



Financial sector – Key challenges for 2018

Industry focus

February 2018

KPMG in Thailand

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Introduction

The challenges presented by digital disruption, emerging technologies and risks, and impending accounting and regulatory changes continue to be high on the agenda of management.

In this publication, we explore some ways in which these challenges are being addressed by banks and insurers in order to enhance their competitive position in 2018 and beyond.

We also provide links to recent publications which may be relevant to evolving strategies, including thoughts from KPMG's Global Financial Services Chairman on how to **Outperform in an age of disruption**, regional views on the **2018 Hong Kong Banking outlook**, Fintech developments in **KPMG's Fintech 100** and **The Pulse of FinTech**, together with some predictions of hot topics in 2018 in the areas of geopolitical risks and insurtech.

If you would like more information on any of these topics, please contact any of the specialists listed or speak to your KPMG service team.



Nicholas Bellamy
Head of Financial Services
KPMG in Thailand

Key highlights



Auditing IFRS 9: IFRS 9 is one of the most momentous accounting changes for many banks. The degree of complexity in the IFRS 9 expected credit losses (ECLs) estimate is expected to be greater than loan loss allowances under IAS 39.



Data strategy needs a new mindset: Due to business innovation through digitization, organizations will be transformed from 'entity-driven' to 'entity-crossover'.



CIOs at the epicenter of the digital revolution: While cybersecurity and operational resilience will continue to be a priority for CIOs, this cannot reduce the need to improve agility and drive innovation.



Navigating change – Feedback from insurers on the frontline of IFRS 17 and IFRS 9 implementation: IFRS 9 is as relevant for insurers as IFRS 17. If you want to manage your balance sheet, you have to look at the assets and the liabilities as well as understand the IFRS 9 implications and their interaction.



Harvey Nash/KPMG CIO Survey 2017 – Banking sector data sheet: Despite facing the challenges in cost control and cyber attacks, IT provides opportunities for banks to cost effectively reach more customers and improve the user experience.

You may also be interested to read...

– more FS publications

More information, **please contact**
– key contacts

Banks need to be active for IFRS 9 now



Audit committees of banks are expected to play an oversight role as banks adopt IFRS 9. Expectations of them, and of auditors, are high.

This paper is designed to assist audit committees in their oversight of auditors with regards to audit work on IFRS 9 expected credit losses (ECLs). It is addressed primarily to the audit committees of systemically important banks (SIBs), but the principles are relevant to other banks and financial institutions in a proportionate way. The paper focuses on SIBs' lending activities, being their core activity, as opposed to investing in securities.

This paper also takes account of the concepts and guidance proposed in International Standard on Auditing (ISA) 540 Auditing Estimates (revised) and illustrates ways that may be appropriate to apply them to the audit of ECLs.



Auditing IFRS 9



"We are less than one year away from the application date. Understandably, efforts to date have focused on model and system development, but attention now needs to turn towards ensuring processes and controls are updated to reflect the significant changes to financial reporting requirements, and a key risk area of the audit."

Christopher Saunders

Partner, Advisory
KPMG in Thailand

IFRS 17: Turning compliance into an opportunity

Top opportunities

Despite the scale of the challenges, two-thirds of companies are keen to seize the opportunity to transform their business:

47%



Systems modernization

45%

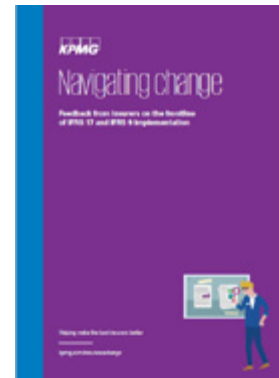


Process optimization and actuarial transformation

41%



Finance transformation



**Navigating change –
Feedback from insurers
on the frontline of
IFRS 17 and IFRS 9
implementation**



“Forward-thinking insurers consider the implementation of IFRS 9 and IFRS 17 as more than just a compliance program. Together, they are a strategic investment to reach the best possible outcome for business. Planning for such large-scale implementation – with involvement from cross-functional teams such as Actuarial, Finance & Accounting, Investment, Product, IT teams – depends on good leadership with active involvement from the beginning to the end, while also being open to new ideas in the process.”

“At the start, developing a high-level multi-year milestone plan, including realistic time-scales, clear accountabilities, and sufficient time is a must-do checkpoint to have a constructive blueprint for communication to stakeholders and the project team. After that, a more detailed plan for day-to-day operational management needs to be further developed to keep the project alive.”

Itthipat Limmaneearak

Director, Advisory
KPMG in Thailand

Data strategy needs a new mindset



Teamwork solves the shortage of data experts

– The organization should establish a ‘data culture’ by raising skills in-house and hiring people from the outside.



Organizations are being tested in global competition

– On the global stage, one of the key drivers is the organization’s power, including management. Establishing a data culture will take time.



Data protection and regulation might decrease the whole value of data

– It is desirable to cooperate, not compete in the ‘defense’ area of data, and it is also desirable to have a movement to develop a social infrastructure, through collaboration between governments, financial institutions, consulting companies, and vendors.



Fintech companies are enablers, not disruptors

– Banks need to build win-win relationships with them by collaborating, cooperating and merging data to create a new value proposition.



Data strategy needs a new mindset



“Mass Individualism is the inevitable outcome of an increasingly digitalized environment in which we live; financial institutions must recognize this fact and leverage the vast amounts of information available in order to tailor their products to satisfy societal expectations.”

Steven Mark Claxton

Director, Advisory
KPMG in Thailand

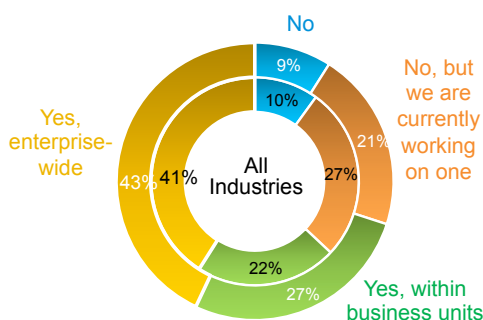


Are banks ready for digital transformation?

Digital strategy

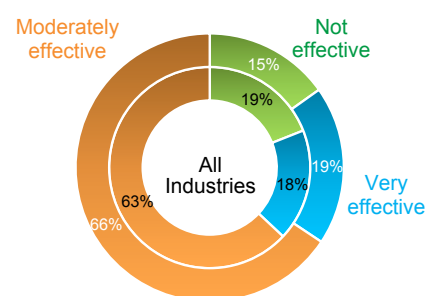
Based on *Harvey Nash/KPMG CIO Survey 2017*, the following snapshots provide survey responses from more than 350 banking companies on digital strategy:

Does your organization have a clear digital business vision and strategy?



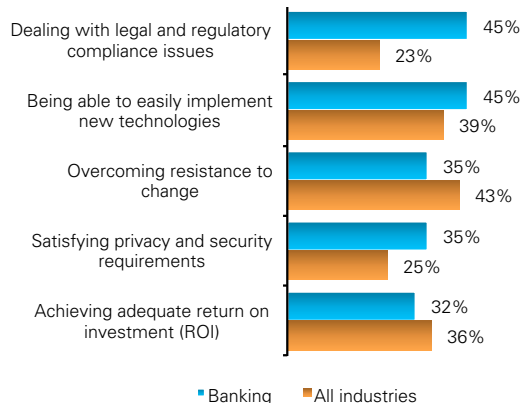
Banking companies are **somewhat more likely to maintain a digital business strategy**, either enterprise-wide (43% vs. 41% for all industries), or within business units (27% vs. 22%).

How effective has your organization been in using digital technologies to advance its business strategy?



Like their peers in other industries, banking companies **report low overall effectiveness levels in their digital strategies**, with just 19% describing their digital strategies as very effective.

Which of the following represent the greatest challenges to your organization's successful implementation of digital capabilities? (top five)



Harvey Nash/KPMG
CIO Survey 2017



"Information Technology is a key enabler for digital transformation. While it promises organizations to drive growth and increase efficiencies, various challenges in its adoption must be managed."

"With the Bank of Thailand's recent notification regarding guidelines on IT Risk Management, banks now have an additional framework on hand which addresses many of the above mentioned challenges."

"Rather than viewing the IT Risk guidelines as yet another compliance requirement, banks should embrace and pro-actively adopt them as a compass to effectively navigate through the digital transformation journey, steering clear of pitfalls and staying on target."




Florian Magin

Director, Audit
KPMG in Thailand



Agility vs. Reliability

As technological change pushes towards mid- and back-office functions, Bank Chief Information Officers (CIOs) must make significant moves to innovate while banks still hold customer trust and market share. CIOs should consider the following three steps on their route forward:

-  **Keep innovation separate for traditional, large-scale delivery.** CIOs need to be in an ‘act fast mode’ and create an environment to test new services and digital technology outside of the core banking system.
-  **Minimize integration between legacy systems and new technology.** Look to develop agile platforms as core strategic assets to enable digital delivery, with minimal legacy integration for the sharing of data, through cloud and middleware technologies.
-  **Create greater flexibility through business collaboration.** CIOs and other business leaders must collaborate innovation with downstream when critical business decisions have already been made.



CIOs at the epicenter of the digital revolution



“It is important for organizations to find the right balance between ‘agility’ and ‘reliability’ – to find ways to be dynamic, fast, and nimble, while still maintaining stability, and resiliency.

There are many factors that will influence the success in digital transformation, including realigning processes, increasing the level of automation, as well as changing the culture of the enterprise. There must be tight and constant feedback and feed forward information in the development life cycle to ensure the business product delivers quality expectations.”

Wasamon Apichatvullop

Director, Advisory
KPMG in Thailand



You may also be interested to read...

KPMG member firms provide a wide-ranging offering of studies, analysis and insights on the financial services industry. For more information, please go to kpmg.com/th/fs.



Outperform in an age of disruption

If you are a financial services executive, you are probably feeling fairly bullish about your company's growth prospects over the next few years. But you might also be a bit worried about the unknowns. If so, you are in good company.



KPMG Insurtech predictions 2018

With the market environment starting to stabilize in 2017, there are a number of positive developments and opportunities in the year ahead for banks in Hong Kong to increase their profitability.



Eurasia 2018 top 10 risks

Eurasia Group launches its Top Risks report covering the political risks most likely to have the biggest impact on the geopolitical landscape throughout 2018. The report indicates 10 risks private and public businesses alike should consider when scenario planning.



2018 Hong Kong Banking outlook

With the market environment starting to stabilize in 2017, there are a number of positive developments and opportunities in the year ahead for banks in Hong Kong to increase their profitability.



Frontiers in Finance

The articles in this issue of Frontiers in Finance reflect many of the key themes we have come to recognize: the constant struggle with disruption and challenge; the transformation being driven by digital technology and the data revolution; the continuing increase in the demands and constraints imposed by governments and regulators.



2017 Fintech 100

The Fintech100 represents the most innovative companies, creating products and services at the juncture of technology and financial services who are seeking to disrupt the existing processes and products that dominate the marketplace, with Fintech companies from 29 countries featuring in this year's 100.



Venture Pulse Q4 2017

2018 is poised to see a major increase in investor focus on cross-industry solutions, such as AI. Blockchain is also expected to remain an investment priority.



The Pulse of Fintech – Q4 2017

The Q4'17 edition of KPMG's The Pulse of Fintech highlights key trends and issues affecting the fintech market globally and in key regions around the world. In this edition, we take a look back at the entire year, as well as making some predictions for 2018.

Click on the links above to access the publications.

Key contacts



Nicholas Bellamy
Head of Financial Services
KPMG in Thailand
T: +662 677 2125
E: nbellamy@kpmg.co.th



Christopher Saunders
Partner, Advisory
KPMG in Thailand
T: +662 677 2359
E: csaunders2@kpmg.co.th



Florian Magin
Director, Audit
KPMG in Thailand
T: +662 677 2356
E: florianmagin@kpmg.co.th



Chanchai Sakulkoedsin
Partner, Audit
KPMG in Thailand
T: +662 677 2337
E: chanchai@kpmg.co.th



Itthipat Limmaneerak
Director, Advisory
KPMG in Thailand
T: +662 677 2654
E: itthipat@kpmg.co.th



Steven Mark Claxton
Director, Advisory
KPMG in Thailand
T: +662 677 2301
E: sclaxton@kpmg.co.th



Wasamon Apichatvullop
Director, Advisory
KPMG in Thailand
T: +662 677 2626
E: wasamon@kpmg.co.th

KPMG in Thailand

Empire Tower, 48th – 51st Floors
1 South Sathorn Road, Yannawa
Sathorn, Bangkok 10120
T : +662 677 2000



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