

**Date:** 30<sup>th</sup> August 2010

**Source:** originally published on [www.complinet.com](http://www.complinet.com)

## **Retail Banks vs. Wholesale Banks: A brief comparative analysis from a compliance perspective**



**By: Raed Abdulla,** *CAMS, CCO, CISA, CIPA, IFQ*

**Head of Compliance Department & MLRO of Khaleeji Commercial Bank B.S.C.**

The commonly held view in the banking community is that the compliance function in large wholesale banks is far more challenging than in retail banks, primarily due to the multi-jurisdictional operations of wholesale banks, as well as the size and complexity of their transactions.

This notion, that I must admit I shared, was quickly dispelled when I joined Khaleeji Commercial Bank B.S.C., a retail Islamic bank licensed by the Central Bank of Bahrain and listed on the Bahrain Stock Exchange. I realized that being a Compliance Officer for a retail bank is far more challenging, due to the extended regulatory requirements that retail banks are required to comply with, plus the more frequent interaction with regulatory authorities.

The purpose of this article is to explore, in brief, the nature of additional regulatory requirements that retail banks are subject to, in order to give a better understanding of the role and function of Compliance Officers in such institutions.

## **Reporting Requirements**

Retail banks currently issue three more reports to the CBB than wholesale banks do, one of which is made on a weekly basis in response to the Banking Services Directorate's daily instructions to hold/un-block amounts in certain clients' accounts. The other two reports are submitted on a monthly basis; these are the Returned Cheques Report and the Reserve Requirements Report, both of which are reported to the Banking Services Directorate.

## **Other Regulatory Requirements**

Apart from the common regulatory requirements for retail and wholesale banks, there are further regulatory requirements specifically for retail banks, such as the approval process for off-site ATM installations, and for setting-up new branches.

Also, there are additional security measures imposed on retail banks by the CBB, such as closed circuit television installations and monitoring, sophisticated alarming systems, and maintenance and replenishment measures for ATMs.

Due to the fact that retail banks are deposit-takers, they are required to maintain a percentage of their non-bank deposits as a reserve with the CBB, and, in addition, are subject to the Deposit Protection Scheme's requirements, pursuant to which all retail banks are required to contribute to a post-funded cooperative fund to protect the individual depositors of a failed bank.

Another retail-specific regulatory requirement is for all retail banks to maintain an updated list of cheque-abusers and to ensure that none of the listed names receive current accounts with chequing services.

Last, but not least, due to the easy and effortless access to their products and services, retail banks are required to devote extra effort and resources in combating money laundering and terrorist financing. The accessibility of modern retail banking systems provides an attractive means of money laundering, and makes it more challenging to control and monitor.

## **Listing Requirements**

The role of the compliance officer at a retail bank is even more demanding when the institution is a public joint stock company and its shares are listed and traded on a stock exchange, resulting in stricter public disclosure and reporting requirements.

Currently, banks listed on the BSE are required to submit two monthly reports, namely the Monthly Statements of Register of Interests Report and the Monthly Statements of Insiders' Trading Report.

Additionally, listed retail banks are required to have in place a formal Key Persons Dealing Policy (formerly known as "Insiders' Trading Policy"), which sets out guidelines for, and imposes processes and procedures on, key persons wishing to trade in the bank's shares.

## **Islamic Requirements**

Being a retail Islamic bank would require the bank to consider further accounting and governance standards. Islamic banks in the Kingdom of Bahrain are required by the CBB to comply with the accounting and governance standards outlined by the Accounting and Auditing Organization for Islamic Financial Institutions. Additionally, the CBB strongly recommends, and in some cases requires, that Islamic banks implement the standards and recommendations issued by the Islamic Financial Services Board.

In this context, it is worth mentioning that retail Islamic banks have unrestricted investment accounts, which wholesale banks do not have. URIAs are basically Sharia'h-compliant substitutes for conventional retail deposit accounts, but with one major difference: URIAs do not meet the legal definition of deposits, because the bank does not guarantee their customers' capital or any returns. Hence, URIAs are not "capital certain" and are, therefore, essentially investment products. In most cases, Islamic banks invest the unrestricted funds in a commingled asset pool, together with funds from unremunerated current accounts and shareholders' funds. Due to the uniqueness of the URIAs, the AAOIFI and IFSB have issued standards imposing extra corporate governance and accounting requirements for such accounts, which do not apply to wholesale banks.

The above is but a brief glimpse of the additional requirements with which a retail bank's compliance function must deal, either directly or indirectly. In conclusion, and as is the nature of a compliance officer, to sound an alarm: A retail bank's compliance function is no less challenging than that of any other financial institution, so someone taking the role lightly would be doing so at his or her own peril.

[rabdulla@khcbonline.com](mailto:rabdulla@khcbonline.com)