

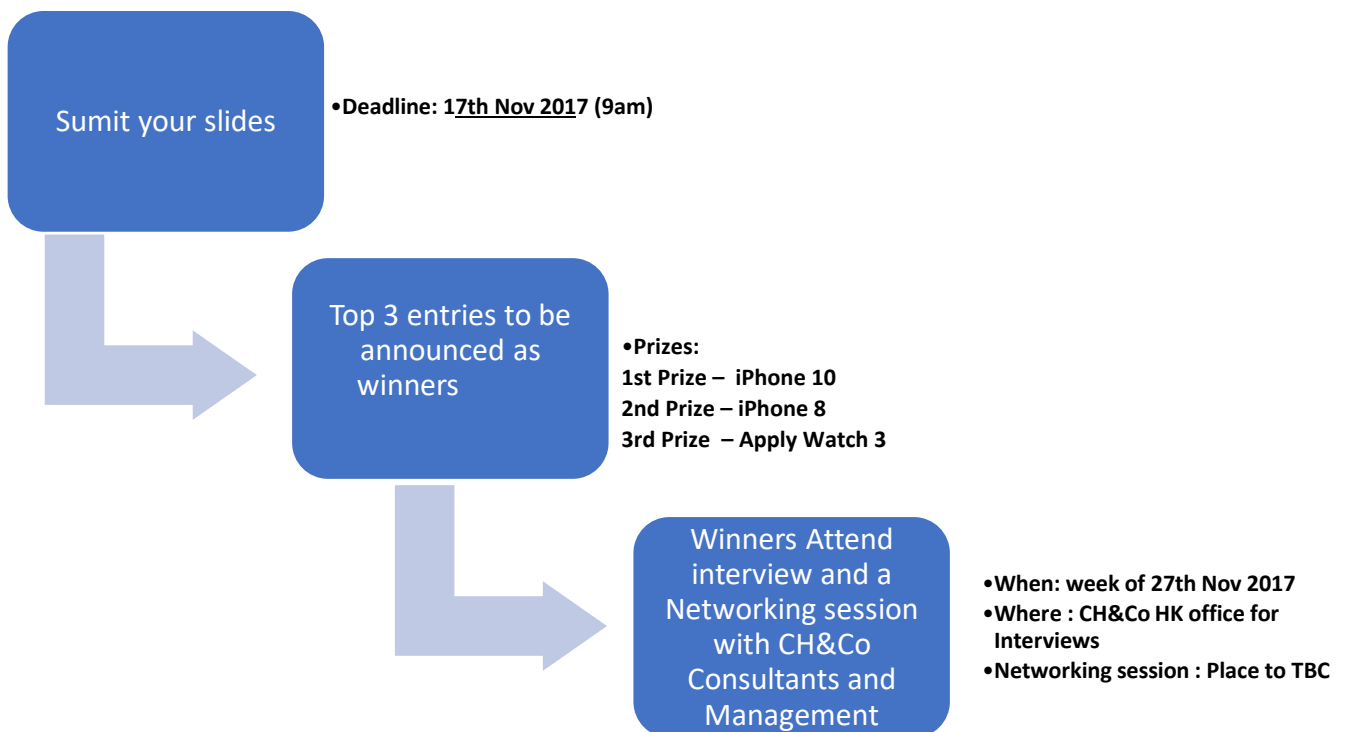


CH&Co Business Case Study Competition - 2017

This challenge is available for HKU students graduating in May 2018 only

Here is an opportunity to be part of CH&Co. where we strive to be the preferred global management consulting partner for financial services organizations of today and tomorrow!!

Participate in the Business Case Competition 2017 by sending in your case presentations before the deadline and get one step closer to a dream Job - direct jump to the final round interview for a 6 months internship and a chance to meet the CH&Co consultants and Management over a Networking session!



Start date of Internship: 18th June 2018

Career progression: At the end of 6 months, if the performance is satisfactory you will be offered a full-time position as a Senior Analyst



CASE DETAILS - Bank Zion

The impact of regulatory changes on Financial Institutions (FIs)

Since the wake of the 2008 global financial crisis, regulators have started to clamp down hard on financial institutions (FIs), imposing strict requirements that are progressively broadening both in terms of scope and depth. These requirements typically demand greater transparency from the FIs and stronger controls, which translates to requiring regular reporting on various activities, as well as the implementation of checks and balances to minimize and contain failures. These regulatory expectations, while on paper could represent a few lines or paragraphs, have far-reaching impacts on FIs – typically necessitating changes in 4 main areas:

1. Organization: changes in the way whole departments and teams are structured
2. Processes: changes in the way processes are run
3. Systems: changes in the tools that are used
4. People: changes in mindset

An important development to note, in recent years, is that FIs are also increasingly structuring their organizations in a way that is more proactive and flexible to anticipate changes, and to move away from being at the mercy of the regulator at the last hour.

The changes driven by regulatory demands have significantly impacted the bottom lines of FIs, and FIs are now hard-pressed to find efficient solutions that address both the issue of regulatory requirements, as well as cost.

The sanctions screening process at Bank Zion

Bank Zion is a large corporate and investment bank located in all the major financial sectors in the world. As part of a new regulatory requirement introduced in 2012, Bank Zion will need to start screening all transactions facilitated by the bank to detect and block any sanctions-related activities. This process will need to be fully implemented and run as part of business-as-usual activities by 1st January 2013.

Bank Zion's current screening process

1. System screening
2. 1st level assessment (obvious true/false hits)
3. 2nd level assessment (investigation on potential true hits)
4. Final decision

System screening

This step typically involves inputting whole transaction descriptions within a system ('System X') containing a database of 'Bad Guys', basically blacklisted individuals and organizations which have been mandated by regulators from different jurisdictions to be denied any access to financial flows. This



system will check every word of the transaction for matches against the list of 'Bad Guys', and highlight them out to the bank staff reading the system outputs as 'hits'.

1st level assessment (obvious true/false hits)

This step involves a bank staff sieving through all the hits to quickly determine whether a hit is an obvious false hit, or a potential true hit that requires further investigation.

- Obvious false hits: If a bank staff determines a hit to be an obvious false hit, he/she will immediately dispose of the hit by indicating 'obvious false hit' in the comments box of the System X. An example of an obvious false hit could be on a transaction with a sender address being '43 Iran Road, Singapore', for which System X was incorrectly associating the transaction with the sanctioned country 'Iran'.
- Potential true hits: If a bank staff determines that a hit to be a potential true hit, he/she will forward it to the next team for further investigations. An example of a potential true hit could be an exact match of a sender address in Iran, versus the sanction country 'Iran'.

As a note, 80-90% of hits are usually obvious false hits.

2nd level assessment (investigation on potential true hits)

This step is typically more complex, requiring more information and analysis. The whole transaction will be looked at, where additional information about different pieces of information from the transaction are obtained from external databases. One example would be checks done against reliable sources of news to determine if the sanctions against individuals, corporations or countries have since been lifted. Another example would be checks done to ensure that the individual's name highlighted as a hit indeed matched the person identified in the blacklist (based on identification numbers, date of birth and country of residence). Per potential true hit, a short and concise write-up, with substantiating documents, is provided to the next team for decision making.

Final decision

As with all analysis and investigation work, a careful decision will need to be taken at the end to determine if the transaction should be approved, or blocked. Blocking would mean a reduction in earnings, but approving a sanctions-related transaction would lead to a massive regulatory backlash.

Need for change

Even before 2012, Bank Zion has been running the sanctions screening processes, although there have been several lapses identified by the Internal Audit departments. To meet the requirements by January 2013, Bank Zion would like to beef up the current process, starting with Asia as a pilot initiative. In addition, given that the sanctions screening process is distributed and carried out in parallel in 10 different offices in Asia, the COO is also considering centralizing the sanctions screening process in 1 or 2 locations.



Case questions (1 slide expected as output per question)

1. What are the factors that you would consider to make a decision whether the sanctions screening process should be centralized or not? How would you rank the list of factors?
2. Do you foresee any risk in the current process as described above? How would you mitigate the risks?
3. How would you build each team for each level of the process? (see 'additional information' for profiles of different teams)
4. Design a plan with a timeline to implement the above changes that you propose
5. Are there any technologies (existing or future technologies currently in development) that you can think of which could help improve the efficiency and/or accuracy of the sanctions screening process? How would apply ONE of them?

Hints:

- 1) Think of ways to reduce the number of false hits; or
- 2) Think of ways to make the analysis and investigation process easier; or
- 3) think of ways to help increase the precision and/or speed of the decision making process.

Additional information

Profile of teams

- a) Operations officers
 - Typically follows instructions as described in procedures, handling time-sensitive tasks which do not necessitate significant analysis work
 - Salary is typically lower than Compliance officers, Sales/Relationship Managers and Senior Bank Executives, depending on level of seniority within the Operations ranks.
- b) Compliance officers
 - Typically performs in-depth analysis and risk-based decision making
 - Salary is typically higher than Operations officers, and typically lower than Sales/Relationship Managers and Senior Bank Executives, depending on level of seniority within the Compliance ranks.
- c) Sales/Relationship Managers
 - In-charge of the client relationship
- d) Senior Bank Executives (CEO, Heads of Departments etc.)
 - In charge of the bank (CEO), or in charge of whole departments (Head of Operations, Head of Compliance, Head of Sales/Relationship Managers)