

Fresh Perspectives

Issues, insights and solutions in the financial services industry in Singapore*



*connectedthinking

PRICEWATERHOUSECOOPERS 



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The shape of things to come

From rapid developments in technology and regulations to ever more exacting customer demands, financial services firms are facing an increasingly intricate jigsaw of challenges and opportunities.

The financial services sector is shifting up a gear and renewing its focus on growth. In the short term, growth may be tempered by economic difficulties such as consumer debt. In the long run however, demand for savings, investments and health insurance is likely to rise as the Singapore population ages and prepares for a longer retirement. Further openings in the region are coming from the increasing affluence of customers in emerging markets such as China and India.

However, companies need to look carefully at how they position themselves to take advantage of these opportunities.

Our study, “Piecing the jigsaw: The future of financial services”¹, concludes that organisations can no longer be all things to all people and will need to articulate and concentrate on their most valuable competencies.

This might mean focusing on a particular sector or territory, or choosing between being primarily a distributor or manufacturer. Offshoring and joint ventures could be as important as acquisitions in shaping this market. While cost will remain critical, the key competitive battleground is likely to be customer satisfaction. Expectations are rising, loyalty is declining and the Internet is making it easier for consumers to shop around. Success is therefore likely to require ever more tailored products capable of responding to customers’ changing needs and aspirations.

Clearly, companies need the right people, culture and systems to become more innovative and customer-centric. Financial services firms also need to be aware of the increasing importance of fair treatment and management of conflicts of interest placed by consumers, the market and regulators, and of compliance and risk management in safeguarding the franchise and sustaining manageable growth.

Over the coming pages, we look in more detail at the challenges and opportunities facing financial services firms.

Dominic Nixon
Asia Financial Services Leader
PricewaterhouseCoopers

¹ For further information about the study, please visit www.pwc.com/financialservices



Unlocking the keys to revenue growth

PricewaterhouseCoopers has developed a new framework to help clients identify and enhance the enablers for revenue growth in their organisations.

Surveys of CEOs, CFOs and other senior executives consistently cite revenue growth as either their key priority or one of their leading priorities. Growth is also one of the key indicators by which analysts judge companies.

Growth in financial services is being bolstered by the opportunities of demography, emerging markets and ever more innovative products and services. Yet organisations also face the challenge of mounting competition, more complex regulations and increasingly exacting customer expectations. Effective growth strategies are therefore likely to cut across all operating processes and functional boundaries.

Key priorities include ensuring that the business model takes full account of customers' needs, tax, financial and regulatory considerations, and the

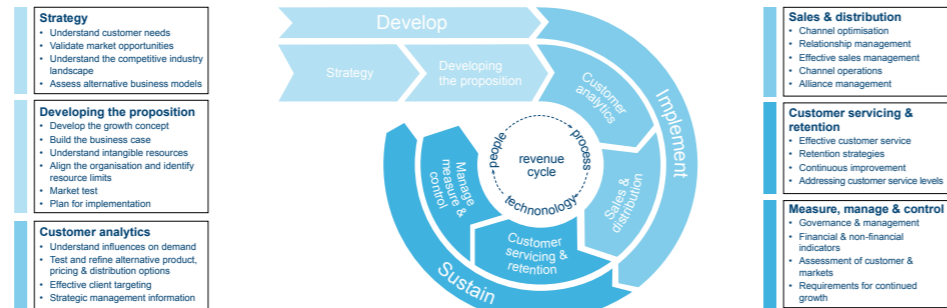
organisation's capacity to change the way it does business. In turn, the objectives and criteria for success need to be clearly measured.

PricewaterhouseCoopers' new growth framework is designed to help senior management articulate and assess their strategy for developing, implementing and sustaining increases in revenue. The evaluation can then pinpoint elements that may need strengthening or reorientation in areas ranging from internal communications to customer service.

The framework draws on business analytical skills across PricewaterhouseCoopers including information technology, human resources and performance improvement. It has already been deployed by a number of UK financial organisations. This includes helping a leading UK bank to develop a training and behavioural change programme aimed at improving management and customer-facing staff's understanding of their clients' needs and building more enduring customer relationships.

For more information, please call Dominic Nixon on (65) 6236 3188.

Our Growth Framework



We offer a cross-functional service capability based on independent business analytics and an ability to support you from strategy through to implementation.

Tomorrow's Leading Asian Private Bank

With rapid business growth, private banks in Asia are confronted with many issues and challenges in their search for reaping sustainable growth and profitability. Some of the key challenges of coping with growth are in the areas of operational effectiveness and performance improvement.

Wealth management in Asia is set for unprecedented growth with Asian private banks expecting revenue growth of 14% and asset growth of 21% for 2005 to 2008. In the flurry of private banking activities in the region, banks are clamoring to recruit staff and acquire market share in the vibrant Asian private banking markets.

In this environment of growth, we have seen private banks expand their business multiple-fold, increasing their reach into countries by poaching client teams and expanding onshore, providing a greater breadth of services, and patching IT systems together to meet business needs. This expansion has been in a haphazard and reactionary manner, and has resulted in certain situations which we broadly coin

as being analogous to "the soldiers having marched out, but with the food-wagons trailing behind," where the infrastructure supporting the core business has not developed at the same pace as banks' business ambitions.

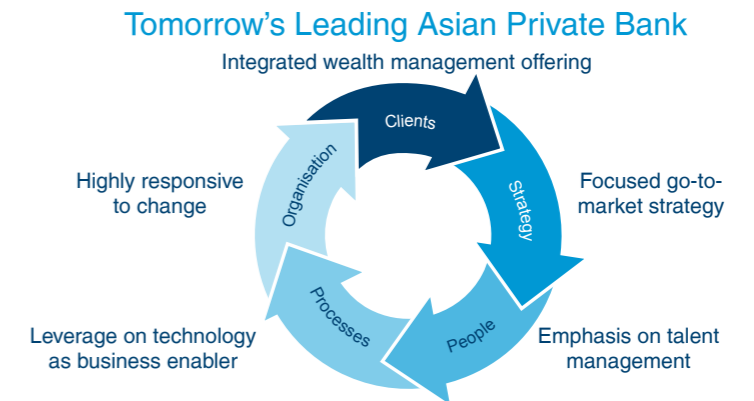
We believe that Tomorrow's Leading Asian Private Bank is one which gets the following five pillars of their business right:

- Clients
- Strategy
- People
- Processes
- Organisation

Successful private banks are those who have a good understanding of their core strengths, culture and values, and have developed a focused value proposition around these, taking into account the above pillars.

From inception to completion, PricewaterhouseCoopers is one of the leading providers of performance improvement services to wealth management institutions.

For more information, please call Justin Ong on (65) 6236 3708 or Khoo Wei Lii on (65) 6236 4299.





Prospects for M&A in Asia

The value of financial services acquisitions announced in Asia in 2005 was US\$38.7 bn, with cross-border/inbound M&A replacing domestic M&A as the larger source of M&A on a value basis. Will this level of activity be sustainable?

Financial services firms have been increasingly looking to M&A to enhance scale, diversify earnings and strengthen their capital base. M&A activity among financial services firms in Asia is expected to continue its momentum, spurred by the promise of market liberalisation. Many financial services firms in the region have been hunting, and continue to hunt for deals within Asia, particularly in China and India. The results of a recent survey of senior executives in Asia's financial services industry² suggests that this trend toward cross-border M&A, joint ventures and partnerships will continue its momentum in the coming five years, despite continuing obstacles posed by regulatory environments and corporate cultures.

In most areas of financial services, the wave of expansion is being powered by a strategic imperative to seek out new, under-served markets, and to meet a rising tide of competition from both domestic and foreign players. In other sectors, the opportunity for buyers lies in leveraging their skills to help acquisition targets improve their business models and boost growth.

The strongest evidence that market barriers are no longer defining the M&A landscape is the financial services industry's focus on China, despite ownership restrictions on foreign investors. In their pursuit of growth, many executives regard regulatory uncertainty as merely another cost of doing business. Foreign financial services firms intent on making strategic investments in India may have to adopt a similar attitude. Nevertheless, the depth of market liberalisation in Asia's financial services industry varies – sometimes markedly – from country to country.

China and India are likely to remain the major targets for M&A in the region. Predictably, India ranks at the top of countries where financial services firms will most likely set up outsourcing arrangements; other potential outsourcing countries include China, Singapore, Malaysia and Hong Kong.

From inception to integration, PricewaterhouseCoopers is one of the leading providers of transaction-related services to financial services firms/investors.

For more information, please call Dominic Nixon on (65) 6236 3188, Karen Loon on (65) 6236 3021 or Sam Kok Weng on (65) 6236 3268.

² Going for growth: The outlook for M&A in the financial services sector in Asia; available at www.pwc.com/financialservices

Market reporting – Perception or reality?

Globalisation of standards, increasing cross-border M&A and tightening local regulations are all driving Asia's financial services sector to move toward international standards of market reporting (the reporting of financial and non-financial information to stakeholders).

However, are Asia's financial services firms meeting the expectations of analysts and other stakeholders? According to a recent survey³, they are generally confident that they are meeting demands. However, research suggests that many financial services firms in the region benchmark their reporting against domestic peers, rather than overseas players. Also, equity analysts judge Asian firms against the standards of the Asian markets they cover, rather than New York or London. In some markets, analysts do not use all of the information disclosed by companies.

Insurers in a number of Asian countries (including Singapore, Hong Kong and Australia) have also produced their first annual reports on an IFRS 4 basis in 2005. This is a ground-breaking development for a

widely-diverse industry to establish a global standard on what constitutes an insurance contract. IFRS 4 has also introduced new disclosure requirements that have opened up insurers' underlying risks, earnings and reserving assumptions to unprecedented scrutiny. Our research⁴ shows that these insurers have overcome an enormous challenge to report their results under the new regime, though more needs to be done.

Reaching international standards will take Asian financial services firms some time. Yet, in the meantime, these firms believe that regulatory pressure will require them to continue to increase their levels of disclosure – over half of those surveyed believe that regulatory pressure for greater disclosure will increase substantially over the next three years.

The key challenge ahead is how to embed and sustain financial reporting in the face of continuing changes including FRS 39, Phase II of IFRS 4, Basel II Pillar 3 and FRS 107 (the new IFRS disclosure rules on risk and capital management). A more flexible and sustainable approach to

market reporting would enable companies to adjust to the evolving requirements, while minimising the cost and disruption.

The good news is that our experience indicates that most of the necessary adjustments in areas such as training, organisation and management information are relatively inexpensive and straightforward. Although some systems capabilities require more significant investment, there will be opportunities for synergy, for example between IFRS and Basel II risk modelling. Paradoxically, now is the time to identify areas where efficiency savings can divert cost out of the business in the medium to longer term.

For more information, please call Chen Voon Hoe for queries on IFRS on (65) 6236 3313 and Chris Matten for queries on Basel II on (65) 6236 3878.

³ Market reporting in Asia's financial sector: Bridging the gap between perception and reality.

⁴ Rising to the challenge – An analysis of Asia Pacific IFRS insurance annual reports; both are available at www.pwc.com/financialservices



Risk Based Capital Management: At the heart of managing risk and value

Risk-based capital management can provide a better understanding of the trade-off between risk and reward, leading to more incisive decision-making and more sustainable value creation.

Economic capital and other advanced risk-based capital methodologies enable financial institutions to quantify the risks they face, the capital needed to cover them and the real risk-adjusted returns that are being made.

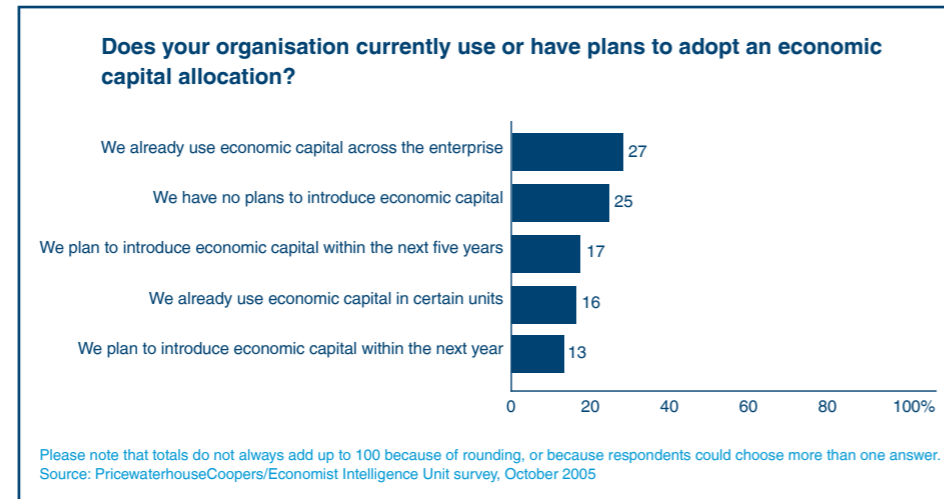
While interest in such frameworks is increasing in the wake of the move to risk-based prudential regulation including Basel II (see chart), the overriding benefits are the ability to enhance strategic and tactical decision-making, and optimise shareholder wealth. Risk-based capital management can help organisations to spot threats and weaknesses, identify opportunities that may be missed by competitors and target investment where it can earn its best return.

It can also help to align risk appetite with capital allocation and communicate the tangible strengths and potential of the business to analysts, investors and rating agencies.

However, risk-based capital management is only as good as the reliability of the data, validity of the assumptions and quality of application that underpin it. Data may be incomplete or inconsistent. Even if the desired data is available,

it can be dangerous to give too much credence to model outputs without the sense check of experience and intuition. In short, risk-based capital management cannot exist in a vacuum, it requires expert implementation, development and embedding to be credible and relevant to the business.

For more information, please call Chris Matten on (65) 6236 3878.



Basel II – The Pillar 2 challenge

As banks near completion of their Basel II, Pillar 1 implementation projects, attention is increasingly turning to meeting the requirements of Pillar 2.

Pillar 2 is arguably the most difficult part of Basel II, as it requires banks to make their own assessment of how much capital they should hold, irrespective of the minimum requirements set out in Pillar 1. While the latter has absorbed most of the time and budget allocated to Basel II, Pillar 2 requires a different level of engagement. The Board needs to be heavily involved in the bank's Internal Capital Adequacy Assessment Process (ICAAP), and meeting the requirements of Pillar 2 involves some careful thinking on behalf of the Board and senior management.

Despite the high intellectual challenge presented by Pillar 2, we have seen banks around the world spend most of their time and effort on Pillar 1, and they have only recently turned their attention to Pillar 2. The same is also true in many cases of supervisors, and one of

PricewaterhouseCoopers' most interesting engagements in 2006 was to train the UK FSA's supervisors in the application of the supervisory review process under Pillar 2.

The task is not made any easier by the lack of a common view from both the industry and its supervisors. While the latter are reluctant to be too specific about what is required (the ICAAP is, after all, meant to be the bank's own process), the former are unsure about what is expected of them. Through our engagements with both supervisors and banks, PricewaterhouseCoopers is uniquely well-placed to bridge this divide.

From the design of the ICAAP to developing a statement of risk appetite, from assisting with forward-looking capital planning to reviewing economic capital models, there are a number of components which need to be carefully considered when developing an ICAAP (see box). It is also essential that all of these components are consistent with each other.

Components of the ICAAP

- Statement of risk appetite
- Strong linkage between risk appetite and risk limits
- Statement of risk-bearing capacity
- Assessment of material risks
- Expression of risks in terms of capital (such as an economic capital model)
- Capital forecasts and stress tests
- Comparison of internal capital assessment with Pillar 1
- Capital management policies and procedures
- Capital allocation process
- All of the above to be embedded in management processes (the "use test")

For more information, please call Chris Matten on (65) 6236 3878.



Consumer care – Treating customers fairly

Asian consumers are growing in sophistication and in particular, more aware of their ability and right to demand better consumer care. It is not just about good service. More importantly, it is about treating customers fairly.

Asian regulators are also paying more attention to consumer care standards today. Evidence of this can be seen from the introduction of more fair trading/business regulations, such as business conduct requirements for investment sales and financial advisory services. Financial services firms too are acutely aware of the potentially costly implications to reputation and brand value in today's market place if they do not meet regulated or expected standards in treating customers fairly.

As a result, we are seeing more financial services firms in Asia enhancing their consumer care standards. For some of these firms, we see enhancements being primarily driven by regulatory pressures and the need to have a reasonable basis for defence in the event of litigation. These firms regard fair treatment of customers as merely ensuring that they meet the lowest common denominator standards.

For the more forward-looking organisations, we see consumer care standards being driven by the growing realisation that treating customers fairly is also about protecting and building brand value for future survival and growth. Financial markets in Asia are opening up to greater competition. Also, the financial services market is increasingly

globalised, aided by technology and information technology literacy among Asian consumers who are getting more sophisticated. These forward-looking organisations realise that consumers are no longer restricted by territorial borders when seeking good and fair services. It is not unusual today, as an example, for Asian banks to lose higher-end businesses to more advanced foreign banks when customers become successful and need more than just basic banking services. There can be many reasons for this and one cannot discount the importance of consumer care, such as trust that the Asian consumer will receive fair advice on management of hard-earned wealth.

Consumer care – Treating customers fairly *contd.*

Treating customers fairly is about setting high standards on, among others, corporate culture, product and service design and/or sourcing, marketing and advertising standards, sales practices and reasonable basis for advice, post-sales processes, and monitoring controls.

Maintaining status quo is no longer an option for Asian financial institutions in an increasingly globalised market with sophisticated consumers. They have to see value in promoting better standards

in fair treatment of customers, and should act now. PricewaterhouseCoopers, with its team of former regulators, auditors and former front-line staff, have been working with financial institutions in reviewing and developing consumer care standards that meet both regulatory and market expected standards.

For more information, please call Kwok Wui San on (65) 6236 3087.



Compliance – At the heart of risk management

Financial services firms in Asia are grappling with the biggest shake-up in regulations in a generation. We are seeing significant shifts by Asian regulators in levelling up regulatory standards, not only in their approach to supervision and inspection, but also in terms of the array and complexity of laws and regulations.

Specifically, Asian financial services firms are facing the following challenges:

- **Regulators.** Regulators in many Asian jurisdictions have levelled up. Asian regulators are increasingly more sophisticated, enhancing the quality of people, and increasing the number and scope of inspections. There is also a trend of regulators imposing serious sanctions for not only non-compliances, but also for banks not taking reasonable steps to ensure compliance.
- **Laws and regulations.** Laws and regulations are changing rapidly and becoming more complex, as well as covering more activities that were in the past unregulated. One

only needs to look at the recent regulatory developments in the area of risk-based capital and liquidity requirements, anti-money laundering, securities and commodities activities, financial advisory and investment sales activities, and regulator-imposed risk management standards (such as information technology standards, effectiveness of compliance function and business continuity management). This poses an issue of managing catch-up and change, particularly for a financial institution with multi-jurisdiction operations in Asia.

- **Activities and people.** Asian banks are also significantly more complex today – operating in more jurisdictions, more cross-border arrangements (for example, outsourcing and business arrangements) and engaging in more complex products. This increases the regulatory scope and hence compliance risk.

Companies may therefore need to look beyond narrow regulatory expectations

to develop a more holistic and proactive approach to compliance. For example, it is not unusual for a bank to have different processes in different countries to manage what essentially might be the same regulatory requirement. A holistic approach also means embracing broader ethical and strategic considerations. This includes improving the organisation's ability to comply with business objectives, internal controls and codes of conduct.

We have worked with our financial services clients on many types of assignments in the areas of regulation and compliance to help them develop an effective approach to compliance that meets the expectations of regulators. We can also turn compliance into an opportunity to improve management processes and strengthen confidence in the business.

For more information, please call Kwok Wui San on (65) 6236 3087.

Taking risk to its limits

Tax risk management is rising up on the financial services agenda, as companies face greater pressure from the tax authorities, regulators and society at large. How safe is your tax strategy?

The taxation environment in which financial institutions operate continues to evolve. Besides an increasing focus on transfer pricing in financial services following the release of a number of OECD measures, tax authorities around the world are co-operating ever more closely and proving more zealous in their efforts to combat tax avoidance and improper use of tax treaties. At the same time, new regulations globally such as Basel II and Sarbanes-Oxley are demanding tighter controls and highlighting weaknesses in tax risk control. In turn, greater focus on internal controls is exposing the amount of operational tax risk within organisations; of which responsibility for the

management is not always clear. Failure to manage any of these risks has the potential to result in unexpected cost and damage to an organisation's reputation. In short, tax represents increasing compliance, planning, operational and reputational risks.

A starting point for bridging this gap is the establishment of a clearly defined tax strategy, understood and approved by senior management. This identifies all of an organisation's tax risk and the responsibility for its ongoing management. It is a platform for ensuring tax is clearly understood and managed at the right level across the organisation and that the appropriate controls are in place. Such a strategy should ensure senior management is informed about key tax issues so that they are able to respond to the concerns of the tax authorities, shareholders and the wider community.

Tax can no longer be viewed as a specialist area by, and of interest to, only a few. Organisations fail to bring it within their normal risk management processes at their peril.

For more information, please call Paula Eastwood on (65) 6236 3648 or Paul Lau on (65) 6236 3733.



The new control agenda

With increased focus on transparency of controls relating to both operations and financial statements, there is increasing pressure on financial services firms to get it right. With Sarbanes-Oxley now in place for many major financial services firms, the requirement to adopt Basel II and additionally, with many regulators globally and regionally seeking for increased reporting on risk and controls, the pressure has never been greater.

Control design has come of age in recent years. Senior executives and in particular, boards have become more concerned with ensuring that the management teams which report to them have robust and "fit for purpose" control processes in place. Zero failure is impossible, if not too expensive to achieve. However, the expectation is that the risk profiles are known and that mitigating control processes are in place to give reasonable comfort as to possible outcomes and impact.

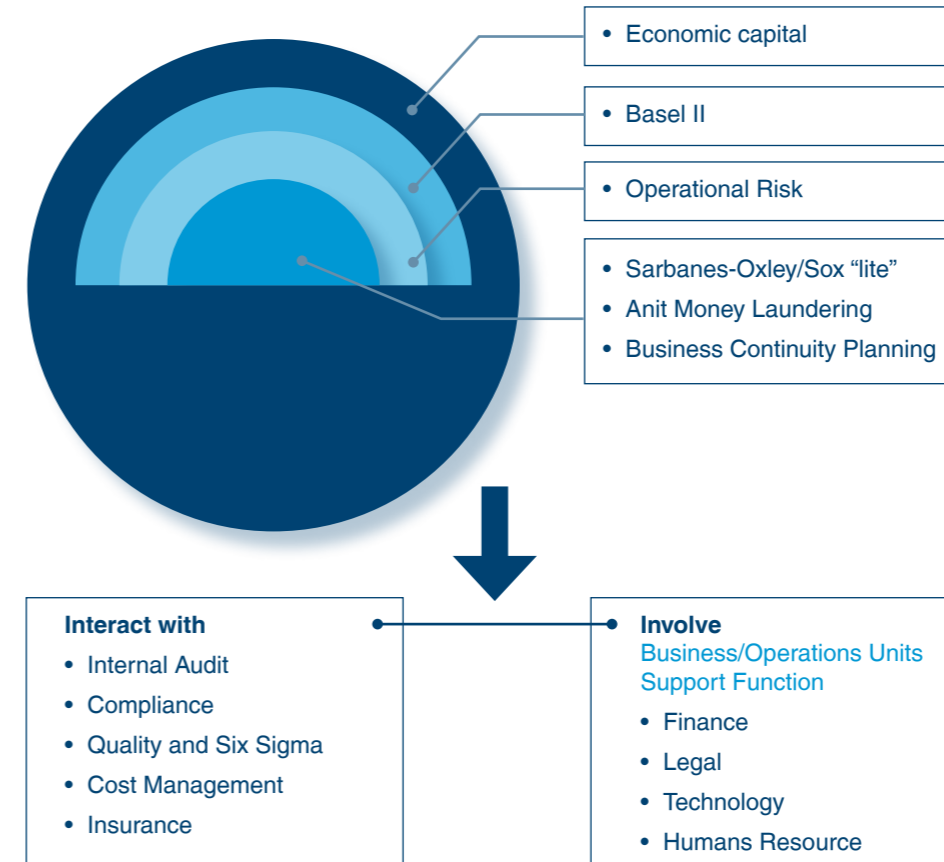
Risk management is now viewed as an integral component of how organisations are governed and how they comply with the external "rules and laws" of the sectors and territories they do business in. Embedding risk management and the focus on controls in the "business as usual" operations of the business, is by far the hardest element of achieving successful compliance and control, but getting it right delivers the most benefits.

Experience from those companies that has already undertaken Sarbanes-Oxley implementations highlight that the level of effort required to meet the requirements should not be underestimated. Furthermore, our experience to date shows that areas

such as Basel II and operational risk should not be taken lightly either. What is key is that efforts already undertaken and those planned are not wasted, but leveraged holistically so as to meet the demands of Basel II and the new raft of control reporting requirements from local regulators. For financial services firms, it is important that all of these elements be considered holistically and as such overlaps between each of the areas are not just understood, but recognised and leveraged so as to minimise duplication.

The new control agenda *contd.*

Operational Risk position in the regulatory framework



PricewaterhouseCoopers has been working with a number of our clients to integrate their activities and provide a holistic solution in the space of risk and controls. We are able to leverage global experts who are based in Asia and understand both the local and global implications of these changes.

For more information, please call Alywin Teh on (65) 6236 7268 or Mark Jansen on (65) 6236 3213; and Chris Matten on (65) 6236 3878 on Basel II and treasury controls.



Operating challenges of Financial Services Chief Audit Executives

Financial services firms face the challenges of an ever-changing regulatory environment, growing reliance on technology and web-based commerce, managing risks associated with complex transactions (for example, financial derivatives), raising the bar on corporate governance, and managing mergers & acquisitions integration.

These industry challenges have a profound influence on shaping financial services internal audit functions, particularly in addressing fraud risks, increasing visibility within corporate governance structures, and evolving internal audit responsibilities for Sarbanes-Oxley and Basel II compliance. Financial Services Chief Audit Executives of today have to deal with fast emerging challenges in areas such as:

- **Risk management integration** – integration of the internal audit function with those of other evaluative or risk management units (including the Chief Financial Officer, Chief Risk Officer, Self Audit groups, Compliance, Quality Assurance, Fraud Risk units and Control).
- **Robust risk assessment process** – adopting a top-down and bottom-up approach focusing on strategic and business objectives; ongoing assessment being updated throughout the year; and performed in conjunction with business line management.
- **Managing a dynamic audit plan** – with decreased reliance on cycle-based plans, audit plans should be flexible, with more frequent updates made to reflect the changing risk profiles.
- **Addressing manpower plan** – deploying an increasingly wide range of skills, capabilities and business experience needed to execute quality audits and deliver the internal audit plans. Having the option to deploy in-house resources versus external specialists is critical in maximising audit effectiveness and cost efficiencies.
- **Increased focus on new emerging internal controls** – system controls, spreadsheet controls and fraud risk controls.
- **Continuous auditing** – perform continuous auditing, advanced statistical techniques, and predictive modelling routines.

Operating challenges of Financial Services Chief Audit Executives *contd.*

- **Leverage technology to work smarter and faster** – using integrated Audit Support Software to enhance efficiency and effectiveness of audit process, including electronic working papers, communication systems, knowledge management support, retrieval software for audit planning and execution, and issue/corrective action tracking.
- **Incubator of talent** – positioning internal audit as a development ground for future business talents.

Working with financial services internal audit practitioners, PricewaterhouseCoopers has helped clients deal with many of these emerging challenges through outsourcing and co-sourcing engagements, TeamMate Audit Management System, internal audit training, and a range of advisory services – risk workshops, internal audit effectiveness/quality assurance reviews, best practices benchmarking, data analysis/audit retrievals through technology, and internal audit transformation projects.

For more information, please call Alywin Teh on (65) 6236 7268



Controls Reporting – Good Governance, Good Marketing

The growth in outsourced services to third-party providers, coupled with the increasing demand by clients and regulators alike for greater governance and transparency in practices has led to the accelerating emergence of controls reporting as a key solution for controls-conscious organisations and service providers.

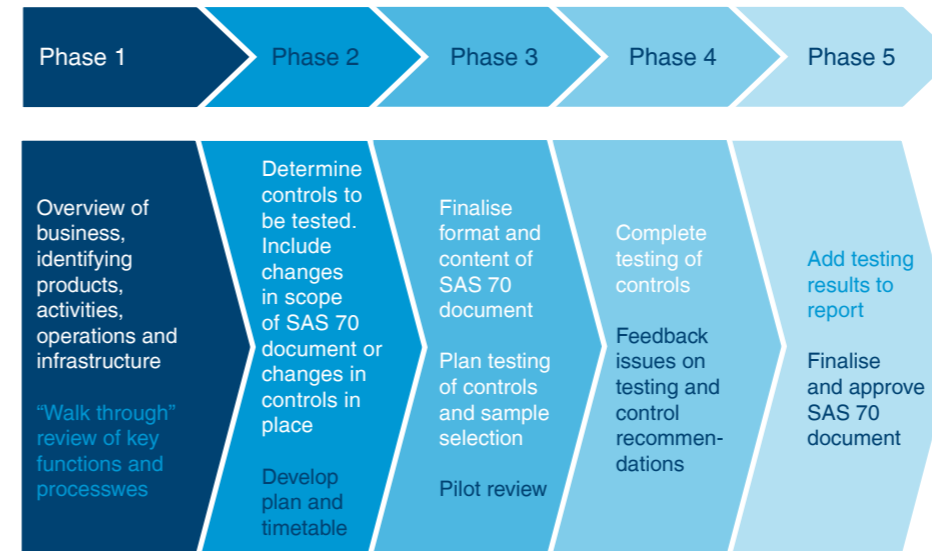
Financial services firms are long familiar with the extent of outsourcing within their industry, be it the outsourcing of fund management services by investors to investment managers, or by fund houses themselves to third party service providers in the areas of fund administration, custody, investor reporting, investment operations and other back office functions. Notwithstanding, responsibilities over outsourced functions remain high on

user organisations’ agendas as the quality of their own financial statements are inevitably dependent on the controls residing in its service organisations. Changes in the regulatory expectations as well as clients’ demands have now placed more emphasis on service organisations to provide some level of assurance over the controls in place for those outsourced functions.

The principle tenet of controls reporting relates to the service organisation’s management assertions on the design, implementation and maintenance of control procedures to ensure that outsourced functions are properly carried out. An independent accountant then performs prescribed testing procedures to determine if management’s assertions are met, and issues a report accordingly.

Careful planning and use of specialists are important in ensuring that the process of gaining a satisfactory controls report is achieved. Good controls reporting processes would follow at least a phased approach which is clear, focused and helps to address issues at an early stage. After the initial year of implementation, not to be overlooked is the continual commitment of the service organisation, including adequate resources to maintain the effectiveness of management’s assertions on controls.

Controls Reporting – Good Governance, Good Marketing *contd.*



PricewaterhouseCoopers has an extensive range of experience in performing controls, reporting assignments from start-up to full attestation work. Our services include:

- Performing an independent assessment and report of your internal controls under global standards (SAS 70)
- Developing process flow diagrams and controls documentation
- Evaluating the robustness of your existing system of internal controls, and recommending ways for improvements

For more information, please call Justin Ong on (65) 6236 3708 or Paul Pak on (65) 6236 7290.



Offshoring – Realising your objectives

Offshoring and the hubbing of functions to low cost centres continues within the financial services space as companies strive to cut costs, enhance efficiency and achieve economies of scale. Yet, lack of planning and expertise mean that many companies fail to achieve the benefits.

Offshoring, and indeed outsourcing can be a very effective method for reducing cost while bringing greater control and efficiency to back and middle office functions which may have otherwise been dispersed of and in some instances, lacked critical mass. Despite this, satisfaction levels with offshoring often leave much to be desired. Key sources of dissatisfaction include cost overruns, difficulties in recruiting and retaining staff and the cultural differences between offshore and onshore staff.

Achieving the full potential of offshoring is only possible with a clear strategy in place that is supported by rigorous planning, and ideally, expert guidance. For example, how does a line of business

know that offshoring makes sense? How do they identify common synergies across geographies, products and business lines? What regulatory and risk considerations are needed both at the onshore and offshore location? What service level agreements are required? How should arrangements be tailored to meet changing circumstances ranging from market demand, tax and regulation?

Indeed while most executives do not regret their decision to offshore, many say they would go about it differently if they had another chance. In particular, most would seek advice on how to redefine their objectives and ensure that the benefits can be determined and measured more easily. Furthermore, they would like to better understand the human resource models required. They would also set out their transitional arrangements clearly to reduce cost and delay. Finally, when using third party organisations, they would expect the service provider to be more accountable for things that did not go according to plan.

In seeking to maximise the benefits of offshoring, management should leverage best practice experience that is now emerging in the market place. PricewaterhouseCoopers has extensive experience in working with and assisting companies offshore their operations and can help organisations maximise the benefits of offshoring.

For more information, please call Mark Jansen on (65) 6236 3213.

Model and financial instrument valuation – Enhancing public confidence

With the move towards more risk-based capital adequacy rules, as well as the adoption of more sophisticated risk management techniques, there is a need for financial institutions to obtain independent validation of the models which underpin these techniques.

At the same time, the implementation of FRS 39 and its requirement for fair value accounting for financial instruments has

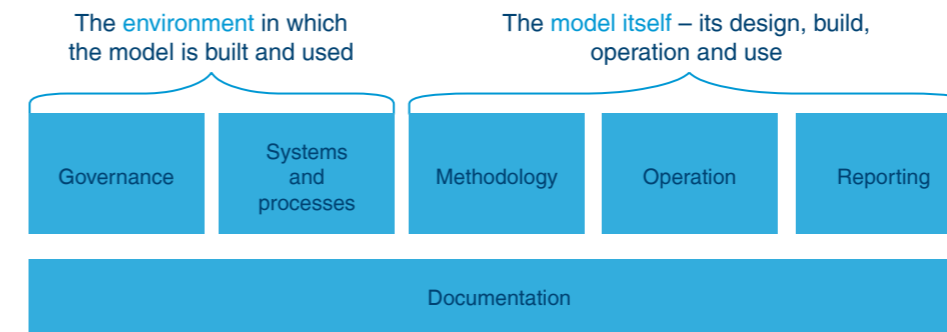
led financial services firms (and indeed all other companies) to require independent valuation of these instruments.

The use of risk models exposes financial services firms to model risks. Design flaws, erroneous inputs and incorrect interpretation of model results can lead to faulty decisions, and even failure to obtain regulatory approval to use these models in capital adequacy computations.

PricewaterhouseCoopers offers our clients an approach to model validation that is based on a clear view of both the principles involved in validating a model and best practice in model design and operation.

For more information, please call Chris Matten on (65) 6236 3878.

Elements of Model Validation





Thought leadership

Drawing on in-depth surveys, interviews and market analysis, our research studies offer unique insights into the trends and best practices that will sustain tomorrow's business leaders. They include:

PricewaterhouseCoopers/ EIU Briefing programme

This series of briefings, written in co-operation with the Economist Intelligence Unit (EIU), addresses the key challenges that financial institutions are facing. Each briefing addresses a different strategic issue and reports have included "Market reporting in Asia's financial services sector: Bridging the gap between perception and reality", "Winning the battle for growth: Building the customer-centric financial institution", "Effective capital management: Economic capital as an industry standard?", "Offshoring in the financial services industry: Risks and rewards" and "Focus on growth: Striking the right value balance within financial services".

Global Private Banking/ Wealth Management Survey

In our latest publication, "Client Relationship Managers – the key to outgrowing the market", we look more deeply into the survey findings from June 2005 and offer further insights into the issues raised. The findings show the importance of a Client Relationship Manager becoming a trusted advisor as a result of the calibre of professional interaction and the quality of the service and product advice that is provided.

IFRS – Global reporting revolution

We produce a series of papers dedicated to discussing International Financial Reporting Standards and their impact on the insurance and banking industries in particular. The most recent papers issued in 2006 include "Rising to the challenge – An analysis of Asia Pacific IFRS insurance annual reports", and "Accounting for Change – A survey of banks' 2005 IFRS annual reports".

Asia Financial Services Tax Quarterly Developments Report

Our quarterly PwC Asia Financial Services Tax Quarterly Developments Reports provide brief summaries of the tax changes in the Asia region that are relevant to financial services firms.

Thought leadership *contd.*

Our insights into the industry also include:

The Journal

This global publication addresses some of the key issues facing the banking industry and capital markets industry.

Asia Banking Insights

This regional banking publication examines topical issues facing Asia's banks.

Banana Skins 2006

The 11th Banana Skins survey, sponsored by PricewaterhouseCoopers, puts together a league table identifying potential sources of risks to banks and ranks them by severity. Our 2006 survey was based on a record 468 responses in 60 countries.

Insurance Digest

This publication is dedicated to providing thought-provoking insights into some of the key strategic issues facing the insurance industry and is also published in European, Asian and American editions.

Investment Management Perspectives/ Asia Pacific IMRE News

Each edition focuses on a distinct theme of interest to the global investment management industry.

Electronic copies of our publications are available at www.pwc.com/sg/fs. Alternatively, please contact Serene Chia on (65) 6236 3776 or at serene.chia@sg.pwc.com



Did you know?

- PricewaterhouseCoopers Singapore was named “Singapore Tax Firm of the Year” while our Asian network of firms won “Asia Tax Firm of the Year” and “Transfer Pricing Firm of the Year” awards in 2006, as hailed by International Tax Review.
- Our HRS practice was featured in a special edition of Human Resources which showcases finalists of the HR Vendors of the Year Award 2006. We were a finalist (10th place) in the Compensation and Benefits Award category.
- PricewaterhouseCoopers audits the largest number of the Top 100 SGX listed companies of all the Big 4 accounting firms in Singapore.
- We were featured as one of the Top 20 graduate employers in Singapore, in a 2006 study by Universum Communications. We were also placed in Human Resource Magazine’s Top 50 companies. We were the only Big 4 accounting firm featured in both lists.
- PricewaterhouseCoopers was ranked 1st in Asia by number of deals and 7th by value (as of 31 December 2005) by M&A Asia.
- We are committed to being socially responsible in communities in which we operate globally, regionally and locally. Our community service efforts are championed by a dedicated Community Outreach Team to engage our people in making a difference.

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