Can Bots help Wealth Managers with Suitability Reviews?

Regulatory requirements for Suitability have become increasingly stringent, and it is seen as an important control for safeguarding the interests of investors. Wealth managers are now allocating many more resources in conducting these reviews periodically. However, a thematic review conducted by a UK regulator, even before MiFID II, found that firms were still falling substantially short of expectations over the suitability of their investment portfolios.

To improve the quality of reviews, firms will have to increase the use of technology to minimize the time spent on collating and organizing data and to automate rule-based checks. RPA or ‘Robotic process automation’ can execute repetitive and manual rule-based tasks, could it be an option?

RCloud
Level 39, One Canada Square, London E14 5AB
info@rcloudconsulting.com || www.rcloudconsulting.com || +44 (0) 203 633 1130

What is the suitability assessment and why does it exist?

Comprehensive and high-quality suitability assessments are fundamental to a sound wealth management process. Financial Planners and Investment Managers conduct these reviews to determine a suitable investment portfolio that is in line with the client's investment objectives and risk tolerance.

Suitability is done at Point of Sale (PoS) as well as on an ongoing basis (minimum annually) - to ensure the existing portfolio is assessed against the most up to date client objectives and risk tolerance. In some cases, e.g. financial planning, these reviews are more detailed and could be 15-30 pages long. First and Second line of defence provide additional controls around quality and completeness of data. This includes independent assessment on sample set of suitability reports.

Challenges in Current Process

- Basic checks are often manual e.g. Comparing KYC info with suitability reports or validation against regulatory requirements/ rules.

- Managing the annual process can be time consuming and often requires collating information from disparate sources (e.g. client fact-find sheet, conversation notes from interactions over the year).

- Investment holdings may need to be manually assessed against more complex client constraints e.g. Environmental, Social and Governance scores; tax implications after accounting for CGT exemptions.

- Effectiveness of first and second line of defence is limited by capacity, increasing risk of inadequate suitability assessments being missed.

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The RPA Opportunity

Over the last few years, RPA has found increased usage across industries as they can execute repetitive, manual, rule-based processes – without human error - using a simple, un-invasive desktop-based solution.

This could be used to:

- Collate required data from multiple sources e.g. client information sheets, interaction notes, updated financial goals or risk constraints.
- Identify changes in client's circumstances or return objectives using natural language text processing
- Analyse variance between a client's portfolio, return objectives and risk tolerance to flag any differences.
- Validate the justification on why a portfolio is not in line with risk and return objectives.
- Assist first and second lines of defence to run quantitative checks against a much larger population and identify 'Red flags' to prioritise investigation.

Financial Planners and Investments managers spend a significant amount of time conducting suitability assessments. There is clearly an opportunity for RPA to automate the more mundane aspects of data gathering and rules-based checks. Not only that, RPA can also help first and second line of defense to automate quantitative checks on a much larger set of suitability reviews.

If you have any questions, or would like to discuss how RPA could simplify your suitability process, please visit us at RCloud or contact me at gaurav.bansal@rcloudconsulting.com. At RCloud, we have partnered with Automation Anywhere to offer RPA solutions to financial services in the UK. Automation Anywhere are a leading provider of RPA software and have deployed over a million bots globally. In 2018, they raised $550 million in Series A funding.

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