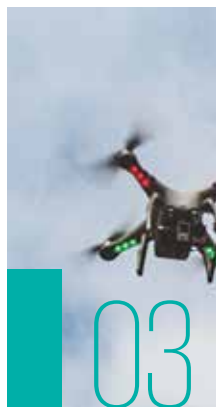


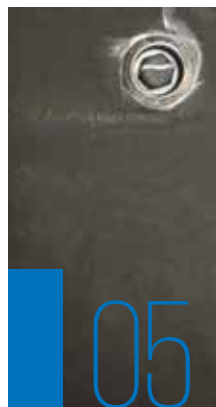
# Business Matters

Issue 2 2018

# In this issue



03  
**Learning to manage machine learning - four AI trends**



05  
**Understanding PSAB changes**

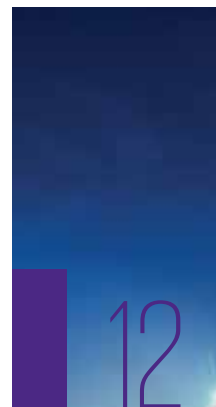


08  
**2018 FinTech Summit Recap and poll**

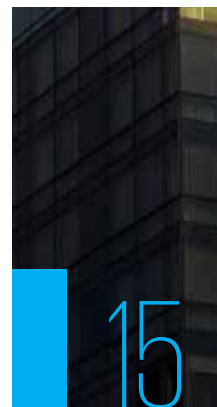


10  
**How governments are using leading procurement practices to stretch taxpayers' money**

12  
**Innovation and commercialization barriers**



15  
**In the spotlight**



## **chicos 2018** HVS Caribbean Hotel Investment Conference and Operations Summit *Powered by HVS*

**Date:** November 8 - 9, 2018

**Location:** Fairmont Southampton, 101 South Shore Road, Southampton SN 02, Bermuda

The Caribbean Hotel Investment Conference & Operations Summit (CHICOS) is the region's must attend hospitality and tourism investment conference. KPMG is pleased to announce its sponsorship of CHICOS 2018. We hope you will join us on November 8-9, 2018 in Bermuda. CHICOS is tasked with showcasing the many different exotic islands and spectacular hotels throughout the Caribbean chain. The event provides attendees with the opportunity to significantly expand their network while learning the most important trends that can impact their investment decisions. Visit <https://chicos.com>.

**hvsconferences.com** to register.

# Learning to manage machine learning - four AI trends

Four trends that are shaping the better application of artificial intelligence in your business.

By: **Stephen Warren**, Senior Manager, KPMG Enterprise

Slowly but inevitably machine learning is starting to influence our daily lives. Whether you ask your home virtual assistant to check the weather forecast or cede some of the planning (and even driving) of your daily commute to your “smart” automobile, it is machine learning that is making life easier.

Yet while we seem to have embraced machine learning at home, understanding and embracing its potential in the enterprise remains challenging. Judging by the experience I’ve had with our clients, the desire is there, experiments are happening, but there is difficulty in getting real change into production. Many organisations are not yet making the transformational changes driven from machine learning that will be needed in order to succeed in the coming years.

However, organisations are starting to make moves that act as building blocks for future change and transformation. With that in mind, here are four current trends that demonstrate how machine learning is bringing real value to the workplace.

## **Unearthing the value hidden in your documents**

Several studies have estimated that nearly 80 percent of a typical organisation’s data is “unstructured” – mainly text contained in emails and documents. Within that data mass exists a trove of highly important and useful information. Traditionally, the only

way of making this data useful was for humans to read and process it. Because the volume is so high and the effort to utilise the data is so laborious organisations can process just a small fraction of available data manually – often only the most basic information required by regulatory bodies for compliance purposes.

Increased regulatory compliance is an area where machine learning and natural language processing/understanding are radically changing the data landscape (especially in the financial services and life sciences sectors). When applied in this way, machine learning is helping to increase the speed and effectiveness in compliance, manage risks and reduce the regulatory burden. Beyond compliance there is also a huge amount of untapped value in text processing - offering fast and deep insight into the wealth of unstructured data about customers and contracts, for example.

## **Planning beyond automation**

Executives are eager to see how machine learning can increase automation. Yet it would be a mistake to limit the potential of machine learning in the enterprise purely to better and greater automation. It really comes into its own when it is applied to data that is difficult for humans or traditional analytics to process. Many processes have data that is so large, so complex and so high velocity, that machine

learning and even deep learning are needed to make sense of it. Processes where companies are monitoring enormous amounts of data for specific trends and patterns to identify anomalies or rogue behavior are ripe for the application of machine learning. This can be utilised for anti-money laundering, revenue leakage, customer segmentation, and more. This is where machine learning is uncovering insights that couldn't be identified before at a pace that is exponentially faster and more effective than historical approaches.

## **Helping machine learning find its voice**

By 2020 an estimated 80 percent of business-to-customer conversations will be conducted by a machine or bot. That will have enormous implications for all organisations both in terms of business processes and also future staffing needs. Executives will need to have a clear vision and also a strong culture in order to effectively plan and manage this shift to machine driven intelligent interaction.

Companies are looking at machine learning voice technologies to create virtual assistants with deep expertise in financial planning and forecasting while





other organisations are experimenting with voice technologies to document board meetings – recording the minutes while offering a searchable transcript based on the contribution of each individual board member.

### Scaling machine learning strategy

Machine learning offers organisations the chance to gain deep insight into large volumes of unstructured data, automate and accelerate existing business analysis as well as streamline and bring greater consistency to customer interaction. But organisations will only realize those benefits if they have a strategy that both scales across business processes and units, and is aligned to the wider business strategy.

Too often organisations approach machine learning with a combination of bespoke technologies and algorithms. Often what they are left with are incompatible solutions that don't scale. This isn't a technology that can be bought off the shelf like software of old. It has to be built and developed to

meet the challenge of delivering insight and perspective in a repeatable and scalable way. For this to happen, companies need to stop looking at machine learning as individual and isolated technologies and instead align it to the business as a whole. This comes together through building an enterprise machine learning architecture and strategy that has the ability to help address the wide issues and opportunities of a business, rather than small singular areas of application.

As an example, KPMG member firms are no stranger to the changing landscape and need to use machine learning for clients and ourselves. KPMG Ignite (our AI platform and capabilities portfolio) looks to do just that by applying a modular and component based approach combined with leading open source and vendor-supported functionality to a scalable machine learning platform. KPMG Ignite also leverages a formal governance structure to help ensure development opportunities for machine learning are based on wide client value, and have a standardized development

framework to help bring consistency to solution creation without stifling innovation.

Each of these four areas provides value to an organisation seeking to move forward with machine learning and add incremental value that can scale to be truly transformational. Machine learning is here to stay; so let's embrace the early incremental value areas now, to scale to real change in the future.

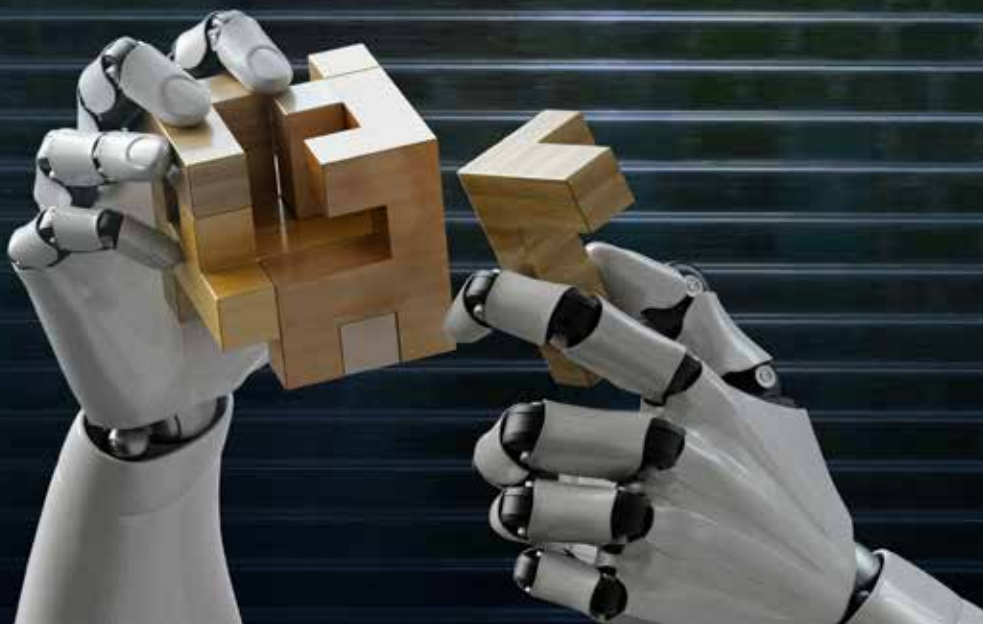


**Stephen Warren**

Senior, Manager, KPMG Enterprise

**E:** [stephenwarren@kpmg.bm](mailto:stephenwarren@kpmg.bm)

**T:** +1 441 294 2663



# Understanding PSAB changes

## Get a head start on proposed PSAB Standard PS3280 Asset Retirement Obligations

By: **Felicia Govender**, Director, KPMG Enterprise

For any government entity reporting under the Public Sector Accounting Standards, the new accounting standard may have implications for your organization.

**In March 2018 the Canadian Public Sector Accounting Board ("PSAB"), issued a new standard PS3280 on asset retirement obligations. The change addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities.**

### Key matters public sector entities need to consider

- The scope of retirement obligations included in the standard;
- The criteria for recognition of a retirement obligation;
- When it's appropriate (and how) to measure a retirement obligation;
- Developing a comprehensive plan to assess all in-scope assets;
- Addressing Board and Stakeholder information needs through implementation; and
- Developing a consistent level of documentation to support the auditability of PS3280 implementation.

### An overview

- PS3280 applies to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.

- Asset retirement activities are defined to include all activities related to an asset retirement obligation. These may include but are not limited to:
  - decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed
  - decontamination created by the normal use of the tangible capital asset
  - post-retirement activities such as monitoring
  - constructing other tangible capital assets in order to perform postretirement activities.
- In addition to asset retirement obligations associated with tangible capital assets that are in productive use and those that are no longer in productive use, PS3280 includes in scope legal obligations, and solid waste landfill closure and post-closure liabilities.
- Based on this, PSAB has withdrawn the existing Section PS3270, solid waste landfill closure and post-closure liability.
  - Under PS3280, obligations for the closure and post closure care of solid waste landfill sites would be recognized earlier than presently under PS3270, as the accounting treatment changes from incremental recognition of liability based on usage to recognition on acquisition, construction, development or normal use. This will result in an earlier increase in net debt. The recognized cost of assets would increase because asset retirement costs associated with tangible capital assets in productive use would be added to its carrying amount rather than expensed (as currently done under PS3270).

- Some examples of asset retirement obligations which fall under scope of PS3280 include:
  - buildings with asbestos
  - nuclear power plant decommissioning
  - fuel storage tank removal
  - removal of radiologically contaminated medical equipment
  - wastewater or sewage treatment facilities
  - reclamation, closure and post-closure obligations associated with mining activities
  - closure and post-closure obligations associated with landfills
  - reforestation of land subject to a timber lease
- Under PS3280, an asset retirement obligation should be recognised when, as at the financial reporting date, **all** of the following criteria are met:
  - there is a legal obligation to incur retirement costs in relation to a tangible capital asset
  - the past transaction or event giving rise to the liability has occurred
  - it is expected that future economic benefits will be given up; and
  - a reasonable estimate of the amount can be made
- Public sector entities will be required to capitalize asset retirement obligations associated with fully amortized tangible capital assets, except in the following instances:
  - asset retirement obligations associated with unrecognized tangible capital assets should be expensed
  - asset retirement obligations associated with tangible capital assets no longer in productive use should be expensed
- The estimate of a liability should include costs directly attributable to asset retirement activities.

### Getting a start of PS3280

- Public sector entities should start considering which asset retirement obligations may fall under the scope of PS3280 by performing the following activities:
  - review active and inactive tangible capital assets to identify those with retirement obligations. Consider solid waste landfills and contaminated sites which may meet the PS3280 recognition criteria
  - reconcile this inventory with the complete tangible capital assets listing and the site inventory for contaminated sites
  - engage functions outside of finance (particularly public works and engineering)
- Consider implications of transitional options.
- Identify opportunities to collaborate with peer entities on assets identified as in scope for PS3280, and benchmarks for measurement of retirement obligations.



**Felicia Govender**

Director, KPMG Enterprise

E: feliciagovender@kpmg.bm

T: +1 441 294 2649



# Your Business Matters

KPMG Enterprise is devoted to your business. We will even help with the heavy lifting.

KPMG Enterprise believes that performance is not only measured by the service provided, but also by how well we understand our clients' business and their needs. We go to great lengths to engage with your business in order to deliver clear customised solutions to our broad spectrum of Bermuda clients.

**Key Contacts:**

**Steve Woodward**

Managing Director, KPMG Enterprise  
stevewoodward@kpmg.bm  
+1 441 294 2675

**Felicia Govender**

Director, KPMG Enterprise  
feliciagovender@kpmg.bm  
+1 441 294 2649

**kpmg.bm**



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# 2018 FinTech Summit and Poll Recap

By: **Jamila Godwin**, Assistant Manager, Markets

On May 31, 2018, KPMG in Bermuda [KPMG] held their first FinTech Summit, with the full-day session designed to bring together organisations in an effort to provide a better understanding of the FinTech landscape including blockchain, realities of automotive regulatory compliance, robotic process automation [RPA] and data and analytics [D&A].

The Summit explored emerging technology themes within the financial services industry such as, current state and future trends that will continue to drive the future adoption of RegTech, enhancing operational efficiency by automating regulatory compliance, and leveraging data and analytics to enhance the customer journey and improve risk management.

## Speakers in attendance included:

- Chris Steele, from KPMG London, outlined the current state and live challenges that RegTech is designed to address. He also covered future trends that will continue to drive the adoption of RegTech.
- David Miligan, CEO, KPMG-Matchi provided practical approaches to help organisations to find high quality FinTech solutions from around the world.
- Attendees gained deeper insight on Data Analytics from Dennis Deveau, KPMG Bahamas. He spoke about and how D&A can enhance an organisation's front office through to the back office – from enhancing the customer journey to being a risk management tool.
- Simon Richardson, Oracle, and Chris Eaton, KPMG, discussed how an organization can better understand how to leverage automation to enhance operational efficiency, and connect different components of the financial crime and compliance management process automatically end-to-end.
- Wolfgang Huber, KPMG Germany, discussed selecting the right RPA software for your organisation, its pitfalls, along with providing a live demonstration of bots in action.

The Premier and Minister of Finance David Burt, provided the key note address and discussed how new technologies can improve government efficiencies. He further explained that his aim is to make Bermuda the leading jurisdiction for FinTech companies.

During the event, KPMG ran a series of polls to assess whether businesses in Bermuda are embracing technologies. We include a summary on the adjacent page of the questions covered and their results.

For more information on our FinTech Summit or on our service offerings, please visit [kpmg.bm](http://kpmg.bm).



**Jamila Godwin**

Assistant Manager, Markets

E: [jamilagodwin@kpmg.bm](mailto:jamilagodwin@kpmg.bm)

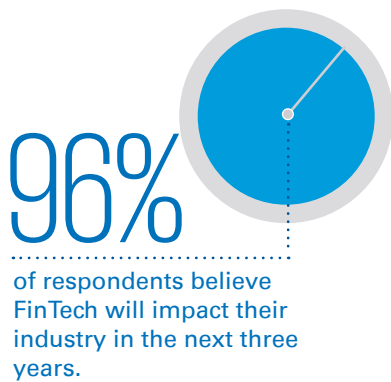
T: +1 441 295 5063



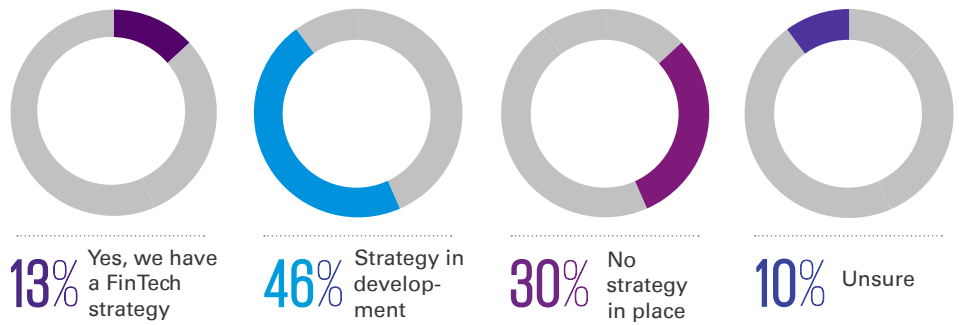


# 2018 KPMG FinTech Summit Poll

Is your business embracing technology? Results from our attendee polling.

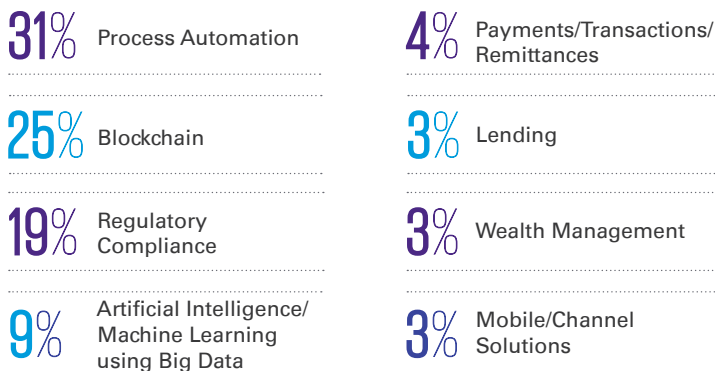


## Where is your firm when it comes to having a FinTech strategy?



**44%** of firms are **using compliance automation technologies** today.

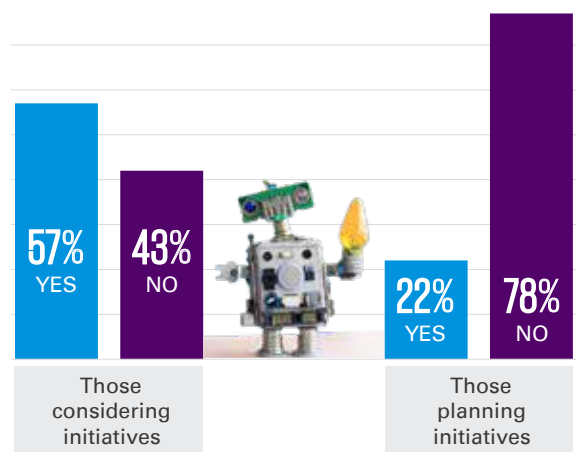
## Most interesting tech themes in FinTech to organisations



We want to make Bermuda the leading jurisdiction for FinTech companies.

**The Hon. David Burt, JP, MP  
Premier and Minister of  
Finance, Bermuda**

## Robotic Process Automation Initiatives



Overall, around 50% of financial institutions have a FinTech strategy, with only 10% admitting to having none at all. But the picture varies across industries, with Asset Management tending to be ahead of the curve (64%), followed by banking (50%), with insurance lagging (43%) but with the highest proportion with strategy under development.

**Charles Thresh, Managing Director, KPMG in Bermuda**

# How governments are using leading procurement practices to stretch taxpayers' money

By: **Lori Rockhead**, Senior Manager, Advisory

Expenditure constraint has been instituted in many ways and for so long that it's generally considered the norm by most governments. Doing "more with less" has become the increasingly challenging motto within public sector circles.

Leading procurement practice has begun to harness the inherent spending power of the public sector to do "more with more." What if a \$20 million expenditure could purchase \$22 million in value? What government wouldn't want an extra 10 percent or more, in purchasing power? What if at the same time governments could achieve certain policy objectives, such as growing the small business sector, diversifying the economy or incentivising environmentally sustainable practices? And, what if by instituting best practices, the procurement process became more efficient, requiring less time and effort? Is it possible that this utopian world exists? Yes, these laudable goals are being accomplished by governments and public sector organizations that are thoughtfully implementing leading practice procurement methods.

The OECD estimates that 12% of GDP is spent in member countries on public procurement. This means, in simplistic terms, the public sector's procurement practices have a significant impact on a country's GDP. It also underscores that the Government's business is good business.

## Achieving policy objectives

In light of the magnitude of public sector spending, governments are increasingly using their spending power to further policy objectives such as encouraging the growth of small business.

Procurement practices are becoming part of the strategic tool kit for many governments. For example, a ministry responsible for energy or environment may have specific objectives about encouraging green businesses and green practices. These goals are often achieved through policy, regulation, grants, and educational programs. Increasingly, procurement practice is part of the policy mix.

There are multiple ways for a government to use its procurement policy to achieve green goals. In some cases public sector procurement guidelines allocate a portion of the scoring of tenders

to companies that demonstrate they follow certain green practices that have satisfied certain environmental certifications. Another option might be developing minimum green specifications which must be met by all bidders in delivering the product or services. Or a government can become a powerful role model by replacing conventional vehicles with electric or other low emission vehicles as part of its capital plan.

Similar approaches are being applied to other economic and policy goals, such as health, safety and wellness.

## Transparency

Transparency is essential to governments achieving value and accordingly procurement procedures which improve transparency are becoming increasingly sophisticated.

Governments which have robust practices for answering bidders' questions, processes for collaborating on complex solutions, and who reduce ambiguities such as providing reasonable access to technical studies and past reports effectively create an environment where bidders will sharpen their pencils to tender the best value. Greater clarity and certainty reduces risk which leads to bidders, consciously and unconsciously, minimizing built-in contingencies, thus leading to greater value being achieved by the public sector.



Closely aligned with transparency is providing adequate time and information for bidders to understand what is being sought and prepare their bids. Often there is a rush to market which causes the period allowed for bidders to respond to be minimised. This can work against the procuring party in several ways. It may signal to the market that the procurement is merely a tick the box exercise to award the contract to a bidder that has already been selected or is strongly preferred.

Allowing adequate time to understand the opportunity and prepare bids encourages a larger pool of bidders. Bids are time-consuming and expensive to prepare so by allowing fair access to relevant information and adequate time to thoroughly understand what is being sought, helps to attract more bidders. More bidders means more competition, which is positively correlated with achieving value and innovation.

### **Collaboration**

As public sector entities have become more sophisticated in their procurement practices, collaboration has become an important part of optimising value and stimulating innovation. The challenge of collaboration within the parameters of a public sector procurement process is ensuring fairness and having a robust set of fairness principles which helps guide how collaboration takes place. Structure and fairness helps to protect proprietary or commercially sensitive information, while at the same time allowing governments to engage with bidders in a way which incentivises innovation and create collaborative solutions.

The practice of having a structured approach to allow for collaboration and encouraging innovation started with public private partnership (P3) procurement which is being adopted in other areas, such as technological solutions. Millions of dollars have been saved in terms of capital development and life cycle costs by adapting project specifications based on valuable input from bidders.

### **The size of the prize**

Historically, governments have procured goods and services within limitation of an annual budget cycle or the political cycle. Taking into account business and economic cycles can optimize the "size of the prize" for bidders resulting in greater competitive tension and benefits to the public sector.

To illustrate, procuring computer hardware is often done on an as needed basis by individual departments or organizational units. Having a larger tender which consolidates all these standard purchases and seeks a preferred provider or providers, utilizes a government's considerable buying power to achieve volume discounts and higher service standards. Tendering a multi-year contract also helps small businesses plan, manage cash flow and inventory and secure financing which in turns generates the potential for innovation and a more robust small business sector.

Optimizing commercial life cycles with governments' interests can also minimize the time and effort involved for the public sector. Finding that sweet spot is challenging and can vary significantly. For goods and services it may be as short as one year, but more often 2 to 5 years, but it can exceed 10 years in cases where there is a significant upfront or continuing investment required by the private

sector. When done well, even inter-generational cycles can be influenced, empowering economic growth.

Optimising the contract length on preferred provider bids can increase the "size of the prize" which encourages competitive bidding to the benefit of the public sector entity. However, it does require greater aforethought on matters such as quality and performance standards and the procurement process.

Bundling is another element that helps increase the "size of the prize" while creating the potential for better outcomes. Possibly the best example of how the public sector is engaging in greater planning relates to whole life costs. Factoring in life cycle costs in the initial stages of capital projects is having a dynamic impact on operating and maintenance budgets. Whole life cycle planning is one of the benefits of certain P3 delivery models which is being applied more broadly. By bundling the long term maintenance of a building or infrastructure with design and construction, bidders are incentivised to consider maintenance efficiencies at the design stage and receive contractually agreed maintenance costs for the project period hence maintenance is protected from the annual budgetary process.

Some of the public sector's effort will need to shift to contract management given the longer contract term. This can be somewhat, but not entirely, offset by having the commercial provider transparently report on performance metrics.

### **The importance of planning and clear objectives**

This sounds so simple that you would think it doesn't merit mention. But it is perhaps one of the most common causes of capital projects going over budget and behind schedule. Considerations such as future population change and changes in technology can easily cause costly misalignments such as building infrastructure with insufficient capacity or which becomes redundant owing to technological advances. For instance in the future, more and more public services will be provided online therefore reducing the size and location of government offices.

Regardless of what is being procured, upfront planning is often the most important element to achieving the aims of accomplishing value for money, policy objectives and efficiency. Although it sounds simple, knowing what a government organisation wants and articulating it clearly in a way which can inform the procurement process is often underestimated.



**Lori Rockhead**

Senior Manager, Advisory

E: [lorirockhead@kpmg.bm](mailto:lorirockhead@kpmg.bm)

T: +1 441 294 2666



# Innovation and commercialisation barriers

Innovation constraints

Barriers to commercialising technology Innovations

By: **Chris Eaton**, Cyber Lead, KPMG Islands Group

Government restriction are foreseen as a leading concern across all geographic regions, and, in some countries, specific issues are becoming constraints such as increased scrutiny of foreign investment by the United States and China.

As technology companies seek to innovate, which of the following will limit/constrain innovation?

**FIG. 1**

24 percent of the tech industry leaders surveyed point to restrictive regulatory policies as the leading issue limiting technology innovation (a jump from 19% in the prior poll). In the United States, key technology industry players have gained great economic and social power and are facing more transparency about how emerging technologies work and the impact of technology on society.



Partial list. Percentages do not sum to 100%. Source: KPMG Technology Innovation Findings, March 2018

Access to talent and expertise ranked second as an innovation constraint. As tech companies seek to innovate, there is a fierce competition for talent. Emerging technologies are opening new fields and demand for different professional skills such as algorithmic audits and developing behavioural research on use of these new technologies.

Other issues on the radar are nonexistent technology standards and legacy IT infrastructure. As next-generation technological developments become more complex and interconnected there is a need to develop new standards.

Despite the interest of key tech players in reducing technology complexity, the momentum to drive standards collaboration is limited. As the number of emerging technologies increase and existing technologies evolve to offer more value, there are integration and complexity challenges faced by both consumers and enterprises. How tech companies address integration paradigms to reduce complexity will be a competitive differentiator for the next wave of industry leaders.

The power and influence of the mega platform companies such as China's BAT (Baidu, Alibaba, Tencent) and the U.S. FAANG (Facebook, Amazon, Apple, Netflix, Google) is foreseen as an issue by 12 percent. There is increased concern that these tech titans will crowd out the competitors and start-ups, ultimately restricting true innovation. See FIG 2 and 2.1.

**FIG. 2**

	China	India	Japan	U.K.	U.S.
Restrictive regulatory policy	22%	22%	40%	23%	30%
Access to expertise/talent	26%	17%	20%	16%	28%
Nonexistent tech standards	21%	11%	30%	23%	21%
Legacy IT infrastructure	18%	20%	17%	21%	23%

FIG. 2.1



- Ensure that every part of the value chain applies the same high standards of privacy - for both customer and employee data
- Be transparent about the kind of customer information your company holds and how you plan to use it
- Personal data can create value for your company but breaches, penalties, and loss of customer trust can also turn it into a liability.
- Before considering which solutions to invest in, - start with strong privacy governance
- Avoiding reputational damage is a top priority - ensure that your company is prepared to respond quickly and effectively.

#### Restrictive regulatory policies is the leading concern across many countries.

In the EU the General Data Protection Regulation (GDPR) enforcement date was May 25, 2018. The GDPR affects organizations that deal with consumers and businesses in EU member states, and will transform the way that personal information is collected, stored, used, disclosed, and disposed of.

"While meeting regulatory obligations is a must, there is a danger of seeing regulation, such as the GDPR, as a one-off, 'tick the box' activity, rather than a deliberate move towards a privacy-conscious culture, where transparency, citizens' rights, and accountability become second nature to all employees. To make privacy an integral part of the way your organisation does business, you must first get the basics right - starting with strong privacy governance."

- Vijay Jajoo, Principal, Cyber Security, KPMG US.

#### Customer, funding, and cyber top the list

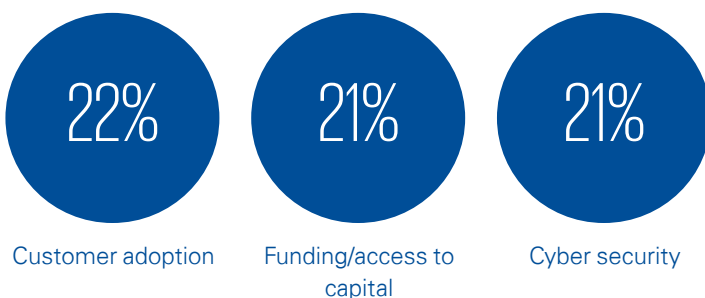
Global tech industry leaders indicated a wide variety of challenges in commercializing emerging technologies. Customer adoption issues continue to be ranked as a leading inhibitor, marked at 22 percent of responses in the past two surveys. This concern is more pronounced in Japan, named by 30 percent compared to 18 percent the prior year. In contrast, this is less of an issue in China,

showing 19 percent this year compared to 24 percent the previous year.

What are the top barriers to commercialising technology innovations? See FIG 3.

There is still emphasis on funding and capital access concerns, with 21 percent pointing to this barrier compared with 36 percent in the prior survey. In an improving global economy, this is no longer the top issue. Tech industry leaders in the United Kingdom

FIG. 3



Partial list. Percentages do not sum to 100%. Source: KPMG Technology Innovation Findings, March 2018

are more bullish about access to capital, showing 18 percent compared to 47 percent the prior year. This concern is also less evident in India and Japan compared to the prior year (40 percent and 39 percent, respectively).

Access to talent has emerged in this robust economic period as a bigger issue. A shortage of AI-trained specialists, data scientists, and engineers in quickly growing fields is a contributing factor.

Cyber security continues to be a challenge in commercializing emerging technologies. As data scientists seek to improve cyber security, artificial intelligence – and deep learning in particular – is emerging as a promising solution. From a cyber security perspective, deep learning can identify threats amid massive amounts of unstructured data and stop them before they happen. It can detect unusual network or user activity and can identify

phishing e-mails before they unleash their damage. It has the ability to monitor all endpoints in a corporate network – including personal devices in addition to company-issued ones.

Measuring return on investment faces stronger headwinds in this highly competitive business cycle (regarded by 20 percent as a hindrance to innovation commercialization compared to 15 percent the prior year). The adoption of mission critical technologies has to be managed alongside a system of good governance. The creation of centers of excellence for investments in transformational technologies is likely to maximize ROI and minimize risk. For example, AI centers of excellence may ensure the continuous upgrade in skill levels to develop business and technology proficient employees and also focus on recruiting specialized AI talent. See FIG 4.

FIG. 4

	China	India	Japan	U.K.	U.S.
Customer adoption	19%	23%	30%	19%	23%
Funding/access to capital	22%	23%	13%	18%	27%
Cyber security	19%	14%	20%	21%	27%



Chris Eaton

Cyber Lead, KPMG Islands Group

E: [chriseaton@kpmg.bm](mailto:chriseaton@kpmg.bm)

T: +1 441 294 2641





# In the spotlight



## **Shonette Harrison**

### **Audit Senior**

Shonette was born and raised on the island of Jamaica. She attended the University of the West Indies (Mona Campus), where she attained a Bachelor of Science in Mathematics and Economics (Hons).

With an avid love for numbers, she made the transition into accounting

where she began her professional aspirations at PwC Jamaica as a Trainee in 2012. In 2013, she embarked on her journey to becoming ACCA qualified and achieved this when she completed her exams in October 2017.

In March 2018, Shonette joined KPMG in Bermuda as an Audit Senior in the Enterprise Department. She believes that a move to KPMG will allow her to garner the necessary skills and knowledge needed to further her own professional and personal development. She is extremely enthused to broaden her experience within Enterprise by being exposed to the various industries as well as learning her own strengths, all while adding value to the Firm and her clients.

When Shonette is not at the office, she enjoys relaxing with friends, listening to music or going to the beach.

With this new venture, she hopes to enjoy and experience the Bermudian culture, both at work and on the island.



## Contact Us:

### Audit

**Steve Woodward**

Managing Director, Sector Lead  
KPMG Enterprise  
**T:** +1 441 294 2675  
**E:** stevewoodward@kpmg.bm

**Felicia Govender**

Director  
**T:** +1 441 294 2649  
**E:** feliciagovender@kpmg.bm

**Stephen Warren**

Senior, Manager  
**T:** +1 441 294 2663  
**E:** stephenwarren@kpmg.bm

**Jonnie Burnett**

Manager  
**T:** +1 441 294 2714  
**E:** jonnieburnett@kpmg.bm

**Tshepo Tshabalala**

Manager  
**T:** +1 441 294 2715  
**E:** tshepotshabalala@kpmg.bm

**Shanay Brown**

Manager  
**T:** +1 441 294 2613  
**E:** shanaybrown@kpmg.bm

### Tax

**Will McCallum**

Managing Director, Head of Tax  
**T:** +1 441 294 2645  
**E:** willmccallum@kpmg.bm

**Catherine Sheridan Moore**

Managing Director  
**T:** +1 441 294 2606  
**E:** catherinesheridanmoore@kpmg.bm

**Crystal Pittendrigh**

Senior Manager  
**T:** +1 441 295 5063  
**E:** crystalpittendrigh@kpmg.bm

### Advisory

**Charles Thresh**

Managing Director, Head of Advisory  
**T:** +1 441 294 2616  
**E:** charlesthresh@kpmg.bm

**Richard Hobday**

Director, Advisory  
**T:** +1 441 295 5063  
**E:** richardhobday@kpmg.bm

**Lori Rockhead**

Senior Manager, Advisory  
**T:** +1 441 294 2666  
**E:** lorirockhead@kpmg.bm

**Chris Eaton**

Cyber Lead, KPMG Islands Group  
**T:** +1 441 294 2641  
**E:** chriseaton@kpmg.bm

**Mike Penrose**

Senior Manager Advisory  
**T:** +1 441 294 2603  
**E:** michaelpenrose@kpmg.bm



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