



Financial Services

Asia Pacific risk

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In recent years, with the disruptions in commodity markets and global supply chains, the high exposure to cyber-attacks as well as regulatory changes and business model transformations, the velocity of risks in Financial Services ('FS') has increased significantly. According to PwC's 2022 Global Risk Survey, ~41% of the respondents in the banking industry expect to increase investment in risk management technologies by up to 10% in 2022. Managing and mitigating emerging risks have become the top agenda of our clients.

FS, although global in nature, has a number of risks that need to be considered on a country-specific basis to fully appreciate the nuances. We take a look below at the top risks impacting the industry and with a distinct Asia Pacific lens, to provide a perspective on what risk professionals have on their radar. The topics below are in no particular order.

Data sovereignty and localisation

There has been a shift from globalisation and centralisation over the years and FS multinationals are now faced with bespoke regulations across a number of countries in Asia Pacific with regards to data.

The issue is more pronounced in Asia Pacific (compared to other regions), given the sheer volume of countries present which are localizing requirements. This poses significant operational and compliance challenges as FS players looking to streamline operations are caught needing to duplicate efforts across multiple countries, with Australia, China, India, Indonesia, Japan, Thailand and Singapore all having different rules.

Recent privacy regulations in a number of countries in the region have highlighted this further. The type of data being collected and where this is stored both impact the security and privacy requirements.

Adding a tangent from a data perspective, governance and quality are also hot topics among regulators. Several countries across the region have taken a strong stance recently to push their agenda in this space, noting Australia in particular with regards to their economics and financials statistics regime.

Adoption of emerging technology

This may be seen as a double-edged sword and perhaps it is the reason why adoption is not necessarily unanimous among FS players. Some institutions are embracing all forms of emerging tech, whereas others are very cautious and treading carefully as they foresee too much uncertainty. Much of the emerging technology, be it virtual assets, tokenisation or Artificial Intelligence, is going to be part of the new paradigm going forward. Those slow to the game risk getting left behind.

The winners will be those who find the right balance managing the new risks associated with the technology whilst providing their users and operations the experience and efficiency gains to build a competitive advantage.

The speed of digital transformation along with mobile and digital-minded consumers/customers in Asia Pacific (relative to other regions) means this risk is heightened.

Environment, Social and Governance (ESG)

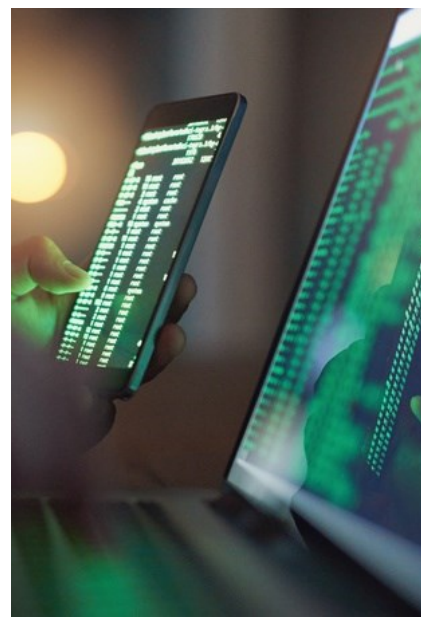
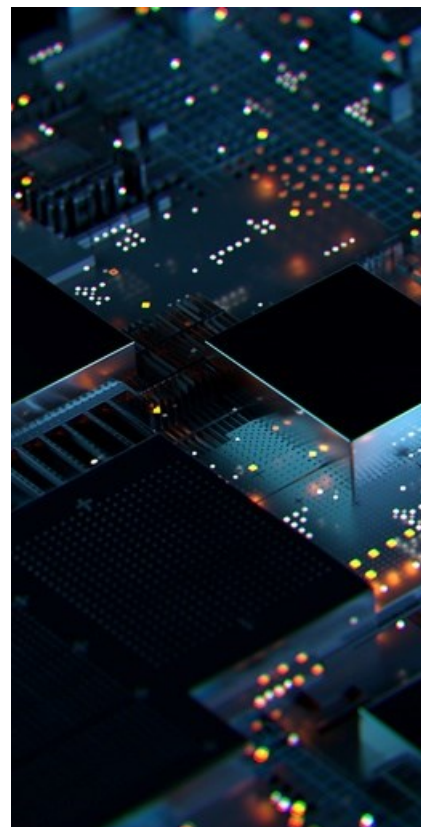
Given the different stages of economic development within Asia Pacific, the focus on ESG is perhaps not as high as it is in other parts of the world. The brand management, investment and real action therefore varies.

Cyber security

Cybersecurity is a global risk which does not necessarily have any significant Asia Pacific nuance attached to it. It is still high on the radar for all firms in the region. Within Asia Pacific, we have seen increased cybersecurity incidents and coupled with less mature cybersecurity management, this creates heightened risk within Asia Pacific.

Macroeconomic impacts – inflation/interest rates

Like much of the world, Asia Pacific is also battling with high inflation and as a consequence, sharply rising interest rates. Whilst the level of interest rate increases and velocity varies, there is definitely an impact on debt servicing and credit risk. However, given the cultural norms with regards to debt and savings, the impact on credit risk is less pronounced than in other parts of the world.



People and the workforce of the future

During the pandemic, we observed the 'great resignation'. The movement of people cross borders stalled, but as we open back up again, what is next?

Is this the age of entitlement? Are employees more challenging to motivate? Do firms need to spend more time developing purposeful, meaningful roles with the risk that without doing this, it will be increasingly difficult to engage and recruit the right staff? Across Asia Pacific the people risk is nuanced. Hong Kong, Japan and New Zealand for different reasons have struggled to attract global talent and have a skills shortage. Japan for example faces an ageing population, in combination with a weak economy and depreciation of the yen; it is much harder to attract talent. Singapore on the other hand is suffering from a hot market. New ways of working with hybrid set-ups are important to determine the optimal approach for workforces.

Recruiting and retaining talent has never been so challenging within Asia Pacific. Firms that are struggling to deal with people risks need to increasingly look at how this affects strategic delivery and their operational resilience if they can't attract and retain talent.



Financial crime

There are some specific countries in the region that have heightened Anti-Money Laundering ("AML") risk, with FS firms required to ensure they understand the local market, its legislations and risks through a specific country lens.

Those people looking to bypass AML laws often shift around the region, seeking to exploit the weakest links and therefore firms need to stay on top of their global AML programmes in response to these risks. This is applicable to those in more mature regulatory environments such as Singapore, HK and Australia who may be more likely to see this as a pure compliance task and treat it as such without being dynamic.

One of the components within financial crime is financial fraud and related to this, identity theft within Asia Pacific has increased.



Conduct risk

Conduct risk has been high on the agenda for many regulators in Asia. Specific regulations and regimes have been introduced to ensure appropriate product, target market determination, accountability and risk culture. However, not all markets are as mature and many in higher growth, developing markets are yet to put in place the appropriate governance and controls to mitigate conduct risk.

What is clear based on the summary above is that FS risks are not one-size-fits-all across the region. The regulatory, political and market dynamics of each country drive the risks present. Asia Pacific has a diverse group of economies many of which are key growth areas for global FS players. Having an appropriate understanding of each is therefore important to consider.

Contact us

Jurisdiction	Contact	Emails
Australia	Darren Ross	darren.ross@pwc.com
Bangladesh	Mamun Rashid	mamun.r.rashid@pwc.com
	Duncan Fitzgerald	duncan.fitzgerald@hk.pwc.com
Hong Kong	Matthew Phillips	matthew.phillips@hk.pwc.com
	Sagan Rajbhandary	sagan.a.rajbhandary@hk.pwc.com
India	Kuntal Sur	kuntal.sur@pwc.com
	Chairil Tarunajaya	chairil.tarunajaya@pwc.com
Indonesia	Dela Khurniasari	delakhurniasari@pwc.com
	Revana Aryani	revana.aryani@pwc.com
Japan	Jun Muranaga	jun.muranaga@pwc.com
	Masaya Kato	masaya.kato@pwc.com
Korea	Jong-San Kim	jong-san.kim@pwc.com
	Yeon Yoo	yeon1.yoo@pwc.com
Malaysia	Elaine Ng	yee.ling.ng@pwc.com
	Andrew Holmes	andrew.j.holmes@pwc.com
New Zealand	Chloe Gallagher	chloe.v.gallagher@pwc.com
	Tamara McDonagh	tamara.x.mcdonagh@pwc.com
Phillipines	Ruth Blasco	ruth.f.blasco@pwc.com
Singapore	Aywin Teh	alywin.teh@pwc.com
Taiwan	Chin-Jui Chang	chin-jui.chang@pwc.com
Thailand	Phansak Sethsathira	phansak.s.sethsathira@pwc.com
Vietnam	Dinh Hong Hanh	dinh.hong.hanh@pwc.com

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