

Private banking review 2023

Calm amid the chaos

Introduction

As in previous editions, we deep dived into control matters across the topics of anti-money laundering (AML) / countering the financing of terrorism (CFT), individual accountability and conduct, operational risk management as well as regulatory reporting by the private banks.

Separately there is renewed focus on combating fraud and call-back remains one of the most effective mitigating controls. This publication highlights common industry practices around call-back procedures and what potential areas for private banks can enhance its controls in.

From our review of selected private banks in Singapore, we have categorised the observations on control matters noted across the various themes as summarised below:



Anti-money laundering (AML) / countering the financing of terrorism (CFT)

A hot topic for the year as we have noted a significant number of gaps in the AML/CFT space.



Regulatory reporting

Regulatory reporting remains an area to be improved per the requirement by Monetary Authority of Singapore (MAS).



Operational risk management

We continue to see findings in operational controls in terms of timely reporting of operational risk incidents and material outsourcing events which can be further improved.



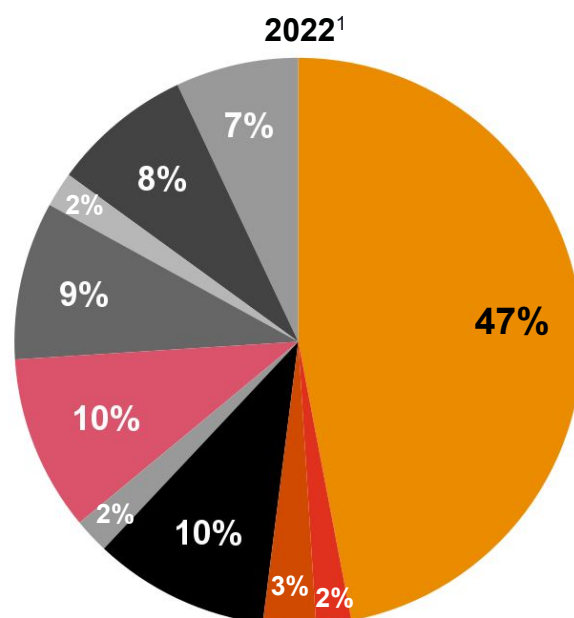
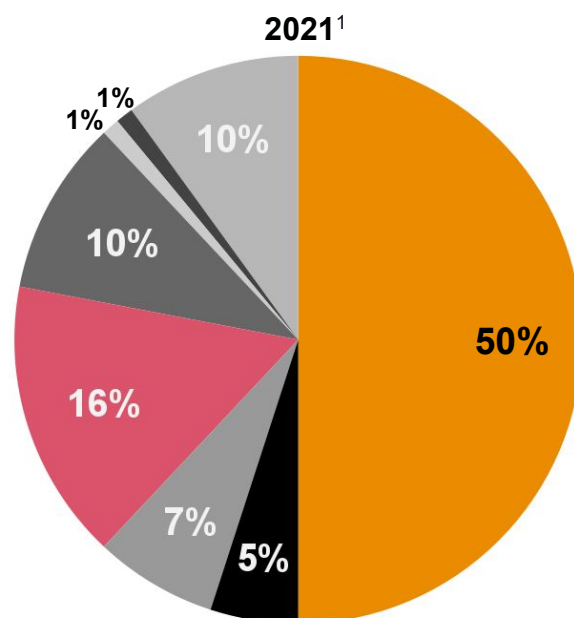
Sales and advisory

Sales and advisory processes and controls continue to be the focus areas since MAS information paper in 2020.

In addition to the top four themes above, we have also observed increased lapses in terms of credit areas which can be further improved.

The thematic focus areas for private banks have largely remained similar in 2021 and 2022 except for environmental risk management and technology risk management which are new areas of focus in 2022.

Exhibit 1: Thematic risk areas



- AML/CFT
- Environmental risk management
- Technology risk management
- Others
- Individual accountability and conduct (IAC)
- Regulatory reporting (643 and 610)
- Operations/operations risk
- Fraud risk
- Credit
- Sales and advisory

¹PwC research

Common observations

AML/CFT

- Inaccuracy in data attribute captured which may have impact on downstream monitoring and assessment
- Lack of proper audit trail to evidence certified true copy (CTC) performed
- Operational lapses in name screenings performed which resulted in adverse news may not be identified
- Incorrect AML risk rating assessment due to higher risk indicia not being identified
- Weak/lack of source of wealth (SOW) plausibility and corroboration checks performed

Sales and advisory practices

- Inaccuracy in tagging of outcomes of sales surveillance checks following an exceptional waiver provided
- Lack of evidence to exhibit disclosure of mismatch to a customer
- Inability to evidence required disclosures to customers
- Lack of evidence to demonstrate client acknowledgment for risk disclosures
- Incorrect classification of trades between bank initiated or client initiated that could have monitoring implications.
- Not incorporating “quality lapses” in determination of conduct of front office employee
- Lack of structured approach on relationship managers (RMs) scorecard

Regulatory reporting

- Lack of clear documentation of relevant policies and procedures in operationalising MAS requirement
- Lack of understanding of reporting requirements including frequency and period required for reporting
- Incorrect definition and classification of key attributes (e.g. For MAS Notice 610/1003: residency, counterparty types, industry) used within reporting returns
- Incorrect classification in the category of counterparty type and industry code
- Inaccuracy in reporting within MAS Appendixes

Operational risk

- Non-timely reporting of operational risk incidents
- Non-timely reviews of material outsourcing events
- Lack of a local operational risk policy and framework
- Lack of root cause analysis of operational risk incidents
- Lack of formal requirements (e.g. frequency and minimum indicators) around reporting to local senior management
- Lack of formalised process over the monitoring of outsourcing concentration risk
- Lack of clear roles and responsibilities in outsourcing policy
- Outdated outsourcing registers/arrangements
- Inadequate documentation on materiality assessment of outsourcing arrangement



Fraud

Fraud is an inherent risk in the private banking industry. Whilst this is not necessary systemic in the system, nonetheless it's an area private banks should not take their eyes off. From our conversations with various stakeholders across the industry, it appears timely that we revisit the use of call-back as a critical mitigant of this risk. We did a thematic review across a number of banks and observed the following:

1. Inconsistency of independent call-back threshold applied

The range of independent call-back thresholds for outgoing asset transfers are rather wide amongst the private banks reviewed. We have seen these thresholds set anywhere between every transaction regardless of amount to above USD250,000.

2. Language proficiency

Many of the private banks do not include in the policy and procedures for situations where call-back is to be conducted in languages not supported by the onshore call-back team.

3. Inconsistency on type of details to be documented in the call report

The extent of the details to ensure adequate client confirmation and acknowledgement have been obtained is inconsistent across banks. In addition, sufficiency of traceable audit trails may also differ.

4. Inconsistency in the requirements of security/identification-check questions

There are inconsistencies in the minimum number of security questions, structure and content of the security questions to be asked to identify the client's identification during the call-back among private banks.

While there were observations identified during our thematic review, we have also noted some good practices:

1. Call-backs threshold are applied based on risk

Thresholds set for performing call-backs on instructions are usually set the same across. However, we have noted that one of the private banks also monitors all transaction payments dynamically using a fraud detection tool. Different thresholds are then being applied based on the risk set for the transactions to perform call-backs.

2. Prevention of occurrence spoilt recorders resulting call-backs performed not being recorded

There are two different recorders during the call-backs recording concurrently and subsequently saved in two separate servers to make sure that call-backs performed are being recorded in the case of one being malfunctioned.

3. Procedures included for other languages that are not supported by call-back team

There are procedures specified on how call-backs are being performed for languages that are not supported by the call-back team. During such call-backs, the roles of respective staff are:

- To perform the call-backs.
- To act as translator to facilitate the call-backs.
- To understand the language translated and confirm the verification questions and relevant content of instructions have been verified correctly via email.

How PwC can support you

Given the processes for call-backs vary across financial institutions and the quality of implementation affects the effectiveness of call-backs in mitigating fraud risks, PwC can support you to move in the right direction.

What PwC can support you with



Review of call-back policies and procedures

This includes a review of the policies and procedures to provide management a view on where they are among the financial institutions based on our thematic review and whether the private banks are in adherence to the Guidance on Private Banking Controls.



Operational effectiveness test on call-backs

In addition to the review of the policies and procedures, there will also be operational effectiveness test being covered as a more detailed scope of review.

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