



Digitalization as an opportunity – compliance and cost efficiency in the advisory process

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New technological innovations combined with a shift in customer needs and the increasing number of regulatory requirements – and the costs associated with these – are forcing financial institutions to explore new paths and to achieve regulatory compliance in a cost efficient manner by implementing digital solutions.

Technological developments and digital transformation

Society as a whole is in transition and the financial industry is presently going through a veritable revolution due to the current global regulatory challenges and the accelerated technological development. The fast-paced technological and social change has furthermore led to a significant shift in customer needs. Conducting financial transactions online or via social media has become the norm. Increasingly, the finance industry has come to the conclusion that accepting these evolving circumstances could create new opportunities. After all, automating and digitalizing processes not only enables the industry to effectively mitigate compliance risks and to lower the associated costs, but also optimize the service quality. The automation of the suitability process is an excellent example: system-based pre-trade controls allow financial institutions to ensure regulatory compliance in a cost-efficient manner and to simultaneously offer additional services for the clients such as a regular automated portfolio check.

In view of the increasing number of regulations, it is almost impossible to ensure full compliance with all applicable laws and regulations by means of manual processes and detective controls. The most effective way to ensure compliance with these challenging regulatory requirements is to gradually automate all repetitive processes and to integrate appropriate preventive controls. In doing so, it is essential to take a holistic view of the regulations and to interconnect them whenever possible. As a consequence, financial institutions are starting to acknowledge the digitalization and automation as an opportunity to give them a decisive market advantage by optimizing their costs and fully ensuring regulatory compliance.

Prevention in the spotlight

Before financial institutions provide advisory services, they must clarify whether such services may be offered to their clients from a regulatory perspective. Effective preventive controls are therefore essential to avoid potential violations in the first place. Once it has been established that

communicating or offering a service is permissible, it must further be analyzed what products are suitable and appropriate for the customer based on the customer's general financial situation, risk appetite, knowledge and experience in the financial sector. Such a review and categorization is a considerable challenge for financial institutions and requires the corresponding regulatory competence. The sale of an unsuitable product to a customer could have serious consequences, which is why appropriate control mechanisms are indispensable. Only recently, the Spanish supervisory authority imposed a heavy fine on several financial institutions for having sold unsuitable investment fund unit classes to private customers.

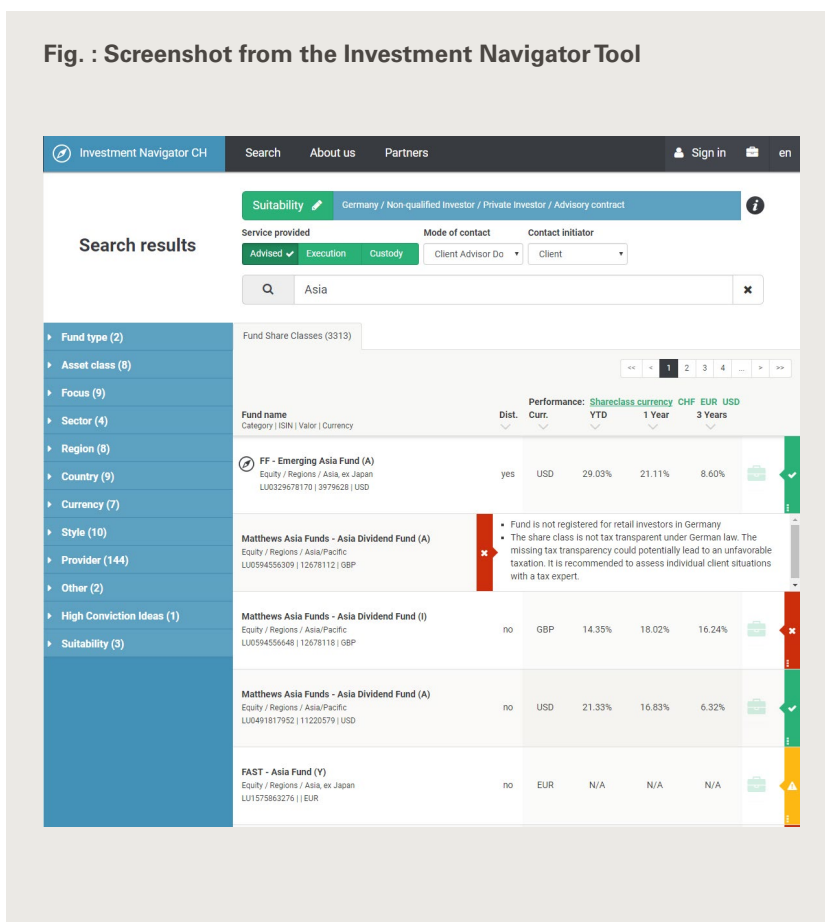
Digital solutions can instantly provide the relationship manager with information on whether a financial product may be recommended for purchase in a specific context and whether it may be held in the portfolio respectively. Cross-border regulations, sales and product restrictions as well as tax aspects are all taken into account. The use of such a tool is primarily preventive – inappropriate products are clearly marked and alternatives suggested. A regulatory violation can thus be prevented before the trade is placed (pre-trade). The simultaneous availability of regulatory rule sets and product data enables the relationship manager to reliably review investment opportunities in real time at ISIN level, even during a customer meeting.

An excellent example for such a digital solution is the Suitability Service of "Investment Navigator" which plays a leading role in this area. The idea is to completely eliminate employee misconduct by means of an intuitive tool that is available at all times. In such an environment, the risk of regulatory violations can be reduced to an absolute minimum at a low cost. Whether they are in product analysis, product management, transaction processing or customer service, all employees should be able to access the same suitability information at any time in various function-specific applications and in the core banking system (see Fig.).

Digitalization as an opportunity

In order to keep pace with the increasing complexity of the international regulatory landscape, a cost-effective solution – such as the growing use of intelligent digital applications – is crucial. The advantages of technologically automated compliance in advisory services are obvious: quality and efficiency can be increased decisively by replacing processes that are sensitive to error, and the costs of digitalization can be compensated by the cost saved for the prevention of potential misconduct and the replacement of manual processes. In addition, digital solutions offer financial institutions the opportunity to anticipate changing customer behavior, thus enabling them to differentiate themselves from their competitors. In order not to be affected by the ongoing consolidation in the financial sector, it is essential for all financial institutions to replace all repetitive processes and resource-intensive areas with digital solutions.

Fig. : Screenshot from the Investment Navigator Tool



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