



Financial sector – Key challenges for 2H18

Industry focus

October 2018

KPMG in Thailand

kpmg.com/th

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 the second half of 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 global regulatory focus on **Individual accountability and Regulation 2030**, Fintech developments in **The Pulse of Fintech 2018**, insurance companies' key success factors in **Aligning behind your customer agenda** together with organizational adjustment to digital transformation from **Frontiers in Finance**.

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



Individual accountability:

Individual accountability is now a global concept. Firms around the world have taken the shift to greater individual accountability seriously, including undertaking large-scale reviews and updates of governance structures, management reporting structures, individual responsibilities, governance maps and management information.



Regulation 2030: While financial institutions are focusing on digital transformation, they will need to keep a close eye on regulatory developments as supervision adjust to the data and technology revolution.



The Pulse of Fintech 2018:

Due to several new regulations, such as IFRS9, Payment Services Directive 2 (PSD2) and General Data Protection Regulation (GDPR), regtech gains significant strength in the first half of 2018.



Aligning behind your customer agenda: Insurers will need to change virtually every part of their business if they hope to thrive, not just survive.



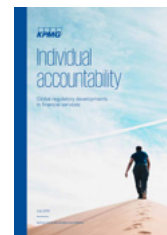
Frontiers in Finance Issue #59:

Building trust in data and analytics is also important especially in financial institutions that apply data-driven technologies to achieve competitive advantage.

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

Individual accountability is now a global concept

Individual accountability is becoming a regulatory focus area around the world. Regulated firms are being required to ensure that senior managers are fit and proper for their roles and meet conduct rules established by the regulator. This increasing focus on individual accountability has been driven by three main factors:



Individual accountability



Constrain excessive credit and market risk taking, in particular by banks, through a focus on both heads of business lines and heads of control functions such as compliance, risk management and internal audit.



Greater emphasis on culture to mitigate retail and wholesale misconduct risks, through a focus on conduct standards and on senior managers taking reasonable steps to prevent regulatory breaches in the areas for which they are responsible.



Hold individual senior managers to account, including through lower remuneration and disciplinary actions when regulatory breaches and other failures do occur.

“Exactly who in a financial institution is accountable for regulatory misconduct has been a hotly debated subject ever since the global financial crisis. Recent regulatory trends have the effect of bringing more individuals into scope, covering senior management positions across each of the “3 lines of defense” and certain board level positions. Globally, Banks have taken the shift to greater individual accountability seriously, with some undertaking large-scale reviews and updates of governance structures, management reporting structures, individual responsibilities, governance maps, and management information. This is very much on the local regulatory agenda and we would recommend that Bank’s in Thailand follow suit.”









Christopher Saunders
Partner, Advisory
KPMG in Thailand

Regtech gaining momentum globally

Fintech will bring not only benefits and opportunities but also risks to regulated firms, financial stability and consumers which will generate a regulatory response in the form of new principles, rules and guidelines. Data privacy and data protection issues may arise from the growing volumes of customer data, access to and storage of this data, and the flows of data between financial institutions and third party service providers.

Technology and regulation

Key risks

	Costs and constraints imposed by regulation	Impacts to efficiency and effectiveness in products and services providing
	Big data and data analytics	Concerns of data privacy and misuse of data
	Technology-enabled platforms	Concerns of market dominance, and financial stability risks
	Artificial intelligence and machine learning	Risks of adverse outcomes and inadequate understanding
	Consumer responsibility	Information asymmetries in an increasingly fintech dominated financial services
	Maintaining the risk-sensitive lens of regulation	Use of regulatory interventions to achieve wider social objectives



Regulation 2030



The Pulse of Fintech 2018



In the first half of 2018, global investment in fintech companies hit USD 57.9 billion across 875 deals mostly thanks to increasing amount of regulations and compliance obligations. These include IFRS9, Payment Services Directive 2 (PSD2) and General Data Protection Regulation (GDPR) in Europe. Consequently, the rise in compliance costs has led many banks conducting business globally to investigate and invest in regtech options to comply with requirements in jurisdictions — particularly in areas like Artificial Intelligence (AI), Know your Customer (KYC) and Know your Data (KYD).

Florian Magin
 Director, Audit
 KPMG in Thailand



“Moving towards Thailand 4.0, financial institutions will soon be able to leverage the National Digital ID (NDID) to streamline KYC processes, cut down on paperwork and improve customer experience. A common platform powered by local FinTech and collaboration among NDID participants enables financial institutions to use advanced technologies to identify customers and authenticate transactions. Services or products which previously required the customer to visit a branch can be shifted to digital and mobile channels. With personal data of customers being available to participating organizations via the platform, it is imperative that financial institutions protect and use this data responsibly to maintain customer trust and their reputation. Financial institutions should therefore ensure that data privacy principles are implemented and strictly adhered to. The upcoming Personal Data Protection Act (Thailand’s EU GDPR equivalent) should serve as additional motivation to step up data protection efforts.”

Becoming a connected enterprise: Insurance

Connected enterprise is playing a critical role in differentiating the great insurers from the good insurers. Insurers will need to change virtually every part of their business if they hope to thrive, not just survive. To succeed insurance companies must:

1. Prioritize investments based on connected enterprise capability maturity.
2. Tackle the limitations of legacy systems with technology architecture strategies.
3. Implement connected enterprise metrics that measure short- and long-term results.
4. Educate decision makers to gain buy-in for required connected enterprise investments.
5. Build up the connected enterprise talent pool.



Aligning behind your customer agenda






“Insurers are well aware of the challenges of digitization and being customer-centric and most have already undertaken many initiatives in response to the urgent need to transform and reinvent themselves. Taking the lens of customer into products and services and building up the connected enterprise pool with a growth mindset are crucial factors and ‘must-do’ things to gear up for enterprise-wide strategic change.”



Itthipat Limmaneerak
 Director, Advisory
 KPMG in Thailand

Trust in data and analytics is important

While most financial institutions are now thinking about how they can use data-driven technologies to get the upper hand in an increasingly competitive financial services environment, trust in data and analytics is also important. Therefore, financial institutions should build trust in:

 <p>Data</p> <ul style="list-style-type: none"> • Improve data processes and governance models • Create data integrity function • Enhance data management standards • Remove data silo 	 <p>Models</p> <ul style="list-style-type: none"> • Improve understanding of analytical models • Integrate the governance of humans and machines • Assign ownership over algorithms and analytics to the business • Develop a mechanism for continuous review 	 <p>Talent</p> <ul style="list-style-type: none"> • Develop aligned roadmap to transformation strategy • Start training or hiring • Encourage analytics culture and embrace innovation • Bring current employees along on the journey
--	---	--



Frontiers in Finance Issue #59





Anticipate.
Innovate.
Deliver.



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

KPMG in Thailand

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



STAY CONNECTED



Twitter: [@KPMG_TH](https://twitter.com/KPMG_TH)

Facebook: facebook.com/KPMGinThailand

kpmg.com/th

LinkedIn: linkedin.com/company/kpmg-thailand

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG Phoomchai Audit Ltd., a Thai limited company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.