Regulatory Requirements on Investment Suitability

Comparison between Mainland China and Hong Kong – Part 1

As China opens up the banking sector to foreign players at an unprecedented rate, many international banks — especially those already have a strong presence in Hong Kong, show keen interest in exploring the Mainland China market. In this series of three articles, we will examine the regulatory differences between Hong Kong and Mainland China, as well as the challenges of complying in a dynamic regulatory environment.

Background

In 2018, regulators in both Hong Kong (Hong Kong Monetary Authority ‘HKMA’, Securities and Futures Commission ‘SFC’) and Mainland China (People’s Bank of China ‘PBOC’, China Banking and Insurance Regulatory Commission ‘CBIRC’, China Securities Regulatory Commission ‘CSRC’) continued to enhance and enforce the regulatory requirements of investment suitability (‘IS’) to ensure that financial institutions have robust processes and controls in place. The purpose is to protect customers’ interests and to avoid mis-selling of products, as an ongoing effort to strengthen the regulatory framework.

The current status of Mainland China’s financial market can be characterized by: 1) the rapid growth in wealth, 2) the proliferation in products/services/distribution channels offered by traditional and non-traditional financial services providers and 3) less sophisticated regulated environment. The private banking sector and wealth management business are developing. However, the gap to match up with the international players is still large. As part of the regulatory effort to bridge the gap, two influential pieces of regulation, the Guiding Opinions and Guidance of Supervision were issued in 2018, with clearer guidelines on valuation of investment products, mitigation of concentration risk, detailed requirements on pre-trade information disclosure and the use of Artificial Intelligence/Robo advisory. This reflects the drive of regulators to enhance the risk-aware culture as the market continues to mature.

Comparison Matrix : Mainland China vs. Hong Kong

In general, in comparison with Hong Kong, Mainland China continues to lag behind in terms of the sophistication of regulation. Such gap is beneficial for the banks already operating under a stricter regulatory environment such as Hong Kong. By leveraging on hands-on experience in Hong Kong, banks will have a competitive edge to open up the greater market in Mainland China.

Comparison Matrix: Mainland China vs. Hong Kong

A comparison of the key components of the suitability framework has been performed showcasing level of maturity of regulatory requirements in Hong Kong and Mainland China (1). Three most important items will be discussed in detail as follows:

1 The Guiding Opinions of on Regulating the Asset Management Business of Financial Institutions, Joint issued by PBOC, CBIRC, CSRC, and the State Administration of Foreign Exchange (SAFE) on 2018-4-27
2 Guidance of Supervision on Wealth Management Business of Commercial Banks, Issued by CBIRC on 2018-07-20
Categories of Investors

The category of «Qualified Investor» was established in Mainland China in 2018 as per the guidelines issued by PBOC. By contrast, Hong Kong regulators had already established a well-adopted mechanism for dealing with «Professional Investor (PI)» and «Corporate Professional Investor (CPI)». Moreover, Hong Kong regulators set out the criteria of «vulnerable client» for investor protection a few years ago while the line between general investors and vulnerable investors is still blurred in Mainland.

Know Your Customer (KYC) Policies

Regarding client identification, there are more than three notices in Mainland China, with two issued in 2018: Notice on Strengthening the Client Identification for Anti-money Laundering, issued on 2018-7-26 and Notice Conducting Identification of Beneficial Owners, issued on 2018-7-26. To date, KYC has been a topic with the clearest requirements from Chinese regulators. However, Hong Kong still has more customer segments defined due to the smaller cluster of customer segments specified by HKMA/SFC.

Information Disclosure

A well-established system is in place in Hong Kong, specifying the content of disclosure, the time and frequency of disclosure as well as the documentation for disclosure. Meanwhile in Mainland China, banks are mainly required to avoid exaggerated language in their marketing materials and misleading words by their RMs during the pre-sales phase.

Industry Pain Points

For the banks that are venturing into the Mainland China market, some key pain points are observed with simple explanations:

1. Inconsistencies in IS regulatory standards between Mainland China and Hong Kong
2. Need to localize the policies and procedures
3. Grey area among the regulations in operational framework design
4. Need to design procedure and agree with the regulators
5. Lack of benchmark for industry wide practices
6. Hard to define standardized practices
7. Constantly changing regulatory requirements
8. Hard to keep updated with new regulations
9. Strict barriers for foreign banks in China
10. Hard to anticipate attitude from regulators

1. Level of maturity of regulatory requirements

Conclusion

As summarized in Figure 3, with more comprehensive regulations in Hong Kong, we note that the key requirements for investment suitability are stricter in Hong Kong than Mainland China.

By identifying and understanding the current and future state of regulatory environment for investment suitability, Synpulse can help implement an appropriate forward-looking framework that supports business growth.

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3 «Qualified Investor» is defined as the one with 1) minimum 2 years’ investing experience; 2) For individual, the family financial net assets not less than 3 million yuan, or the average annual income of the family in the past 3 years not less than 400,000 yuan. For corporate, the net assets not less than 10 million yuan by end of fiscal year.
4 Notice of the People’s Bank of China on Strengthening the Client Identification for Anti-money Laundering, issued on 2018-7-26
5 Notice of the People’s Bank of China on Issues Concerning More Effectively Conducting Identification of Beneficial Owners, issued on 2018-7-26
6 Customer segments specified in Part II Detailed Guidelines in A Guideline issued by the Monetary Authority under section 7(3) of the Banking Ordinance
7 Related guidelines as Disclosure of sales related information from SFC and Pre-trade disclosure from HKMA
With a global expertise and an APAC focus, Synpulse has helped many financial institutions to transform their suitability framework. Our proposed framework not only provides a meaningful and seamless experience but meets the dynamic regulatory requirements. We will be pleased to discuss further with you on your suitability framework or bridging the operational gap between jurisdictions for suitability compliance.

Authors
This article (Part 1) is authored by Gregory Achache (Manager) and Marina Mai (Consultant).
Focus on Know Your Customer Standards

Comparison between Mainland China and Hong Kong – Part 2

Background
War against money laundering activities dates back to the 1930s, when the United States issued laws to fight against organized crime. Then, the 9/11 attack in 2001 led to increased emphasis on Anti-Money Laundering (AML) and Counter-Financing of Terrorism (CFT). A key component of AML, Know Your Customer (KYC) procedures remain a crucial stage for all banks, since it is where the risk of money laundering is not only detected, but also mitigated to an acceptable level. Therefore, ensuring accurate and efficient KYC policies from regulatory bodies, coupled with rigorous KYC frameworks can largely mitigate money laundering risks at banks.

Hong Kong, being one of the largest financial centers in Asia, and Mainland China, being a global economic superpower, remain a breeding ground for money laundering activity. Strengthening enforcement and monitoring KYC policies for customer identification is the need of the hour. The respective regulatory bodies – the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) for Hong Kong, and the People’s Bank of China (PBOC), the China Banking and Insurance Regulatory Commission (CBIRC) and the China Securities Regulatory Commission (CSRC) for Mainland China – are aware of this threat. They have been continuously making efforts to tighten KYC compliance requirements. In 2017, HKMA conducted 1,820 ML investigations¹, showcasing the strict attitude of the regulatory bodies towards the enforcement of guidelines. Meanwhile, the PBOC conducted 1708 law enforcement inspections².

In this article, we will discuss how Hong Kong and Mainland China are catching up with global KYC standards; assess and compare KYC guidelines issued in Hong Kong and Mainland China; illustrate a business case of cross-border onboarding as well as highlight the key pain points within the industry.

Hong Kong and Mainland China Moving Towards Global KYC standards
Over the years, both Hong Kong and Mainland China have taken various steps to maintain global KYC policy standards. Hong Kong has been a member of Financial Action Task Force (FATF) since 1991 and Mainland China in 2007. The FATF is an intergovernmental organization founded in 1989 to combat money laundering and is recognized as the global standard with over 37 members across the globe. As part of FATF, both Hong Kong and Mainland China are subject to regular inspections to ensure effective supervision on AML controls including KYC procedures. Recently, the FATF Mutual Evaluation on China’s measures to combat money laundering and terrorist financing³ was released following onsite visits in July 2018. Furthermore, Hong Kong and Mainland China follow the standards set by the Wolfsberg group, an association of 13 global banks that aims to develop frameworks and guidelines for effective management of financial crime.

Despite this, overseas branches of banks in Hong Kong and Mainland China have been penalized for breaching KYC regulatory requirements, indicating that some challenges still exist, especially at operational level.

Comparison Matrix: Hong Kong vs. Mainland China
For international banks that already operate in Hong Kong and plan to venture into the Mainland China market, as well as for the Chinese banks that aim to expand the wealth management and private bank business into the Hong Kong market, it is important to look at the differences in KYC policies between the two jurisdictions, to lay a path for compliant business development across the border. In the following discussion, we highlight the basic components of the KYC framework.

¹ Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report, published by Hong Kong Government on 2018-04
² PBOC official website, released in 2018-08
³ China’s measures to combat money laundering and terrorist financing-released by FATF, on 2019-04-19
and compare the level of maturity of regulatory requirements between Hong Kong and Mainland China (1).

### Types of Due Diligence

According to the HKMA's AML Guideline, three types of due diligence are applicable based on their risk ratings identified from a risk assessment: Simplified Due Diligence (SDD), Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD). Under Mainland China’s Guidelines, there is no clear statement on the different types of due diligence.

### Beneficial Owner (BO)

The HKMA AML Guidelines define a BO as a natural person who directly or indirectly owns more than 25 percent of a company’s shares, 25 percent of voting rights or ultimate control over the customer, which can be a natural person, legal person or trust. Although Mainland China’s definition of BO is similar to Hong Kong’s, according to the 2018 notice, deficiencies were found by FATF regarding the ineffective arrangements for registering and retaining BO information and, technical non-compliance in terms of transparency of BOs, legal persons and legal arrangements.

### Politically Exposed Persons (PEPs)

The HKMA AML Guidelines define three types of PEPs: Foreign PEPs, Domestic PEPs and International Organization PEPs. It is also worth noting that Foreign PEPs refer to an individual who is or has been entrusted with a prominent public function in a place outside the People’s Republic of China (PRC), while domestic PEPs play a similar role within the PRC. PBOC suggests similar definition for Foreign PEPs with that defined by the FATF, however, a Domestic PEP or any other type of PEP is not specified in the Mainland China Guidelines, as confirmed by FATF in its 2018 inspection.

### Reliance on due diligence performed by third parties (overseas subsidiaries within the Group)

From a group-level view, an on-shore subsidiary leveraging existing KYC information from an off-shore subsidiary is allowed, and this can largely ease up the onboarding process for the banks. Under the HKMA Guidelines, banks are allowed to rely on an (overseas) intermediary to perform any part of the due diligence process. In the case where group-wide policies are applied, the policies should comply with the local AML and KYC regulatory requirements to which the bank is subject. Under the Mainland China Guidelines, local banks are also required to take certain precautions before establishing cooperation with third parties banks. Additionally, in the lately issued Notice on Enhancing Effort, regulators explicitly added: Banks must not rely on third-party intermediaries from high-risk countries or regions to carry out any part of the due diligence process.

### Focus on a Business Case: Cross Border On-boarding Across Greater Bay Area

As both Hong Kong and Mainland China are seen to be keeping up with global KYC standards, cross-border onboarding or account opening is no longer a challenge. Permanent residents of Hong Kong can now open Mainland China bank accounts without leaving Hong Kong to complete the onboarding process. Banks are encouraged to take the initiative by providing cross-border financial services to strengthen financial connectivity within the Greater Bay Area. Cross-border customer onboarding and account opening are major steps in connecting the financial markets of Hong Kong and Mainland China.

In March 2019, a Hong Kong bank announced the launch of a pilot scheme for Hong Kong permanent residents to open Mainland China personal bank accounts in the Greater Bay Area remotely. Hong Kong customers may now complete the Mainland China account opening procedure by attestation in one of the Hong Kong’s bank respective branches. In fact, for a few years now, many Chinese banks have been providing account opening witness services

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1. Guideline on Anti-Money Laundering and Counter Financing of Terrorism (For Authorized Institutions), issued by HKMA, revised on 2018-10
2. Guidelines for the Assessment of Money Laundering and Terrorism Financing Risks and Management of Customers Categorizations for Financial Institutions, issued by PBOC, on 2013-1-7
4. Notice on Further Enhancing the Efforts for Combating Money Laundering and Financing of Terrorism, issued by PBOC Anti-Money Laundering bureau on 2018-7-26
5. The high-risk countries/regions defined in PBOC notice align with the update-to-date FATF high risk country list
in which the Wealth Management customers in Mainland China can open Hong Kong bank accounts (in the local subsidiary bank of the Group) locally. Such connection is strongly welcomed by the regulators and the market. We foresee that the cross-border onboarding and account opening are of major importance and will continue to be a key step in supporting the implementation of the Greater Bay Area financial strategy.

On one hand, it is comparably easier for Hong Kong customers to open Mainland China accounts, as the existing KYC information held by Hong Kong banks is sufficient to cover the onboarding requirements in Mainland China. On the other, the banks in Hong Kong might face some challenges in onboarding Mainland China customers (2).

General KYC Pain Points in the Industry

Beyond the specific challenges faced by Hong Kong banks in onboarding a Mainland China customer, the general pain points remain in identifying and verifying customers efficiently. The common pain points faced by most banks in onboarding include, but not limited to:

- Time consuming onboarding process due to redundant interaction for additional documents and information: the account opening process takes an average of more than 20 days — in the case of complex relationships, it is entirely possible for this period to take up to two or three months. Moreover, an average of eight to ten client interactions is required10.

- High error rate due to heavy reliance on manual processes.

- Lack of client data plausibility checks — especially cross-regulatory checks among KYC, FATCA, and MiFID due to manual processes and disconnected control methods.

- Increasing compliance cost due to the dynamic regulatory requirement that requires frequent change management and heavy reliance on human effort for decision making that requires hiring of subject matter experts.

- Absence of benchmark or standards for industry wide practices in between and across jurisdictions: banks still need to carefully tailor the group-level policies to meet the expectation from local regulators.

Conclusion

The KYC process is among one of the most complex, manual and unstructured processes presented in banks today. Costs and risks have risen significantly in recent years, driven by numerous new regulatory requirements that aim to strengthen AML controls. However, banks that already have a strong presence in either Hong Kong or Mainland China can capitalize on the regulatory similarity discussed above to expand to the other market with cross-border onboarding. The main key points of KYC framework between Hong Kong and Mainland China are summarised in 3.

Given our industry experience in helping banks adopt compliant AML/KYC standards and our project management know-how, we can help you assess the existing KYC procedures, design a highly efficient target operating model for (cross border) onboarding, as well as for client lifecycle management, and advise on KYC procedure design that delivers alignment with regulatory expectation in an efficient, effective and streamlined manner. The challenges and opportunities for AML control were discussed in our previous article here.

We will be pleased to discuss further with you on your AML/KYC framework or bridging the operational gaps between Hong Kong and Mainland China for KYC compliance.

9 The «Greater Bay Area» refers to the Chinese government’s scheme to link the cities of Hong Kong, Macau, Guangzhou, Shenzhen, other cities within the Guangdong Province into an integrated economic and business hub.

10 Thomson Reuters 2017 Know Your Customer Survey
### Keypoints

#### Mainland China
- N/A
- Ongoing Monitoring Based on KYC Trigger
- Record Keeping
- Source of Wealth/Source of Fund Identification
- Customer Due Diligence
- Customer Risk Assessment
- Foreign PEPs Identification
- Beneficial Owner Identification
- Customer Due Diligence
- Highlighted part are the key differences observed

#### Hong Kong
- Name Screening (PEPs, Sanctions)
- Ongoing Monitoring on Regular Basis
- Record Keeping
- Source of Wealth/Source of Fund Identification
- Customer Due Diligence
- Customer Risk Assessment
- Beneficial Owner Identification
- Customer Due Diligence

### Timeline of AML/KYC-related Regulations Issued

<table>
<thead>
<tr>
<th>Year</th>
<th>Mainland China</th>
<th>Hong Kong</th>
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<tbody>
<tr>
<td>2003 - 2006</td>
<td>- Prevention of ML (1998)</td>
<td>- Further guidance on controls against ML</td>
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<tr>
<td>2007 - 2010</td>
<td>- Supplements on guidelines on prevention of ML</td>
<td>- Risk-based classification of STRs, screenings on customers from NCCTs</td>
</tr>
<tr>
<td>2011 - 2017</td>
<td>- Risk-based classification of STRs, screenings on customers from NCCTs</td>
<td>- AML controls over tax evasion</td>
</tr>
<tr>
<td>2018 - Present</td>
<td>- AML controls over tax evasion</td>
<td>- Enhanced competency</td>
</tr>
</tbody>
</table>
- AML law of PRC
- Reporting large and doubtful payment/transactions
- Guidance paper on PEPs, Sanctions
- Account opening for ethnic minorities
- Guidance on CDD process for offshore companies and address proof for personal customers
- AML law of PRC
- Reporting large and doubtful payment/transactions
- Guidance paper on PEPs, Sanctions
- Account opening for ethnic minorities
- Guidance on CDD process for offshore companies and address proof for personal customers
- AML law of PRC
- Reporting large and doubtful payment/transactions
- Guidance paper on PEPs, Sanctions
- Account opening for ethnic minorities
- Guidance on CDD process for offshore companies and address proof for personal customers

*Above list is NOT exhaustive

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Regulators worldwide have been pushing banks to address their culture and conduct issues for many years. In Asia-Pacific, Singapore, Hong Kong and Australian regulators have recently been vocal about the importance of establishing and implementing a risk culture framework to supplement current risk management practices within banks. In 2018, regulators in Mainland China released its first set of guidelines setting out conduct requirements for bank staff.

**Background**

The Hong Kong Monetary Authority (HKMA) and the China Banking and Insurance Regulatory Commission (CBIRC), among other regulators in Asia, believe that establishing sound culture and corporate governance within the financial services industry is paramount to maintaining the integrity of the industry and protecting bank customers.

Misconduct bred by poor corporate culture can wreak havoc on a bank’s reputation as well as lead to massive fines, individual imprisonment, or even the complete loss of a banking license. The lack of sound risk culture is frequently cited as a key enabler of mis-selling and money laundering, whereas a strong risk culture mitigates conduct risk by providing an environment where bank staff is driven to do «the right thing», which promotes trustworthiness and stability in the financial services sector.

However, the timeline of delivery and stringency of policy vary significantly across jurisdictions. For example, on 20 March 2018, the CBRC (now the CBIRC) published its Guidelines for the Management of Conduct of Practitioners of Banking Financial Institutions (the Notice) to facilitate secure and sustainable operations of banks. To date, the Notice is the first and only guideline on bank staff conduct released in Mainland China.

On 19 December 2018, the HKMA issued a circular, Supervision for Bank Culture, which focused on governance, incentive systems, assessment and feedback mechanisms. The circular obligated banks to conduct self-assessments and report on their governance arrangements and culture enhancement measures. The HKMA pledged to conduct focus reviews and undertake culture dialogues to assess and benchmark banks’ culture practices. The circular was issued as a follow-up action to the a Bank Culture Reform circular, issued by the HKMA in 2017.

In this article, we will compare the regulatory requirements and frameworks on culture and conduct between Mainland China and Hong Kong, using the common example of misconduct in the selling process of investment products, and conclude with the key implementation pain points.

**Similar Issues Across Mainland China and Hong Kong**

Unethical or immoral behavior in banks is most often motivated by a desire for personal gain, at the direct or indirect expense of the bank or its customers. Front line staff is subjected to more frequent and close monitoring for misconduct, as they are positioned in ways that enable them to facilitate or hide illicit activities, earning commission from sales that may ignore client interests.

Back in 2017, a leading Chinese private bank was hit with the highest fine of the year for the issuance and sales of fake wealth management products to customers. The CBRC imposed a fine of approximately USD 4.2 million on the bank’s Beijing branch for having defrauded over 150 of its high net-worth private banking customers of as much as CNY 3 billion (approx. USD 440 million), by means of counterfeit wealth management products.

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1 The China Banking Regulatory Commission (CBRC) and The China Insurance Regulatory Commission (CIRC) formally merged as China Banking and Insurance Regulatory Commission (CBIRC) on 2018-04-08
2 The Guidelines for the Management of Conduct of Practitioners of Banking Financial Institutions, issued by the CBRC on 2018-3-20
3 Circular on Supervision for Bank Culture, issued by HKMA on 2018-12-19
4 Circular on Bank Culture Reform, issued by HKMA on 2017-03-02
5 Official website of China Banking Regulatory Commission Enforcement Disclosure, 2017-11-30
products that were subsequently discovered by the bank itself to be counterfeits with fake serial numbers. The incident led to the issuance of the Provisions of Audio and Video Recording in Sales Section⁶, which required banks to set up a specific area for sales activities, and to store audio and video recordings of the sales process to safeguard against misconduct of the sales staff.

Following suit, HKMA released the circular on Misconduct Risks in Selling of Investment Funds in December 2018⁷, to raise awareness towards misconduct risk in the sales of investment funds, and to set clear standards for the prevention and management of such mis-selling. The circular also specified culture-related and ethical standards for front line and control function staff to ensure compliance meets client suitability requirements.

**Conduct Frameworks in Mainland China and Hong Kong**

It is widely acknowledged by both regulators and industry practitioners that promoting a strong risk culture and fostering a trusting relationship between banks and their customers builds reputation that ultimately generates sustainable financial and non-financial value.

In China, the Notice focused on the topics of governance frameworks, staff conduct management and oversight from regulators. Banks are required to establish an effective internal governance framework that explicitly specifies responsibility and ownership among the board of directors, the board of supervisors, senior management and relevant functional departments in the management of practitioners’ conduct. In addition, banks should have a risk-based control framework to prevent misconduct. Appropriate reporting systems that enable regular updates and timely notifications about major incidents to financial regulators is a must for a successful implementation.

In its March 2017 circular, the HKMA provided a three-pillar framework for promoting a sound bank culture. It emphasized that the culture initiative was not a box-checking exercise. Rather, banks were advised to take it as an opportunity to thoroughly assess their policies and procedures, among other internal controls.

In the governance framework, the HKMA requires banks to set an appropriate «tone from the top», obligating the senior management to lead the bank culture efforts by example. A thorough assessment of performance evaluation systems is also required to avoid inadvertently incentivising excess risk-taking for short-term business performance gains that would endanger the interests of the bank and its customers. Banks are also required to review the efficiency of internal escalation systems for reporting questionable practices. The complexity of this initiative is enormous, given the level of communication and cooperation required between all levels and areas of large banks.

Staff conduct in Mainland China is, in most cases, managed by a stick that penalizes wrongdoing rather than a carrot that promotes the right behaviors. Behavior is closely monitored and measured against the unethical practices. This is in stark contrast to Hong Kong, where doing the «right thing» is promoted by the conduct framework in a more preventative manner, rather than solely relying on punitive measures to incentivize appropriate conduct. Beyond their philosophy towards staff incentives, similarities in overall direction can be seen when comparing the conduct frameworks (1) provided by regulators in Mainland China and Hong Kong.

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6 The Interim Provisions on the Administration of Audio and Video Recording in Sales Sections of Banking Financial Institutions, issued by CBRC on 2017-8-2
7 Misconduct Risks in Selling of Investment Funds, issued by HKMA on 2018-12-21
Governance for Clear Ownership and Responsibilities at Board Level

Banks in Mainland China and Hong Kong are both required to establish sound governance structures with a clear tone from the top, and the board is required to take the lead. Senior management teams are required to set up an effective system for conduct management, which should be supervised by a board-level committee.

Incentives Systems Realigned to Reward Positive Risk Behavior

Banks are discouraged for overly relying on sales and revenue targets in performance measurement. Besides financial performance, incentives also need to include risk and behavioral metrics. There should be adequate consideration of behavioral and risk indicators, and separation of the performance rating that measures adherence to corporate values and balanced use of incentives and disincentives. In both Mainland China’s and Hong Kong’s Guidelines, the consideration of risk behavior should be factored into a bank’s incentives policies and processes, including in relation to performance management, talent programs, career progression paths and financial compensation.

Assessment and Feedback Mechanisms for Whistle Blowing

Both Mainland China and Hong Kong regulators emphasize the importance of establishing internal reporting mechanism to prevent unethical behavior and report when it occurs. For example, the Notice made it clear that the banks must at least report annually on staff conduct assessments, which should be connected to remuneration arrangements. In Hong Kong, banks are required to review and report their governance arrangements as well as policies and procedures in relation to corporate culture and the implementation of the enhancement measures to foster a sound bank culture.

Challenges in Managing Culture and Conduct

In many ways, banks are facing similar challenges today as they were before. Change is still driven mostly by regulators, and the ongoing progress made by banks has been rather slow. Accurate and effective management of information across the organization is often a limiting factor, and a major hurdle for efficient change projects. How a cultural initiative can be transformed into visible practices, such as procedures and process manuals, topic campaigns and measurable parameters for assessment and reporting, becomes crucial. However, culture initiatives are still often seen as mere box-ticking exercises, rather than as an important part of a modern bank.

Therefore, regulators are intensifying pressure on banks to shift from a compliant risk culture towards an embedded one, which affects numerous aspects of these organizations. Banks in Asia are now facing two key challenges: (i) identifying gaps in their current risk culture setup and (ii) setting up the right risk framework.

Especially for banks that operate in Mainland China, where the conduct initiative is comparably new, guidance will be needed to establish a culture and conduct framework that satisfies the expectations of the regulator. Common pain points faced by banks in the construction of risk frameworks in a compliant way include, but are not limited to:

- Overreliance on regulators to drive progress on culture and conduct;
- Lack of a thematic review approach, where risk is considered and measured holistically throughout business activities, roles and responsibilities;
- Inadequate training programs and awareness campaigns, which are currently not capable of producing long-term results when compared to full-fledged frameworks;
- Lack of predictive behavioral analytics and data-driven incentive programs with transparent measuring tools;
- Underdeveloped culture of personal accountability, leading to low efficiency of feedback and escalation systems.

Conclusion

Synpulse is dedicated to providing industry best practice advice to banks to help in the design and implementation of risk culture frameworks. Our insights on how private banks are currently taking action to embed a sound risk culture, and how different frameworks can be benchmarked, can be found in our commentaries:

«The Impact of Culture and Conduct — Industry’s Biggest Blind Spot»

«In Search of Banks’ Moral Compass»
Leveraging on our experience in helping some of the largest banks in Greater China, Singapore and Australia design and implement holistic culture and conduct frameworks, we can help you to drive forward maturity assessment, culture framework design and industry benchmarking initiatives.

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