The changing regulatory landscape

Four financial industry leaders discuss how their companies are coping with the tighter rules

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- DBS Group CEO Piyush Gupta
- OCBC Bank CEO Samuel Tsien
- United Overseas Bank deputy chairman and CEO Wee Ee Cheong
- Schroders CEO (Asia Pacific) Lester Gray

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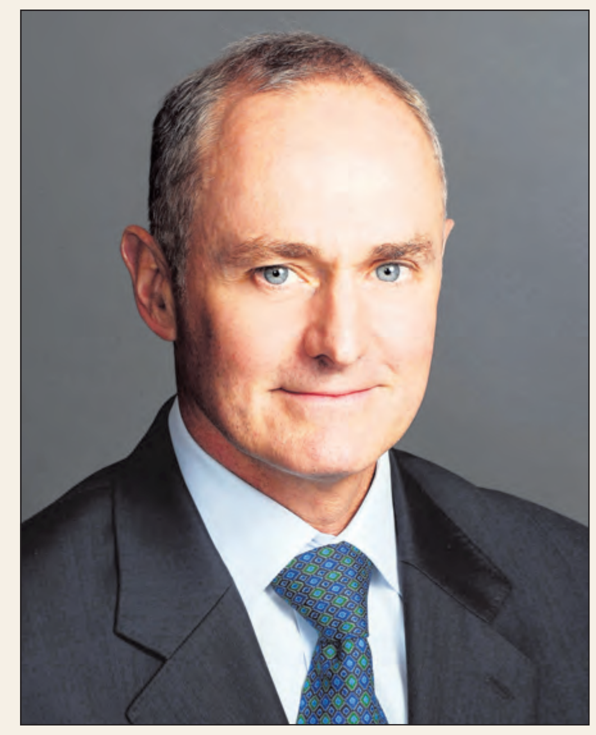

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AT 848 pages long, the Dodd Frank Wall Street Reform and Consumer Protection Act is hardly anyone's favourite read. Yet, bankers, lawyers, and other financial industry players have had to pore through it to understand how the new rules will affect their businesses. And it is not just Dodd Frank they are contending with. In the wake of the global financial crisis, regulators have introduced several other rules to prevent another fallout.

There are banks which are facing tougher capital requirements under Basel III. Private banks are also bracing themselves for the roll-out of the Foreign Account Tax Compliance Act (Fatca).

How are financial institutions coping with the changing regulatory landscape? Four industry leaders and past recipients of the Distinguished Financial Industry Certified Professional titles share their views with *The Business Times*.

BT: Regulators in Singapore have introduced or are planning to roll out more rules for the financial industry. Is the industry at risk of being over-regulated?

Piyush Gupta: The financial crisis precipitated a shift in supervisory approach from a large reliance on market forces to a regulation and rule based approach. This was clearly justified. Unfortunately, as often happens, the pendulum may have over-swung on a global basis, with some of the requirements under Basel, Dodd Frank, Fatca, etc becoming overly onerous and sometimes even counterproductive.

In all of this, I must commend MAS (Monetary Authority of Singapore) for having pursued a very pragmatic course. In the first place, they had less course correction to do, since (like other Asian regulators) they had already made significant adjustments post Asian financial crisis. In addition, their practice of industry consultation is well developed and allows banks to have a voice in screening out prescriptions that may be dysfunctional. ABS (Association of Banks in Singapore) has also played a useful role in this regard.

Samuel Tsien: In the post-Lehman era, many new regulations have been introduced for the financial services sector. These include liquidity coverage ratios, stricter capital adequacy requirements, more stringent rules on what can be counted as capital, and on the consumer side, enhanced customer knowledge assessment and stricter diligence requirements on personal financial advisers, among others.

These new regulations were introduced to address excesses of the past and some were designed to avoid future abuses. Most of these regulations are beneficial as they help to strengthen the health of our financial services sector.

At the same time, though, in order to allow us to remain competitive as a leading financial centre, it is important that Singapore maintains a good balance and does not get excessive in terms of regulations. For example, I don't think it is necessary for us to hold the levels of capital that Switzerland has proposed for its banks, which may have a contractionary impact on the economy.

In the United Kingdom, there are discussions on whether banks should carve out their retail banking business and capitalise this segment on a standalone basis. I don't think that we need to do this either. Likewise, we don't need an equivalent of the Volcker rule promulgated in the United States.

The effective regulatory supervision in Singapore and the self-discipline demonstrated by the Singapore banks have allowed us to weather the last crisis well. We emerged basically unscathed and are well-positioned for the growth opportunities and challenges ahead.

Wee Ee Cheong: Regulators the world over, not just in Singapore, have stepped up their scrutiny of the industry in the aftermath of the global financial crisis. The introduction of tighter regulations and increasing cross-border linkages have added to the complexity and costs of operations.

In whatever we do, we have to ask ourselves what the ultimate goal is. The same principle applies when it comes to regulation. Singapore's continued relevance and competitiveness as a global financial centre cannot be taken for granted. Through pragmatism and prudence, Singapore has established itself as one of the most preferred places in the world to conduct business.

With this reputation also comes the expectation that regulatory changes will be examined in the light of supporting business growth and innovation while protecting investors and consumers. Having regular and timely dialogues among regulators and industry players is therefore essential. We all share the common goal of building a vibrant and resilient industry and economy.

Lester Gray: While we welcome rules that raise industry standards, they should not restrict market development and innovation that is in the client's interest. Tighter rules can definitely benefit investor protection, which should ultimately raise investor confidence which is positive for the finance industry. However, they are effective only if investors are better informed and hence, continual investor education is also important.

BT: What impact, both in the short term and long term, will these regulatory changes have on your business? Which of these changes are you most concerned about?

Gupta: Globally, the new rules on capital and liquidity are already prompting substantial changes in business models. Low return businesses are being exited and customer deposit franchises with stable funding bases are back in fashion. The Volcker rule and the Vickers report have been even more prescriptive in requiring banks to hive off or ring fence some activities.

The new regulations have prompted us to revisit our own model as well. We have scaled down businesses like private equity and substantially increased the discipline around balance sheet management. Going forward, the Basel requirements around liquidity are something we need to watch out for. Singapore does not issue a lot of sovereign debt and the new requirements may have the perverse consequence of pushing us to hold other government paper which may not be in our best interests.

Tsien: We will fine-tune our business model to comply with the new market changes and regulatory requirements. Where necessary, we will step up our vigilance regarding market risks in general and liquidity risk in particular. We are well-positioned to meet the increased regulatory capital requirements with our strong capital position and will continue to manage our capital proactively with a focus on capital with loss absorption capabilities, in line with the new regulatory requirements.

We will further enhance our communications with customers to help them understand the changing operating environment. Further investment in technology and human capital will be made over time to support customer education and compliance efforts.

Gray: In the short term, the initial period of implementation and adjustment to these changes will require additional resources which would otherwise have been deployed for further business development.

Over the longer term, we believe these changes will raise overall industry standards and we are confident we will remain competitive in this new environment. That said, there needs to be a balanced approach to regulation across all long-term savings products, so that financial firms can compete freely under an appropriate regulatory framework.

BT: What is your company doing to prepare for these regulatory changes?

Gupta: At DBS, we have been proactively monitoring changes on the regulatory front and ensuring that we are preparing for them ahead of time. For example, on the corporate governance front, we are committed to staying at the forefront of global best practices and have been taking active measures to continually enhance and raise our standards.

ABS has been an active advocate in responding to new regulatory changes. For example, since the Fatca rule was enacted in 2010, ABS has made two joint submissions with our Hong Kong and some Asean counterparts to advocate greater flexibility in the implementation of Fatca.

Tsien: We have in place well-established processes to implement new regulations and we consult with MAS as well as work closely with ABS on new regulatory requirements and market changes. We invest in technology and human capital to facilitate the implementation of new requirements and to meet our compliance needs. We will continue to do so.

Given the impact of regulatory changes on the business – for example, more stringent capital, funding, and liquidity requirements under the Basel III regime – we also believe that banks in general will be more conscientious about the need to compete rationally, taking into account the higher costs associated with these requirements. We will fine-tune our business model and strike the right balance between capital, growth, and returns to compete rationally and effectively.

Wee: We have always been prudent and disciplined in how we manage our business and are therefore well positioned to manage the challenges and changes brought about by new regulations.

Regulation continues to shape how we manage our business on many fronts and at various levels. It influences the allocation and management of our resources and how we drive business performance. It impacts the internal processes and policies we have in place. It plays a role in the people we seek to hire and the training programmes we conduct to upgrade their skills.

Take for instance our infrastructure and technology investments. Our regional IT platform has been developed so that we can respond quickly to changes in regulations and/or advances in technology. One of the most recent changes we've been able to implement is to send SMS alerts to our customers when they make local ATM withdrawals. The regulator set out quite clearly what was required and we have delivered this ahead of MAS' implementation timeline.

Gray: We are monitoring local regulatory developments closely and working with our overseas counterparts to leverage on the knowledge and experience that they have gained in their markets where similar regulatory change has been implemented. We also participate actively in consultations organised by the regulator and industry groups. In addition, we review our internal processes regularly to ensure that we keep pace with industry developments and regulatory requirements.

BT: What are some of the challenges the industry could face in meeting these regulatory changes?

Tsien: Different regulatory changes pose their own unique challenges. Generally speaking, the latest series of regulatory changes were designed to "rein in" financial institutions which had become excessive in their risk taking appetite and activities. Therefore, the general approach is to direct financial institutions to go back to basics, reduce their complexity, shore up their capital and liquidity cushions, and align compensation with prudent risk taking.

As a result, some of the challenges the industry faces are how to balance capital prudence vis-à-vis return on capital and how to preserve liquidity while also performing the role of being an effective intermediary to channel the liquidity to productive use. Banks must make the most effective use of the banking franchise to deliver as wide and as many variety of products and services as possible to their customer franchise while not becoming too complex and too large.

During the process of implementing the new rules, we understand and accept that there might be uneven application of requirements on larger versus smaller banks. For example, the large and more complex global banks are, in a way, penalised by the requirement to hold more capital. Furthermore, some local regulators are proposing that banks incorporate locally or hold adequate capital and liquidity at the branch level which can result in excess capital being required for the group as a whole and inefficient allocation of group funding.

Wee: As a regional player, the challenges of uneven playing fields in different countries and the inconsistencies in cross-border regulations are something that we must deal with on a daily basis. Having said that, the current environment provides well-capitalised and prudently managed banks like us opportunities to expand.

Gray: There are two main effects from a more onerous regulatory environment. First is the obvious need to dedicate more resources – both human and financial – to meet the changing regulatory demands. Second and more importantly, is the potential for such changes to have a very detrimental impact on the level of activity in the long-term savings markets. That said, we are confident if the regulatory changes are well implemented, this second challenge is manageable.

BT: How do you keep abreast of the latest developments in your industry and acquire new knowledge, given your tight schedule?

Gupta: I am a voracious reader and make it a point to set aside some time every day to scan through the latest news on the industry. My position on the board of the Institute of International Finance (IIF) is helpful, since the IIF is the principal private sector forum that engages with regulators on a global basis.

Tsien: It is indeed a challenge. I make it a point to interact with people across different organisations, countries, professional bodies, and organisational levels during the course of my work to listen and learn from them. I have also benefited much from attending forums, conferences, and industry-wide discussions.

Wee: My philosophy is that there are learning opportunities everywhere. In addition to more structured training, conferences, etc, I learn through my daily interactions with industry experts, customers, colleagues, etc. I embrace this Chinese saying by Confucius: *min er hao xue, bu chi xia wen*. One must be inquisitive and humble enough to learn from anyone in any situation.

Gray: Through my job and chairmanship of IMAS (Investment Management Association of Singapore), I have the privilege of regular interaction with fellow industry professionals and regulatory agencies, which helps me stay abreast of industry developments. In addition, I am a voracious reader of the financial press, journals, and research, making the best use of my time sitting inside a plane.