

Foreword

Procurement functions are taking on a more strategic role in enhancing the value organisations obtain from their suppliers.

As procurement functions mature, it becomes increasingly difficult to achieve competitiveness by leveraging traditional price levers. Many functions today are therefore seeing the optimisation of their end-to-end supply chains as one way of doing so.

Leveraging recent technological advances and new systems can help, but procurement functions ultimately need to work more closely with their key stakeholders, start this process earlier, and take on more proactive roles in supply chain risk management.

Welcome to the latest issue of Financial Services Briefings. In this issue, we highlight the changes financial institutions need to make to close the gap between the current operating standards of their procurement functions and where they

need to be. We also consider some possible approaches that these functions can undertake to deliver more value for their business.

Updates on regulatory and accounting changes are also provided. As always, if we can assist, please feel free to get in-touch.

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Procurement Optimisation – Progressing Beyond Cost-Reduction

By: Tony Rawlinson and Sam Vatrano

Procurement functions of financial institutions have generally focused on driving costs out of the business, even more so since the first indication of the global financial crisis. The procurement functions have now been seen taking on a more strategic role to enhance the value being delivered to the organisation from its third-party supply base as most savings based on traditional commercial leverage and price levers have already been realised.

Mature procurement functions that have successfully taken on this role have fundamentally changed how they worked with their business customers, by increasing focus on demand management and key vendor relationship management initiatives, ultimately driving growth, encouraging innovation and reducing costs.

However, a significant gap still exists between where many banks and insurance procurement functions are today and where they could be. Many procurement functions are still in the stages of grappling with control issues and compliance matters, including the ever present risk of fraud. These lead them into executing orders instead of focusing on generating tangible benefits from working closely with the business to optimise end-to-end supply chains.

What needs to change, and how?

Whilst many procurement functions have matured in the way they manage

cost and deliver procurement services, opportunities still exist for these functions to add significant value to their organisation in a more strategic way.

Given the necessary investment in the skills needed to build up an effective procurement capability, it would be difficult for financial institutions to adopt a rapid one-stop approach to change. Realistically, institutions must focus on progressive change and improvements enabled by a step-by-step approach in maturing their role.

We take a look at the areas in which many procurement functions can still be improved:

1. **Procurement should fully optimise and leverage upon systems and technology**
Narrowly focused operational procurement functions do not provide leadership in the setting of consistent standards and policies or the leveraging of effective tools and technology. Even having made the investments in such technology, many procurement functions do not fully utilise these existing systems to bring greater automation and efficiency in data processing to the organisation.

In promoting the use of technology to create, capture and manage contracts, procurement functions will witness a greater drive in cost-

savings, improved cash flow, more strategic management of supplier relationships and greater risk mitigation.

2. **Involve procurement earlier in the process**



Under-resourced and over-stretched category management teams are not sufficiently involved in upstream value-creating activities. By not fully leveraging upon their spend and economies of scale through the lack of procurement engagement, these organisations expose themselves to significant business and commercial risk, and may fail in making effective purchasing decisions.

Working closely with key stakeholders earlier in the decision-making process and clearly demonstrating how procurement's active involvement adds tangible value to the bottom and top lines via the optimisation of third party expenditure. Allowing procurement to take a critical role in significant business decision-making decisions, such as make versus buy decisions, means that organisations stand to enjoy improved pricing, higher discounts and reduced risk of supply failure or contractual disputes.

3. **Move beyond cost-savings**

The role of procurement's role in demand and cost management, and prioritisation of spending to

Figure 1. Level of involvement of procurement in Operational Demand Management Activities (in percentage)

	Don't Participate	Participate	Lead
 Financial services	35	45	18
 Other industries	28	65	14

Source: KPMG International, "The power of procurement", 2012

drive associated benefits to the organisation are limited. There remains a significant opportunity for procurement to stretch beyond cost savings to deliver more strategic value to the organisation. As seen in Figure 1, only 18 percent of procurement functions in financial institutions are currently leading demand management activities.

With there being an established correlation between maturity in demand management, strategic sourcing, category management, supplier relationship management and cost savings, giving procurement a greater role in demand and cost management will not compromise their central role of cost-savings but instead allow the organisation to deliver an even greater level of cost-savings.

Greater strategic value may be delivered by developing a stronger procurement capability in category management, strategic sourcing and supplier relationship management, and by aligning them with the needs of the business.

4. Identify the optimum

procurement operating model

Routine reviews and improvements to how a procurement function creates, delivers and captures value are inconsistent and not done on a regular basis. Over the long-term, such improvements to the procurement operating model are essential to continuously ensure that the function is adding value to

the organisation. Current operating models should be reviewed to identify potential improvements in value creation and operational performance, providing a robust framework to deliver efficiencies at reduced operating costs:

- As seen in Figure 2, annual procurement cost savings realised an average of more than four percent for models that follow a centralised operating model and three percent for models that follow a decentralised operating model.

Figure 2. Average cost reduction savings for various operating models (percentage in sector)

Decentralised	Centre-led
3.2	4.3
Centralised	Hybrid
4.4	3.5

Source: KPMG International, "The power of procurement", 2012

- Centralised and centre-led procurement functions have achieved higher levels of cost reductions than decentralised functions. Based on a global procurement survey conducted by KPMG and CPO Agenda in 2011, 93 percent of respondents from the financial services procurement functions follow a

centralised or centre-led model.

- With such evidenced benefits, more organisations around the world are now migrating to a more centralised operating model. However, in specific situations, a decentralised model may well work as the model creates greater autonomy and flexibility in business units where opportunities within their market exist.

5. Take a proactive role in risk management

The recent financial crises, natural disasters and supplier failures have demonstrated that such increases in supplier chain risk has to be accompanied by a maturity in its management. However, procurement's current role in supply chain risk management lacks leadership in the area of supplier risk.

Procurement needs to take on a more proactive role in the organisation's risk management strategy. This can be done by drawing on the relevant expertise to help push supply chain risk on broader business agendas, which will in turn protect the organisation from further risks and uncertainties.

By gaining a better understanding of the needs of the organisation and by structuring individual contracts to reflect operational changes, the needs of all stakeholders will be incorporated and contracts will also be operationally practical¹.

Many organisations may have overlooked the importance of procurement processes, excluding the function in playing an integral part in the company's strategy. What many fail to realise, however, is that procurement has the capability to drive value and bring tangible competitive advantage to the organisation. But, in order to drive value, many financial institutions will first need to identify where the gaps are and set a plan in motion so as to realise the potential benefits of procurement optimisation.

¹ Source: KPMG International, "The power of procurement", 2012

Regulatory, accounting and tax updates



Regulatory Updates

Financial Institutions

Risk Management Guidelines (March 2013)

The Risk Management Guidelines aim to provide financial institutions (FIs) supervised by the Monetary Authority of Singapore (the MAS) with guidance on sound risk management practices. The guidelines cover credit, market, liquidity, operational, technology and insurance business-related risks, internal controls and the role of an institution's Board of Directors and senior management.

The objectives and scope of the Risk Management Guidelines, in addition to the areas listed below, were updated in March 2013:

- Board of Directors and Senior Management
- Internal Controls
- Credit Risk
- Market Risk
- Liquidity Risk
- Insurance Business – Core Activities

Guidelines on Corporate Governance for Financial Holding Companies, Banks, Direct Insurers, Reinsurers and Captive Insurers which are incorporated in Singapore (April 2013)

The Guidelines were created to provide guidance on best practices that relevant Singapore incorporated FIs should achieve in relation to their

corporate governance. FIs listed on the Singapore Exchange (SGX) should disclose their corporate governance practices and rationale for deviating from the Guidelines in their Annual Reports. FIs not listed on the SGX should disclose the same on their websites. The Guidelines took effect on 3 April 2013.

Banks/Merchant Banks

MAS Notice 642/829/1113 Motor Vehicle Loans (April 2013)

These Notices, which were first issued on 25 February 2013, were amended in March 2013 and April 2013 to address two key principle changes:

- clarification on the criteria to exclude the physically disabled and their caregivers from financing restrictions; and
- exclusion of the application of certain requirements to credit facilities granted for the purchase of a used motor vehicle and hire-purchase agreement entered into for the hiring of a used motor vehicle.

The amendments were effected on various dates: 8 March 2013, 6 April 2013 and 16 April 2013.

MAS Notice 643 Transactions with Related Parties (April 2013)

This Notice sets out the requirements relating to transactions of banks in Singapore with related parties, which seeks to lessen the risk of abuses arising from conflicts of interest. Every bank in Singapore is required to implement a policy on Related Party Transactions (RPT) which facilitates the identification and monitoring of RPTs. The definition of Related Parties will be broadened to include step-children and adopted children of the individual and director under the definition of "family member" and "director" respectively. In order to provide banks with a reasonable time frame to implement the new RPT requirements, this Notice will take effect from 1 July 2014.

MAS Notice 610/1003 Submission of Statistics and Returns (May 2013)

The amended Notices seek to enhance the reporting structure of capital funds statistics by distinguishing the

type of foreign-owned (Merchant) Banks in the submission of statistics through the use of separate forms. For both Notices, the amendments for Monthly Returns shall take effect from July 2013, and the amendments for Quarterly Returns from the quarter ended 30 September 2013.

Securities, Futures and Fund Management and Financial Advisers

Securities and Futures (Licensing and Conduct of Business) (Amendment) Regulations 2013 (March 2013)

Securities and Futures (Offers of Investments) (Shares and Debentures) (Amendment) Regulations 2013 (Mar 2013)

Several regulations pursuant to the Securities and Futures Act (SFA) and the Financial Advisers Act (FAA) have been enhanced.

The revised regulations include:

- **Securities and Futures (Licensing and Conduct of Business) (Amendment) Regulations 2013 and Securities and Futures (Licensing and Conduct of Business) (Amendment No. 2) Regulations 2013**
 - applying the prescribed duties of the CEO and Director of a Capital Markets Services License (CMSL) holder in relation to risk management and compliance functions to the CMSL holder as well;
 - strengthening of record keeping for Internet-Based Transactions by requiring the recording of Internet Protocol address from which orders are received; and
 - tightening the exemption from the requirement to hold a CMSL for providing fund management services to a 'connected person'.
- **Securities and Futures (Offers of Investments) (Shares and Debentures) (Amendment) Regulations 2013**

Prescription of further information to be established in a prospectus for an offer of asset-backed securities



to enhance disclosure of information relating to underlying assets relevant to investors' investment decisions.

Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations (April 2013)

Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences [Notice No. SFA 04-N13] (April 2013)

On 2 April 2013, MAS issued a revised Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations, and a new MAS Notice SFA 04-N13 on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences.

The revised RBC framework will apply to all CMSL holders (with certain exemptions for relevant CMSLs). The changes will enhance the risk-sensitivity of the Risk-Based Capital (RBC) framework and strengthen the quality of capital, and also aim to strengthen the ability of CMSL holders to withstand the risks to which their business is subjected to, and help safeguard financial stability.

Key changes under the revised RBC framework include:

- Amendments to the recognition of financial resources
- Revisions to the calculation of Total Risk Requirement

The revised RBC framework took effect from 3 April 2013. However the MAS has provided a transitional period till 2 April 2015 to allow CMSL holders to comply with the revised RBC framework and a transitional period till 2 October 2013 for the CMSL holders to comply with the revised definition of base capital.

Securities and Futures (Offers of Investments) (Collective Investment Schemes) (Amendment) Regulations 2013 (April 2013)

Under the amended Regulations, the key changes include:

- Introduction of new definitions for "Custodian", "Information Memorandum" and "Key Executive";
- Amendments made to the Third Schedule to enhance the disclosure requirements for the preparation of a prospectus for an offer of units in a Collective Investment Scheme (CIS) lodged with MAS.
- Requirement to provide an

information memorandum to investors in respect of an offer of units in a restricted scheme, and further specify the standards to be met for the information memorandum.

The amendments has taken effect from 1 July 2013.

Securities and Futures (Closed-End Fund) (Excluded Arrangements) Notification 2013 (April 2013)

This notification, effective on 2 April 2013, will subject closed-end funds constituted on or after 1 July 2013 to the regulatory regime for CIS.

Guidelines on Addressing Conflicts of Interest arising from a Related Corporation Issuing or Promulgating Research Analyses or Research Reports [SFA 04-G06] (April 2013)

Guidelines on Addressing Conflicts of Interest arising from Issuing or Promulgating Research Analyses or Research Reports [FAA-G13] (April 2013)

These Guidelines apply to any CMSL holder or any person who is exempt from holding a CMSL under section 99(1)(a), (b) or (c) of the SFA who has a related corporation that issues or



promulgates research analyses or research reports, whether in electronic, print or other form, concerning any investment product (a CMI), and to any Financial Adviser (FA) who provides the financial advisory service of advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning any investment product under the FAA.

These Guidelines set out examples of potential conflicts of interest that may arise:

- between the CMI and its related corporation which carries out research activities, and the practices expected of the CMI; and
- the standards and practices expected of the FA and its representatives

in relation to addressing such potential conflicts of interest arising from the CMI's related corporation's research activities and the FAs financial advisory service.

Consultation Paper on Recommendations of the Financial

Advisory Industry Review (March 2013)

The MAS issued a Consultation Paper setting out the details on the recommendations made by the Financial Advisory Industry Review panel and further recommendations by the MAS relating to the following five key thrusts:

- Raising the competence of FA representatives
- Raising the quality of FA firms
- Marking financial advising a dedicated service
- Lowering distribution costs; and
- Promoting a culture of fair dealing.

The consultation closed on 4 June 2013.

Accounting Updates

Time for Transition: FRS 113 Fair Value Measurement

Some businesses will already have analysed the impact of applying the new fair value measurement standard FRS 113 Fair Value Measurement. Others may have waited until the

period of application – having assumed that no real changes would be required. However, subtle as some of the changes may be, the impact on your business may not. Therefore, the issue now requires your immediate attention. Under the new standard, many old concepts regarding fair value have been changed. In particular, FRS 113 now requires fair value to be measured as an exit price from the perspective of market participants in the “principal” market, even if you normally transact in a different market.

Even if there may be no impact on your fair value measurement, FRS 113 includes new disclosure requirements that may require additional data collection. New/extended disclosures include:

- fair value measurement disclosures on non-financial assets and liabilities;
- quantitative information, sensitivity and interrelationships analyses on unobservable inputs; and
- fair value hierarchy analysis for assets and liabilities not measured at fair value but for which fair value information is disclosed.

Global topics



Frontiers in Finance- April 2013

It is difficult to form a clear judgment at the moment about the state of economic performance and its impact on the financial services industry. Every month, statistics are scanned for signs of consistent trends; but the picture remains confused.



Frontiers in Tax - April 2013

This edition of frontiers in tax is devoted to developments in the Asia Pacific region — relatively unscathed by the crisis and continuing to offer evidence of dynamism and growth, but not without challenges.



The Social Banker v2.0

This year, the Social Banker v2.0 will go further by shining a spotlight on some of the new approaches that are emerging from the social sphere. We'll hear about new concepts such as "gamification" and social currencies.



Global Capital Markets update - April 2013

This white paper provides an overview of selected insurance-specific provisions in the Final Regulations, discusses some of the practical considerations that arise for companies, and provides insights for approaching FATCA implementation projects.



FATCA: Technical analysis and implications for insurers (April 2013)

A brief, sales-oriented slip sheet for the Investment Management sector which raises some of the more important issues the sector faces in terms of the final FATCA regulation and provides an overview of the KPMG approach.



Evolving distribution models in asset management (April 2013)

In this report, the second in our Agile Asset Manager series, we focus on Evolving Distribution Models. In particular, we look at the forces that are leading to a reshaping of distribution functions and how different elements of the model are changing.



Issue Digest: Banking the unbanked, April 2013

In this report, we explore the significant potential present in serving the unbanked, the challenges faced by retail banks from alternate financial service providers and ways in which these can be tackled.



IFRS Banking Newsletter - The Bank Statement (April 2013)

This report provides update on IFRS developments that directly impact banks and considers the potential accounting implications of regulatory requirements.



Reshaping banking in a dynamic business and regulatory climate (May 2013)

An overview of the key industry and regulatory issues affecting the Banking and Capital Markets sectors.



Moving on - The scope for better regulation in banking (May 2013)

This publication focuses on the cumulative impact of regulatory change on the wider economy – in particular, economic growth.

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

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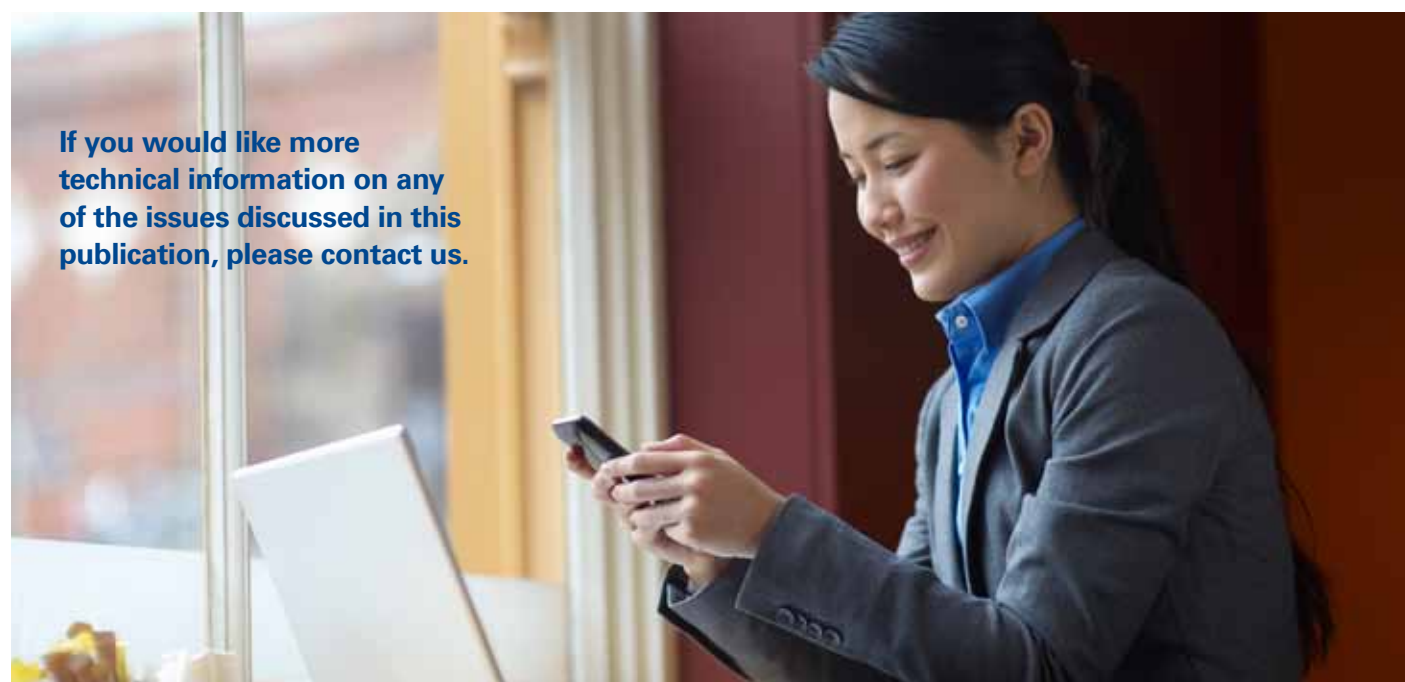


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**If you would like more
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of the issues discussed in this
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