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ASIA PACIFIC RISK MANAGEMENT

2017 – Year End Summary

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Market Trends, Industry Analysis and People Moves

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MARKET OVERVIEW

As we move into 2018, there is an increasing sense of optimism amongst the senior Risk Management community. Whilst many in the APAC region remain cautious about the wider Financial Services landscape and the pan-Asian geo-political/regulatory environment, 2017 saw major strategic and tactical growth in a number of areas, not least the increasingly prominent world of Information Security and Cyber Risk.

Hiring activity has been steady, if not buoyant, throughout the year, although the majority of hiring at the most senior levels has been linked to finding replacements for key departures, or into highly-specialised roles.

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- Non-Financial Risks continue to be the prominent areas of focus for banks, with key considerations such as Technology and Culture Risk driving the development of dedicated roles and functions.

- Information Security and Cyber Risk has developed into one of the major considerations for financial services firms. However, the embryonic nature of this Risk type and lack of a 'norm' in the market is making it difficult to manage at these early stages.

- Although significant cost reduction and 'rightsizing' efforts have been made over the last few years, 2017 continued to see limited availability of budget and headcount for the majority of Risk Management functions across Asia Pacific.

"New technology benefits both customers and market participants, but poses significant challenges to financial services firms in managing previously unidentified risks"

- Whilst always an eventful market, 2017 was a particularly significant year for China, most notably due to adjustments to foreign ownership regulation allowing for greater ownership and autonomy on the Mainland.

- Many institutions continued in their efforts to realign headcount and roles to 'low cost' locations such as Manila, Kuala Lumpur and Mumbai throughout 2017. Challenges remained through the year however in identifying and retaining strong, local talent.

THE EVER-EVOLVING RISK MANAGEMENT FUNCTION

Continuing the underlying trend of 2016, last year saw continued focus on the development of the future state Risk Management function and the creation of the optimum target operating model; if a true 'optimum' can be found in an industry still undergoing significant change and remediation. Management of traditional Financial Risks has, in the main part, remained consistent with increasing levels of maturity and saturation within the Asia Pacific Market. Notable activity has instead been observed in the continually evolving, and broad spectrum that is Non-Financial Risk, encompassing everything from Technology Risk through to Culture and Reputational Risk.

Market Risk, both in Asia Pacific and globally, continues to show signs of lethargy in the talent market as the ability to manage key Market Risks through a combination of improving technology and a more 'junior', quantitative workforce has seen a reduction in headcount and hiring at the more traditional 'mid-levels' observed in previous years. Whilst not necessarily detrimental to the mitigation of risk itself, this may well cause issues for internal progression and succession planning activities.

Credit Risk remains a highly mature and evolved risk type with relatively low levels of hiring activity observed at senior levels within the major, international banks. Activity continues to be seen with smaller, local firms however, particularly in Southeast Asia as firms look to increase the calibre of their Credit Risk functions in smaller, domestic markets. Where senior moves have been observed at 'Tier 1' banks, a significant proportion of this activity has been internal mobility or replacement hiring versus the creation of new roles.

Operational Risk remains the most prominent area for development and hiring activity as the nature and role of the Operational and Business Risk function continues to evolve. With robust operating models, policies and frameworks already – for the most part – in place, firms continue to address the relationship between the first and second lines of defence, notably within the increasingly pertinent area of **Conduct Risk.** Sales processes are, and have been for some time, a significant Conduct Risk however, and to date there has been a lack of structure in place across the market to assess and mitigate this. Slowly but surely firms are beginning to improve monitoring and assessment, however the underlying reform of a bank's culture will involve true co-operation across the entire organisation from the Board through to the three lines of defence.

Whilst there is significant development still to take place across the market, **Enterprise Risk Management (ERM)** has seen positive advancement through 2017 with a handful of the major, international banks embedding true ERM functions under the CRO. Exactly what tasks are best managed within ERM remains a consideration (and inconsistency), however the purpose of increasing fungibility across business lines and risk types is a desire echoed across the market. One area where we expect to see significant attention is that of Data Management, with legacy systems and processes requiring an overhaul in order to increase the consistency and efficiency of key Analytics and Reporting activities.

Outside of specific risk types and at a firmwide level, the Risk Management function itself continues to undergo structural change, notably with regards to the relationship between Risk and Compliance. Whilst not a new trend (first led by UBS in 2014), firms (and indeed regulators) are placing greater scrutiny on the most efficient structure for the two functions. It is anticipated 2018 will continue to see significant focus and likely changes to existing models.

TECHNOLOGY AND THE IMPACT OF CYBER RISK

2017 saw a noticeable advancement in the pace of both innovation and adoption of new technologies across the financial services sector, providing tangible benefits to consumers and market participants, whilst at the same time however posing significant challenges to firms in managing previously lesser valued risks.

Although still in early stages of its evolution, the ever-increasing scrutiny on the impact of Information and Cyber Security as a non-financial risk (from both internal stakeholders and external regulatory bodies) means the debate around how best to manage and mitigate this issue is one that CROs, CTOs and CIOs cannot avoid. Indeed, looking across the Corporate and Investment Banking sector alone paints a **confusing and highly inconsistent picture**; both here in Asia Pacific and on a global scale.

Whilst the issue of 'Cyber Risk' has historically been the focus of an organisation's Technology function, recent adjustments in operating model and organisational structure have seen increasing emphasis placed upon the traditional, second line of defence Chief Risk Officer function to increase accountability for Information Security and Cyber Risk Management. That is not to say however the solution and 'perfect' approach is easy to identify, with several major banks **continuing to adjust their operating models and structures to accommodate regulatory demands**. Consider Asia Pacific, where an underlying sense of competition between key regulators has led to the creation and continuous adjustment of highly stringent regulations, in some cases forcing institutions to continuously amend and adjust their approach to the management of this risk type in order to comply.

Geography is also an on-going consideration for banks as this function becomes more developed. Whilst arguments can be easily sought for increasing the ownership of 'Centres of Excellence' in low cost locations for traditional Technology based tasks, the unique combination of skill sets required for success in this world have led to issues identifying and hiring staff in locations such as Chennai and Mumbai. That is not to say off-shoring won't continue to be important for banks in areas such as Poland, Malaysia, India and the Philippines, however hiring and talent retention constraints will impact the amount of emphasis that can be given to such locations.

The **Three Lines of Defence** model may well be viewed as the most appropriate approach for institutions to adopt in mitigating this key risk type, however efficient adoption relies upon a truly integrated approach between front-line business units and their second-line counterparts responsible for successfully developing and embedding appropriate thresholds and policies into the firms wider risk management framework. The development of this continues at a steady rate across the sector, with a recent study by EY indicating that 67% of banks have already incorporated 'Cybersecurity' into their ERM framework and 48% already incorporating Cyber Risk into the Risk-Appetite Framework.

CHINA – A REAL OPPORTUNITY?

The debate surrounding increasing willingness by China to allow a greater level of foreign investment and ownership is certainly not a new trend, however 2017 might well prove to be the pivotal year in the development of many firms' strategies within the country. Indeed, November's announcement that foreign-majority control will now be allowed indicates a significant shift in mentality, although exactly how best banks might capitalise on this is a discussion that will likely continue for some time to come. Firstly, it will be necessary to determine which of the permitted licenses one will apply for and subsequently what this means for business activity in the region. Will there be a requirement, for example, for large credit risk functions on the ground if a firm does not initially obtain an underwriting licence? Clearly not. Equally, firms need to remain vigilant to the volatility in the region and any further changes or amendments to the regulation that may well occur.

Cautious tones aside, this clearly represents a real opportunity for international firms to increase their presence and business scope within China; a market that is inevitably integral to ongoing growth and success within Asia Pacific financial services. Success will come down to a firm's ability to adapt to the cultural and regulatory nuances and the development of a robust operating model that can weather the inevitable volatility.

LOOKING AHEAD TO 2018

Early indications within Asia Pacific suggest a rising level of positivity around market conditions and ensuing business activity, although firms must of course remain cautious to the lingering volatility surrounding wider economic and geo-political activity, both locally and on a global scale. Internally, compensation expectations remain consistent with the previous years with many individuals anticipating flat or at most changes of a few percentage points compared to 2016.

Some of the key trends that are likely to influence the market and subsequent hiring activity throughout 2018 include:

- Ever increasing emphasis placed up Information Security and Cyber Risk. Firms need to increase awareness, consistency, resources and above all, talent within this key Risk type to ensure successful management and mitigation as technological advancements and ensuing cyber threats continue apace.
- Artificial Intelligence, Data Analytics and Cognitive Technologies will be further embraced in order to drive more effective detection, prevention and prediction of key risks.
- A concerted effort is expected in developing Cultural Risk capabilities and driving a tangible cultural shift across organisations. Risk Management is increasingly seen as an 'enabler' to business, however a successful relationship is dependent on developing an appropriate risk culture across all three lines of defence.
- Diversity initiatives and accompanying personal development programmes will continue to gain momentum as firms battle to hire and keep top, diverse talent.
- Following the recent regulatory changes in China, expectations are that financial institutions take a cautious approach to increasing focus and subsequent presence on the ground. Until a truly clear picture is available on which licenses can be acquired and the subsequent implications this will have on the Risk Management function, expect a muted response in the short term.

PEOPLE MOVES

The following is a selection of the senior moves observed by Sheffield Haworth and the ensuing analysis is based upon the total observed activity across 2017:

- Gino Abruzzi has joined **DBS** as Group Chief Credit officer, joining from ANZ where he held the role of CRO, Hong Kong.
- Ian Cockerill, formerly Head of Regional Credit at Citi has relocated to Singapore to join **Standard Chartered** as Head of Group Special Assets Management.
- Lyn Fox joins **Morgan Stanley** as Asia Pacific Head of Market Risk. He was previously APAC Head of Equity and Credit Trading Market Risk at HSBC. Lyn replaces Raj Jain who has transitioned internally to assume the role of Asia Pacific Head of Business Risk.
- David Stephens has been announced as the new Chief Risk Officer for **Westpac**, replacing Alexandra Holcomb who will retire this year. David was previously Chief Risk Officer at RBS.
- Norbert Wong has joined **Standard Chartered** as Chief Risk Officer, Vietnam. He was previously Head of Credit Risk Review with HSBC in Hong Kong.
- Dean Shoosmith has relocated to Sydney to join **Commonwealth Bank** as Head of Portfolio and Market Risk Management. Dean joins from JP Morgan in London where he was Global Head of Commodities Market Risk.
- **Morgan Stanley** has appointed Bob Dhillon as Asia Pacific Head of Operational Risk. He joins from HSBC where he was Global Banking and Markets Head of Operational Risk in the region.
- Nicolas Cohen-Addad has returned to a trading role having joined **Deutsche Bank** as Head of Equity Derivatives Trading. He was previously Chief Trading Risk Officer, Global Markets at Credit Suisse.
- Kaber Mclean has transitioned internally at **HSBC** (one of several internal moves this year) to the Remediation and Execution Standards division. His role as Asia Pacific Head of Wholesale Credit and Market Risk has been assumed by Rob Oates, previously Chief Risk Officer, India.
- Christine Yau, previously with KPMG, has joined **BAML** as Asia Pacific Head of Operational Risk, replacing Paul Denham.
- James Wilkins has joined **UBS** as Asia Pacific Head of IT Risk. James was previously with Deutsche Bank in the same role.
- Daniel Tong has joined **OCBC Bank** as Head of Risk Governance, Group Technology and Information Security Risk. He was previously Head of Technology Risk, Policy and Governance Management at United Overseas Bank.
- Peter Lam, previously Asia Pacific Head of Risk Governance and Appetite at HSBC has joined the **Bank of East Asia** as a Senior Risk Advisor.

*Gender Diversity continues to be a major consideration for Risk Management functions across the region, with improvements required at the most senior levels. Only **14%** of the observed people moves at 'Head of'/C-Suite level in 2017 were female.*

*Internal Mobility has been a key consideration for many individuals throughout 2017, with **34%** of observed moves being internal.*
It is anticipated that this trend will continue to drive much 'back-filling' of roles across the market.

If you wish to discuss the current trends within the Asia Pacific and Global Risk Management markets, or to discover more about Sheffield Haworth's extensive track record, please don't hesitate to contact Jonny Warner.

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