cutting through complexity

Financial Services Briefings
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Foreword

Outsourcing is shifting from pure cost reduction to achieving true operational excellence in support functions. It is also a way in building a scalable delivery model that can support businesses effectively and enable risk transfer.

In a world where most IT environment source their requirements from a multitude of service providers, service integration is the key to unlocking the benefits of this multi-sourced environment – reducing risk, driving cost savings and improving the quality of service provided to the end user.

Whilst multi-sourcing offers the benefits of specialisation and cost competitiveness, it also presents significant governance challenges in ensuring the service quality and efficiency an organisation is looking to achieve. Service Integration, which is the coordination of people, processes and tools/technology across multiple service providers, helps in managing the quality and effectiveness of delivery to the end user.

For the Financial Services industry, we see a growing trend in outsourcing Service Integration as a discrete service to a third-party service provider. Indeed, multi-sourcing models require a new discipline to measure and monitor the performance of sourcing relationships. Imperative to this process is commitment to full transparency by both client and supplier. Adopting the right Service Integration model can make the difference between a successful organisation and one that only delivers sub-optimum, disconnected services from disparate sources.

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Service Integration – Enhancing the Benefits of a Multi-sourced IT Environment in Financial Services

By: Tony Rawlinson

Financial Services is one of the most regulated industries. However, increasingly organisations in this sector are overcoming their traditional reluctance to yield control and are now outsourcing a wide range of IT infra-structure, application and business process services in pursuit of operational efficiency and reduced costs. Organisations historically not associated with outsourcing are seriously considering it - nothing is 'off the table'; all components of the IT Value Chain are being considered as outsourcing candidates with cloud computing also making an entry into this otherwise risk averse sector.

Multi-sourcing – Benefits and Challenges

The primary objective of outsourcing is shifting from pure cost reduction to achieving true operational excellence in support functions as well as to building a scalable delivery model that can support businesses effectively and enable risk transfer. This transfer of focus from tactical cost reduction to true operational excellence has changed the dynamics of the IT outsourcing arena. In return for investment in changing their operating model, organisations are looking for the real business benefits of outsourcing functions and processes. "Economies of scale" is no longer the primary criteria but organisations are now weighing it against the specialisation benefits they would derive from outsourcing to suppliers who are market leaders in specific domains. Specialisation benefits are now playing a greater role than before in IT outsourcing supplier selection in Financial Services industry where IT has moved on from being an office to a strategic enabler for financial institutions spearheading their entry into new products, markets and channels. Other key drivers for adoption of a multi-sourcing approach include maturing supplier offers thereby providing buyers with more options, increased governance capabilities, reduction and increased competitiveness in the supplier landscape.

Whilst multi-sourcing offers the benefits of specialisation and cost competitiveness, it also presents significant governance challenges. Foremost of these is how to enable the various external service providers and residual internal delivery functions to manage dependencies between their respective service towers and to work together efficiently without impacting end-to-end service availability, functionality, and responsiveness. Absence of an effective governance mechanism can have significant impact on service quality and as some of the recent incidents have shown, services failures carry significant reputational and cost impact for Financial Services institutions. An ineffective service governance model can also lead to inefficiencies in the service landscape and erode the benefits from outsourcing that an organisation is looking to achieve.

Service Integration (SI) is the coordination of people, processes, and tools/technology across multiple service providers (be they internal or external) to manage the delivery of the end-to-end service to the end user. It is one of those great ideas that are based on common sense—an integrated service can be more efficient and more effective. As a concept it is not new, and while most organisations generally perform elements of it with varying levels of success, SI performance can be patchy, at times disjointed, and often there is a lack of specific accountability or responsibility for it.

So Why the Focus on Service Integration Today?

What is new in Service Integration today is the growing recognition of it as a service and potentially a function in its own right. There has also been a marked shift in thinking about what is delivered, how, and by whom, with a growing trend in setting it up as a specific internal service, sometimes with a separate function or organisation, or alternatively outsourcing it as a discrete service to a third-party service provider. The latter model enables the organisations to benefit from having a single service provider responsible for the end-to-end service, whilst still enabling the deployment of separate specialist tower providers.

CIOs are also recognising that Service Integration can be an effective vehicle to support the transition of their IT organisation from a siloed IT service to an end-user outcome-based service—one that can be better aligned to the business and the end user. It can be a catalyst for leading a mind shift change away from an insular focus on how well IT service providers are delivering to their contracts, to a focus on how well the IT organisation is providing the end-to-end IT service to the business and the end users.

The Role of the Service Integrator

Whether the Service Integrator is an in-house function or an external third-party service provider, the expectations and scope of responsibility should be the same. The Service Integrator's primary responsibility is to help maximise the availability and quality of the IT services provided to the business and end user. They are responsible for end-to-end service availability performance and achievement of the associated performance standards (SLAs, KPIs etc.). For example, helping to ensure the ATMs are 99.8 percent available to the customers regardless of the cause of any downtime—consumable, cash, software, LAN, server or storage related.

Service Integrator's responsibilities in practice include:

1. Process standardisation and deployment of industry best practice
2. Tool/technology standardisation.
3. Driving higher availability and improving service reliability
4. Provision of an integrated end-user customer experience with a single point of responsibility.
5. Overseeing compliance to organisation's policies and standards.
6. Provide a coordination function across the multiple service providers
7. Monitoring, measurement, and reporting of the end-to-end service.

Who should be the Service Integrator?

The choice between an internally enabled Service Integrator model or an external integrator will be driven by several factors including an organisations scale and attitude to risk, and its ability to access and manage the required skills, tools, and processes. In the past, the role of the Service Integrator has in principle been retained by the organisation—although as a function, activity, or indeed service it has often been overlooked and has rarely been fully defined within the IT organisation where it is performed often as part of Service Management or distributed across multiple teams. As a result, Service Integration has often been ineffective and the associated benefits have not been realised. However, organisations are increasingly recognising the benefits of treating Service Integration as a separate function that takes responsibility for the end-to-end service.

There is a growing trend within certain organisations to outsource Service Integration as a discrete service to a third-party service provider. This has been particularly embraced in the Financial Services industry. The popularity of outsourcing Service Integration as a service has been driven by a recognition that it is not necessarily core to the organisation, and that outsourcing this activity enables the organisation to focus on strategy and development. It also provides access to specialist resources and information, leverages service provider investments, and the benefits of Service Integration are commercially underwritten with contracted SLAs and KPIs supported by a service credit regime.

Service Integration can deliver significant value but does not necessarily require significant investment to implement—a lot can be achieved with the re-focus and re-utilisation of existing resources coupled with a clear goal, a defined set of objectives, and a realistic roadmap. It is important to define Service Integration as a service, and as such to make a conscious decision that is right for your organisation as to whether to source it internally or externally. It is equally important to address all the Service Integration elements in an overall service integration model, with clear objectives and scope.

If Service Integration is executed properly then it can be an effective tool for driving down costs, improving customer satisfaction, and removing risk in the end-to-end service. Put simply, adopting the right Service Integration model can make the difference between an organisation being able to draw on joined up outsourcing arrangements that work seamlessly and deliver real value to the business or continuing to receive sub-optimum, disconnected services from disparate sources.

Regulatory, accounting and tax updates

Regulatory Updates

Financial Institutions

Consultation Paper on Designation of Tax Crimes as Money Laundering Predicate Offences in Singapore dated 9 October 2012

Following the revision of the Financial Action Task Force ("FATF") Recommendations in February 2012, Singapore reiterated its commitment to fully align our legal and policy regime with the new FATF requirement to designate tax crimes as money laundering ("ML") predicate offences, to discourage the entry of tax evasion monies into our financial system and protect Singapore's reputation as a trusted financial centre. Accordingly, Singapore will designate a sufficiently broad range of serious tax crimes as ML predicate offences. This designation will be the latest addition to the list of over 400 other ML predicate offences designated by Singapore.

To comply with this new requirement, financial institutions will need to understand a client's tax-risk profile and apply customer due diligence, transactions monitoring and control measures that are commensurate with the assessed risks, to effectively detect and deter the laundering of proceeds from serious tax offences through the financial system.

This consultation paper sets out the scope of tax crimes that Singapore will be designating as ML predicate offences and the underlying considerations. It also explains what the new requirements entail, which include:

- Supplementing existing due diligence measures with additional client acceptance and surveillance checks to understand and assess a client's tax-risk profile; and
- Institute on-going monitoring procedures for the detection of transactions that may be related to tax predicate offences.

Securities, Futures and Fund Management

Enhanced Regulatory Regime for Singapore Fund Management Companies

The new regulations on the enhanced regulatory regime for fund management companies (FMCs) came into effect on 7 August 2012.

A new category of Registered Fund Management Companies ("RFMCs") will replace the Exempt Fund Manager ("EFM") regime. RFMCs may serve up to 30 Qualified Investors and manage up to S$250 million in assets under management. Other FMCs will have to apply for a license.

Under the new regulations, all FMCs will have to meet enhanced business conduct and capital requirements.

Some of the key ones for RFMCs include:

- rules requiring independent custody and valuation of investor assets;
- requirements for RFMCs to undergo independent annual audits by external auditors; and
- having an adequate risk management framework commensurate with the type and size of the investments managed by the RFMCs.

New forms for RFMCs have been issued, including those for the notice of commencement of business (Form 22A), annual declaration (Form 25A) and auditor's report (Form 25B).

In addition, MAS introduced a new licensing exemption for a person who carries on business in fund management in Singapore on behalf of qualified investors where the assets managed by it comprise securities issued by one or more corporations or interests in bodies unincorporate, where the sole purpose of each such corporation or body unincorporate is to hold, whether directly or through another entity, immovable assets.

Securities and Futures (Amendment) Bill 2012 on Regulation of OTC Derivatives dated 15 October 2012

The Securities and Futures (Amendment) Bill 2012 was moved for first reading on 15 October 2012 with a view to implementing policy proposals to regulate over-the-counter ("OTC") derivatives. The amendments will strengthen the regulation of OTC derivatives markets, in line with recommendations by the G20 and Financial Stability Board. The key amendments include:

- Introducing a new regulatory regime for trade repositories (New Part IIA),
- Extending the current regulatory regime for clearing facilities to OTC derivatives (New Part III),
- Mandating reporting and clearing of certain OTC derivative transactions (New Parts VIA and VIB).

Banks

MAS Notice 637 Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore dated 29 November 2012

MAS Notice 637 Notice on Risk Based Capital Adequacy Requirements for Banks Incorporated in Singapore ("this Notice") establishes the minimum capital adequacy ratios for a bank incorporated in Singapore ("Reporting Bank") and the methodology a Reporting Bank shall use for calculating these ratios ("Pillar 1"). It also sets out the expectations of the Authority in respect of the internal capital adequacy assessment process of a Reporting Bank under the supervisory review process ("Pillar 2"). In addition, this Notice specifies the minimum disclosure requirements for a Reporting Bank in relation to its capital adequacy, with a view to enhancing market discipline ("Pillar 3").

On 29 November 2012, this Notice has been revised to incorporate the proposed amendments from the 28 September 2012 consultation paper, which strengthens the capital framework for trade exposures and default fund exposures of banks to Central Counterparties ("CCPs"). In addition, it sets out the requirements to be met by a CCP for the purpose of determining the applicable capital requirements for bank exposures to the CCP.

The amendments shall take effect in two phases on 1 January 2013 and 1 July 2013.

Consultation Paper on Proposed Amendments to to MAS Notice 637 to Implement Composition of Capital Disclosure Requirements dated 5 November 2012

On 26 June 2012, the Basel Committee on Banking Supervision ("BCBS") issued the "Composition of capital disclosure requirements" with the aim to improve the quality of Pillar 3 disclosures in respect of the capital that banks use to meet their regulatory requirements.

This consultation paper sets out the proposed amendments to MAS Notice 637 ("the Notice"), incorporating the BCBS' composition of capital disclosure requirements. The proposed amendments will require Singapore-incorporated banks to disclose their capital positions through the following:

- Breakdown of the full list of regulatory capital items and regulatory adjustments;
- Reconciliation of all regulatory capital elements back to the audited financial statements;
- Description of the main features of regulatory capital instruments issued; and
- Provision of the full terms and conditions of regulatory capital instruments and the calculation of any ratios involving components of regulatory capital.

These revisions will improve the consistency and comparability of disclosures relating to the composition of regulatory capital, and will mitigate the risk of inconsistent formats undermining the objective of enhanced disclosure.

The proposed amendments require Singapore-incorporated banks to comply with the disclosure requirements from the date of publication of their first set of financial statements relating to a balance sheet on or after 30 June 2013.

Merchant Banks

MAS Notice 1111 Notice on Risk Based Capital Adequacy Requirements for Merchant Banks Incorporated in Singapore dated 2 November 2012

This Notice is issued pursuant to section 28(3) of the Monetary Authority of Singapore (Cap. 186) and applies to all Merchant Banks. The minimum capital adequacy ratios for a Merchant Bank and the methodology a Merchant Bank shall use for calculating these ratios are established within the Notice. A Merchant Bank shall, at all times, maintain at both the Solo and Group levels, the following ratios:

a) a Tier 1 capital adequacy ratio ("CAR") of at least 6%; and
b) a Total CAR of at least 8%.

In addition to complying with the minimum regulatory capital requirements in this Notice, a Merchant Bank shall also consider whether it has adequate capital to cover its exposure to all risks.

On 2 November 2012, amendments were made to the Notice and MAS Notice 1111 dated 15 December 2011 is cancelled with effect from 2 November 2012. The revised Notice shall take effect from 1 January 2013.

Accounting Updates

Proposed guidance on accounting for levies

Following the 2008 global financial crisis, various countries such as the France, Germany, the United States and the United Kingdom, have started to implement bank levies to prevent excessive employee bonuses and to discourage risky borrowings.

Against this backdrop, IFRIC had proposed to clarify that an entity recognises a liability for a levy when and only when the triggering event specified in the relevant legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event.

The draft Interpretation DI/2012/1 Levies Charged by Public Authorities on Entities that Operate in a Specific Market was published by IFRIC on 31 May 2012. In Singapore, the ASC issued the equivalent draft interpretation on 4 June 2012.

Revenue update

In July 2012, the Boards began substantive redeliberations of the proposals in the November 2011 exposure draft Revenue from Contracts with Customers discussing four items in the table below.

The Boards aim to conclude redeliberations by December 2012 and issue a new standard in the first half of 2013.

Item	Outcome
Recognition of onerous obligations	The Boards decided to exclude proposed requirements for identifying and measuring onerous performance obligations in the revenue standard. Instead, entities would apply the existing requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
Identification of separate performance obligations	The new revenue standard will contain a systematic approach and more detailed guidance on how and when to break down a contract into smaller units.
Criteria for when revenue should be recognised over time	An entity would recognise revenue over time if any one of the following three criteria is met: • the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced • the customer receives and consumes the benefit of the entity's performance as the entity performs; or • the entity's performance does not create an asset with an alternative use to the entity, and the entity both has a right to payment for performance completed to date and expects to fulfil the contract as promised.
Licensing and rights to use	The Boards had different initial views on accounting for licensing and rights to use and will therefore undertake further work on how the transfer of control concept applies to licences.

Hedge accounting update

On 7 September 2012, the IASB issued a draft of its forthcoming IFRS on general hedge accounting that will be added to IFRS 9 Financial Instruments. The proposals would not fundamentally change the current types of hedging relationships or the current requirement to measure and recognise ineffectiveness; however, the proposals would mean that more hedging strategies used for risk management would qualify for hedge accounting. The proposals would result in the following, for example:

- hedge accounting would become available for a broader range of hedging strategies, for instance, risk components of non-financial items and non-contractually specified inflation risk
- more judgement would be required in assessing the effectiveness of the hedging relationship
- voluntary termination of otherwise qualifying hedging relationships would no longer be permitted
- cash instruments would qualify as hedging instruments in more cases
- additional disclosure requirements on risk management and hedging activities

The proposals would be effective for annual periods beginning on or after 1 January 2015. Early application would be permitted only if all existing IFRS 9 requirements are applied at the same time or have already been applied.

In Singapore, the ASC has yet to issue the equivalent of IFRS 9.

Tax Updates

Goods and Services Tax (GST) Remission on Expenses for Prescribed Funds Managed by Prescribed Fund Managers in Singapore

The Minister for Finance introduced a GST remission scheme under which funds that meet the qualifying conditions will be able to recover GST incurred on all expenses (except disallowed expenses under the GST Regulations 26 and 27) from 22 January 2009 to 31 March 2014 based on a fixed recovery rate, without requiring the funds to register for GST.

In this regard, the fixed recovery rate for expenses incurred during the period from 1 January 2013 to 31 December 2013 will be 87%.

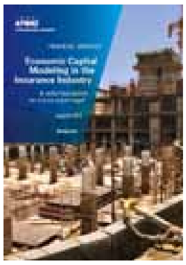
Global topics

KPMG Banking Newsletter November 2012

As confidence and trust in the banking industry reaches new lows, KPMG's UK head of FS, Bill Michael, calls for a Bankers Code - led by bankers, overseen by an independent body, with the endorsement of regulators - to be introduced.

AIFMD - Reshaping for the Future - September 2012

This publication provides an overview of the new AIFMD legal and regulatory framework that will govern the alternative investment fund industry in the EU from July 2013 and re-shape the operations of managers and the alternative funds they manage.



Economic Capital Modelling July 2012

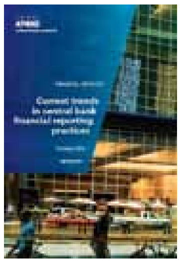
A report is based on a survey of global insurance companies about their use of and opinions on EC modelling. The publication outlines: Growing challenges in implementation of EC modelling; Emerging trends in EC modelling.

Basel Infrastructure Survey 2012

This survey highlights practical challenges faced by the industry during the development of Basel infrastructure, such as data sourcing and inputs, calculations, and reporting capabilities across various functional and technology groups.

The global challenge of liquidity - compliance to business advantage

In this report, KPMG examines why liquidity is so challenging and the steps banks globally will need to take, not just to survive but to gain a competitive advantage.



Current trends in central bank financial reporting practices (October 2012)

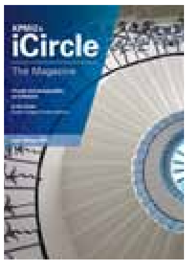
This publication helps you to understand central bank financial reporting, by comparing practices and examining the commonalities and differences.

The Great Payments Transformation Keen insight into Asia payments ecosystem

As Asia's payments industry ascends into the stratosphere, our payments clients are clamouring to find out how they can participate in the Asian market.

The Transformation of Banking- Forces, Implications, Actions

The point-of-view paper offers ideas on managing the risks created by the forces that are renovating the banking landscape.

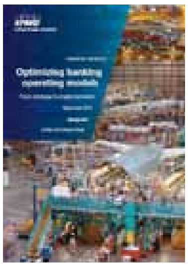


iCircle Magazine - October 2012

This publication provides a wide-range of insurance related articles. In this issue you will find articles on the Intelligent Insurer, Sustainability, and doing business in the CEE.

Embedding Productivity Disciplines - Why financial services firms need a lifestyle change that lasts

This publication leverages our experiences and insights working with global financial institutions enhancing their productivity and implementing cost-reductions plans.



Optimising Banking Operating Models - September 2012

This paper delivers insightful tips to help banks around the world reassess and redesign their existing operating models.

To obtain any of the reports, please send a request to sg-marketing@kpmg.com.sg.

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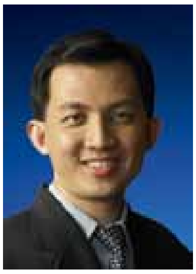

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