAN SCORE = 7.62
Most worrying is the mis-alignment between what clients feel and what Wealth Managers feel.

**What clients said about firms**

- 40% expect lower fees post RDR
- 28% prefer hourly fees
- 33% are more sceptical about WM’s own product
- 87% want advisers to be independent of the products offered
- 47% have never changed WM firm but…
  - 41% considering splitting their portfolio
  - 45% readier to switch than 2007
  - 31% will leave if their RM moves
  - 49% are now more likely to invest without advice

**What firms said about clients**

- “ultimately our clients will pay for the cost of all this regulation”
- “ad valorem fees have always worked in the past”
- “if there is this much risk selling 3rd party products, we may as well sell our own”
- The vast majority of CEOs confirmed their firms will be Restricted post RDR
- “the inertia of our clients has tided us over”

Source: KPMG/ComPeer
WHY THE ‘QUEST FOR TRUSTED ADVISOR STATUS’ IS WORTH IT

REVENUE

26%

TRUSTED ADVISORS HAVE A 26% GREATER SHARE OF WALLET THAN UNTRUSTED ADVISORS, AND MANAGE A MAJORITY OF THEIR CLIENTS’ ASSETS

REFERRALS

114%

TRUSTED ADVISORS GET AN AVERAGE OF TWO REFERRALS EACH YEAR COMPARED TO AN UNTRUSTED ADVISORS AVERAGE OF ONE

RETENTION

18%

TRUSTED ADVISORS HAVE VIRTUALLY NO CLIENT ATTRITION, WHEREAS UNTRUSTED ADVISORS HAVE A 21% CLIENT CHURN EVERY YEAR

PROFITABILITY*

x5

BY HAVING INCREASED SHARE OF WALLET, REFERRALS AND CLIENT RETENTION, TRUSTED ADVISORS ARE ON AVERAGE 5 TIMES MORE PROFITABLE THAN UNTRUSTED ADVISORS OVER THE COURSE OF THEIR CLIENT RELATIONSHIPS

THE VALUE OF BECOMING A TRUSTED ADVISOR: *FIGURES ARE APPROXIMATE AND DERIVE FROM A CLIENT LIFETIME PROBABILITY CALCULATOR DEVELOPED BY WEATHERILL EXECUTIVE CONSULTING IN COLLABORATION WITH IMPERIAL COLLEGE
Two follow pieces of Research to ‘The Value of Trust’

1. Previous underinvestment in IT and Op’s is holding back the ability of Wealth Managers to serve their clients in a cost effective manner and assist in demonstrating compliance with regulations.

2. High levels of employee turnover destroys “TRUST” with clients as well as the P&L.

I am carrying out research into each area to identify trends and provide benchmark data….and need your help !!

To participate, please email me or give me your business card
Is Regulation good for you?

It is not really a question of ‘whether regulation is good for you?’ because you have no option. The Global bodies involved in setting the Regulatory agenda are too powerful to fight, particularly at the moment.

Embrace ….and move on !!

Some questions to ask yourselves and think about
Some key questions you need to ask yourselves.

- Are we doing all we can to get the ‘basics’ right?
- Are we monitoring developments in compliance with laws and regulations in all jurisdictions we do business in (both for ourselves and our clients) to ensure that we are always fulfilling legal requirements?…. Are we sure and can we prove it?
- Are we complying with all the tax disclosure requirements FATCA or similar…..are we sure? Can we demonstrate it?
- Does our Board have formal oversight of the strategy in these areas with appropriate escalation processes?
- Do we have the correct incentive and performance appraisal systems in place to identify and reward compliant behaviour, remediate non compliant behaviour and manage all aspects of behavioural risk?
- Why don’t we contact Bruce Weatherill for more information and participate in his pending research??
Sources for the presentation

Weatherill Consulting  : ‘The value of Trust’ Report
                      : CEO Training Course material with VRL
                      : Regulatory analysis
                      : Experience

ComPeer                : The true cost of regulation
KPMG                   : Wealth Management at the tipping point
BBA                    : BBA Blog
Gulf News              : 7 October 2102
Rowena Bethel          : Lex Bahamas
PwC                    : Wealth Management and IFC’s, 20+ years
Financial Times        : Banx cartoon
WealthBriefing         : Breaking News

Access ‘Value of Trust’ report on www.weatherillconsulting.com
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To download a copy of the global report which was sponsored by IBM, please go to my website. To purchase detailed responses and data regarding Singapore please email me.