

Front office revenue minus cost is no longer viable to run a structured products business, Anchura

5 June, 2018
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Rash Phullar, Anchura

Consultancy firm can free capital tied up on uncontrolled operational risk and help banks build trading engines, issuing platforms and distribution models

The current focus on governance and investor protection in the structured products market as a result of the new Mifid 2 and Priips framework has brought to the fore a number of issues around the life cycle of products and the need to improve standard risk and controls processes across asset classes and activities. SRP spoke to Rash Phullar (pictured), global head of sales and structuring at Anchura, a UK-based services and standards firm for the banking industry, about the increasing demand for risk and control services specific to structured products, and how the consultancy firm can help the market to comply with the new rules and build the infrastructure to monitor their control environment.

Anchura was founded by Paul Ford in 2010 to deliver practitioner led solutions to the financial services sector with an initial focus on supporting front office and chief operating officers (COOs) within the wealth management and investment banking sector, according to Phullar, who is also a former equity derivatives and structured products COO at Credit Suisse and [Royal Bank of Scotland](#) (RBS).

"However in recent years and in line with client demand the business has focused on its

risk and control services," said Phullar, adding that Anchura "is leading the way by providing an industry standard for what 'good looks like' with regards to risk detection and mitigation and to enable firms to demonstrate they are in control".

Phullar notes that regulation has proved challenging for banks and has resulted in bank's retreating and/or abandoning business lines altogether. "However regulation has also opened up new opportunities, and for Anchura the current environment shows that there's still work that needs to be done," Phullar said. "From a banking perspective it has forced product manufacturers and distributors to think about the end customer and has helped the top address the 'hit and run' culture in the market."

Putting processes in place is something that banks have been doing for a long time and before some of the new rules came into effect, points Phullar. "Human errors will inevitably happen, and there will be the occasional 'bad apple' as in any other business, the challenge is to keep the business commercially viable and address all the regulatory requirements," he said. "In the past for banks it was simple to run with front office revenue minus front office cost, now it is much more complicated with return on equity the new religion ... you have to look at capital, liquidity, front-to-back costs; the structured products business is the high end because it's the more complex and risky

(operational, reputational, credit, market...), it is capital and resource intensive. So unless you have an internal private banking channel or a distribution network you will be forced to leave the business or keep investing and growing it."

Although regulation has been welcomed by the industry as a way of creating a sustainable framework, it has also hampered rather than promoting innovation because the natural reaction is to go back to basics, according to Phullar.

"Every issuer/distributor is doing the same, and the only differentiation today is the service and pricing, not the product. Everyone is offering the same products," said Phullar.

Under the new UK Senior Management Certification Regime (SMCR) enhancing risk and control environments has become a key factor in driving businesses as senior management is now accountable and needs to know their control environment on a dynamic basis, according to Phullar.

"Anchura has supported banks to build the infrastructure to monitor their front-to-back control environment," said Phullar. "Business heads are used to receiving daily P&L dashboards/reports, we help clients build risk and control dashboards that give them oversight of what is working and not working - to evidence they are in control."

One of the other issues facing the industry at the moment as outlined by Jamie Dimon recently is around Operational Risk Capital (Basel III), said Phullar. "Too much capital [is] tied up on uncontrolled operational risk," he said. "We are currently working on solutions to enable some global banks free some of that operational risk capital to enable business growth."

Anchura is also seeking to help product manufacturers and distributors to bring transparency to their processes and activities. "One of the problems the structured products

market has always had is a lack of transparency but new requirements are forcing issuers to provide evidence," said Phullar. "The focus at the moment is on providing risk and control to the manufacturing side of things but we can also help clients build trading engines, issuing platforms and distribution models. With these foundations businesses can scale up in a safer way."

According to Phullar, structured products were singled out [after the Lehman Brothers' collapse] because they are capital intensive and the cost of the infrastructure and resources is significant. "But the new rules are forcing the industry to address some of these issues and Anchura's offering can assist in the change of paradigm around risk and controls," said Phullar, adding that Brexit will also pose a challenge for the industry as "both the UK and EU will want to maintain high standards for their respective markets and boost confidence with high industry standards".

"We believe that Anchura Standards will help address new challenges such as equivalence and passporting after Brexit," said Phullar.

*In 2017 Anchura enhanced its offering with the launch of Anchura Standards and Grid 56, a master library for risks and controls which enables firms to improve efficiency and reduce the cost of their risk and control library. Grid56 is based on the Basel II framework and a proprietary taxonomy, Grid 56 assigns a unique identifier for each control (ACIN - Anchura Control Identification Number) rationalising controls, and optimising risk identification and mitigation. **SRP***

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