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Insulate and Layer to Future-Proof for CFR Reform

Visionary leaders can use compliance spend to achieve an enterprise view

Ready for Next

Regulatory reform is officially unstoppable. The 2021 CSA Client Focused Reforms (CFR), merger of IIROC and MFDA regulatory streams, and coming Ontario Securities Commission modernization mark change as the new constant.

The forced move towards client-centric – in compliance, advice, and investment suitability – is shaking industry foundations. Primary contact as well as responsibility will move from advisor to enterprise, and from individual accounts to the whole investor. Disparate data streams must be integrated into a new enterprise data inventory and transaction layer. The need to unlock cross-selling opportunities puts further pressure on wealth companies to become client-centric.

Now is the time when visionary leaders will begin to separate from the pack.

GLOBAL PRESSURES

Since 2008, cost and risk management has been the focus of the global wealth market, Canada being no exception. Lower revenues have left executives wary of major change, reluctant to look beyond incremental projects to address compliance, efficiency and digital goals. Tired architecture and frustrated advisors have been the inevitable result.

But the 2020 pressures – heightened by COVID-19 – are new. Wealth firms face:

- A new generation of customers raised in instancy and transparency
- Aggressive, ongoing regulation
- Brand-new competitors from unexpected places

Top this with the increasingly unwieldy cost of patching old technology. Industry-wide, regulatory changes swallow a hefty chunk of IT dollars, sometimes as high as 80% of overall budget.

A NEW AVENUE OF MODERNIZATION

With the advent of systems that incorporate open APIs within industry-specific business, data and workflow rules, and the rise of fintechs, a new avenue of modernization has opened for wealth firms. Legacy investments can be insulated and protected, while fintech partnerships take care of the transformations needed to ease compliance, cut costs, and improve connectivity. It's a pathway to renovation that doesn't require surgery.

Essentially, today's investment leaders have three choices:

- **Incrementalism –** Continue with non-systemic stopgaps to meet regulatory change
- **Rip-and-replace –** Invest in across-the-board system upgrades
- **Progressive renovation –** Invest IT dollars with purpose and sequence, using incremental investments as part of a concerted plan to generate strategic, advisor and customer value over time. Typically, pick a place in the middle ground between front and back office and begin to modernize from there

Separating key systems into logical layers
All this requires separation of key systems – through advanced APIs – into logical layers that represent front, mid and back-office. Increasingly, industry leaders are partnering with fintechs to create this type of layered insulation – a sandwich strategy.

To accelerate digital initiatives without disrupting their back-ends, companies are adding business logic at the API Tier. The majority of enterprises use the API tier for data transformations to tie disparate backend systems and formats seamlessly.[1]

Fintechs provide the middle layer, or sandwich filling, that builds sophisticated interfaces – down to the data in legacy back-end systems (bottom layer), and up into open, dynamic front-end solutions (top layer).

Which obstacles still hold wealth firms back?

Awareness Fintech partnerships, strategically leveraging APIs, are still new

Budgets Tight budgets strangle big-picture thinking; rip-and-replace failures increase risk aversion

Cost allocation Compliance and oversight FTE costs are seen as inevitable; maintenance costs of old technology are not compiled

Management mindset Managers who have risen through IT may lean to a 'fix-it' approach rather than viewing the industry as a whole

Misplaced decision-making Technology architecture decisions belong in the C-suite.

[1]https://pages.apigee.com/rs/351-WXY-166/images/apigee-state-of-APIs-report-2016-03.pdf

EVALUATING VENDOR PLATFORMS AND SOLUTIONS

Solutions deployed are dependent on solutions offered. From our conversations with large enterprise customers, we've learned that key considerations in selecting the most effective CFR technology include: single source of data [SSOD]; automated compliance; central product management; omni-channel customer experience; scalability and extensibility; and cost efficiencies.

1. Moving to a single, client-centric source of data

CFR encourages enterprise-wide client-centric data models, with enterprise control and responsibility for investment products. This is virtually unachievable through legacy technology.

But through the logical-layered approach, wealth firms can create a virtual data hub – the holy grail Single Source of Data. As just one example, KYC data can then be entered once, available in real time to all. Changes of any type, including compliance-related, occur in real time.

2. Automating pre- and post-trade compliance

Legacy compliance models are trapped in after-the-fact compliance. This creaky process has a high error rate (NIGO trades for the industry hover around a staggering 30-40%), and by definition cannot take place in real time.

With a single source of data, compliance can be enabled through enterprise-wide product, portfolio, and user attributes, with automated workflows to back office. Needs are assessed and input during onboarding, allowing automatic comparison of product and portfolio risk models to assess fit and objective matches. NIGO costs topple into freefall.

3. Centralizing product management

Traditionally, product and portfolio modeling have been the responsibility of the advisor. But CFR requires firms to own product shelf, investment suitability and portfolio management, and to track changes in client needs.

4. Delivering an omni-channel customer experience

With an omni-channel customer experience, the investor sees all holdings in one place, regardless of touchpoint – advisor, digital, direct, branch. This helps the advisor to provide more attuned, holistic advice. The firm can offer (and extend) enterprise-wide product solutions, designed to meet client needs.

5. Becoming scalable and extensible

There are many paths to ensuring long term regulatory and CE goals, usually dependent on company structure. For multi-channel enterprises, a layered approach that delivers front office, back office, compliance and product views allows financial institutions to set up regulatory compliant frameworks across millions of accounts and thousands of advisors.

This enables seamless service across all sales channels, with a coordinated administration of MFDA and/or IIROC products – a scalable compliance view across the whole enterprise. The system becomes future-proofed, and regulatory compliance moves to its proper place, on the back burner.

6. Delivering cost efficiencies

Today, wealth operating expenses are comprised of current back-office cost and capacity to change costs – primarily people. Leading wealth firms need an improved OpEx model.

A key decision factor must be solutions that deliver in automating – reducing IT change costs through capacity to adapt to competitive change without incurring IT projects. Wealth executives need to be drivers rather than passengers in the role of managing vendors.

7. In sum: three questions to ask

As you develop your strategy to meet CFR requirements, ask yourself three questions about each solution you consider:

1. **Meeting CFR regulation:** Does this solution deliver client-centric data?
2. **Flexible and extendible:** Does it offer fit-for-purpose business rules and workflow – is the data structured and contained?
3. **Sustainable and future-proof:** Is it based on open architecture?

CONCLUSION

By leveraging fintech partnerships, layered architecture, and progressive renovation, wealth firms can open the door to an extensible, client-centric system model.

Time is short; the deadline for CSA Client Focused Reforms Compliance is December 2021. Now is the time for wealth firm executives to begin leveraging requisite CFR spends to continually drive customer experience and cost savings. Success on this front will provide visionary leaders with a flexible, adaptable, cost-smart base, not just ready for further regulations and new client demands, but future-proofed for whatever comes next.

FURTHER READING:

https://www.academia.edu/35512052/Core_Bank_Transformation_in_Practice_Large_Scale_IT_System_Renovation

https://www.banktech.com/core-systems/the-case-for-and-8216progressive-renovationand-8217-legacy-systems-are-not-equipped-for-todayand-8217s-multichannel-banking/d/d-id/1295986.html

https://www.ibm.com/downloads/cas/RM26D7JB

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