Criminality and technology top risks for Singapore's banking industry

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The Centre for Study of Financial Innovation in association with PwC released the 2015 edition of its annual *Banking Banana Skins survey* recently. The survey reveals that yesterday's risks may no longer be today's and tomorrow's. Whilst some of the risks are unsurprising, some of the results are curious and one could agree or disagree. Having such discourse would not save the world from a financial crisis, but could offer different perspectives and perhaps better decisions and calibrations.

Key Findings

- New and old risks continue to challenge the banking industry. Respondents from around the world and in Singapore identified the same top four risks as per 2014, though the order is different. "Criminality" and "technology" are the top two concerns in Singapore.
- Macro-economic environment uncertainties are at the top of everyone's mind. Despite prudential reforms, banks remain vulnerable to high debt levels, future interest rates, weakness in China and other emerging markets, and softening commodity prices. Lower growth rates, together with regulatory reforms will put pressure on banks to manage returns.
- Criminality, including the risks to banks in areas such as money laundering, tax evasion and cyberattack rose the highest among the concerns in the last year. One Singapore-based respondent was quoted: "Cyber theft will grow and at least one bank will fail in the next 10 years as a result."
- Technology is giving rise to "fintech" competitors that are challenging traditional ways of doing things and are operating using more nimble systems and lower overheads. Traditional bank earnings models are threatened. To improve margins, banks are experimenting with new industry models that leverage technology and are more customer than product-centric. However, this could expose them to even higher risks such as cybercrime and financial terrorism.
- Regulation continues to be a concern. Banks recognise the need for tougher controls; many question their cost and effectiveness. Banks are not only bearing the direct costs of regulation – new capital and liquidity requirements, restructuring costs, higher costs of compliance, and higher costs of customer acquisition – but also the cost of greater management time to re-engineer processes, change culture and increase compliance efficiency. Industry margins are being impacted. ■

Top 10 Business Risks For Banking Industry in 2015

World Rank	Banana Skin (Risk)	Singapore Rank
1	Macro-economic environment	3
2	Criminality	1
3	Regulation	4
4	Technology risk	2
5	Political interference	-
6	Quality of risk management	10
7	Credit risk	-
8	Conduct practices	8
9	Pricing of risk	-
10	Business model	-
-	Social media	5
-	Reliance on third parties	6
-	Capital availability	7
-	Liquidity	9