

Date: 12 June 2014
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Regulation, Political Interference Top Risks for Global Banks - PwC

'Banana Skins' survey also identifies technology and the macro-economic environment among top threats to global banks

Banks worldwide see regulation and political interference as the biggest risks for the global banking sector, according to the 2014 *Banking Banana Skins* survey.

The study, conducted biennially by the Centre for the Study of Financial Innovation (CSFI) in association with PwC, pinpoints the top concerns of more than 650 bankers, regulators and observers across 59 countries, including Thailand.

The weight of new regulations is becoming excessive and could dampen economic recovery, according to **Boonlert Kamolchanokkul**, a partner, and risk, quality and banking leader at PwC Thailand.

“Regulatory excess is seen as the severest risk facing the banking industry today,” Boonlert said.

“Banks around the world, including Thailand, are voicing concerns over the burden of new regulations and restructuring, as they expect to go through a challenging period of structural change.”

Political interference ranked as the second biggest threat. Respondents say it adds more costs and constraints to the banking sector.

“Concerns about political interference in banking are also rising, driven by the wave of measures taken by authorities to stabilise and reshape their banking systems in the wake of the financial crisis,” Boonlert said, citing the survey.

Banking Banana Skins 2014 (2012 ranking in brackets)	
1	Regulation (6)
2	Political interference (5)
3	Macro-economic environment (1)
4	Technology risk (18)
5	Profitability (7)
6	Pricing of risk (11)
7	Credit risk (2)
8	Corporate governance (9)
9	Criminality (24)
10	Capital availability (4)
11	Quality of risk management (10)
12	Interest rates (17)
13	Back office (13)
14	Change management (15)
15	Liquidity (3)
16	Sales and business practices (20)
17	Emerging markets (22)
18	Derivatives (8)
19	Social media (-)
20	Shadow banking (-)
21	Management incentives (14)
22	Currency (19)
23	Human resources (28)
24	Reliance on third parties (29)
25	Social sustainability (25)
26	Equity markets (21)
27	Commodity markets (26)
28	Business continuation (12)

“Many of these measures have become overly excessive, some ill-motivated, and will have unintended consequences by handicapping banks and creating market distortions.”

Political interference takes several forms, including imposing bank-specific taxes, introducing punitive capital and liquidity requirements, interfering in pricing, and restricting banking systems by, for example, ring-fencing important social and economic activities.

The growing incidence of hefty penalties for malpractice could also end up damaging rather [than] reforming banks, Boonlert said. He added that some of the strongest concern is in Europe, where extensive measures have been proposed or adopted at both the European Union and national levels to make banks safer.

The survey shows that anxiety about the outlook for banks has started to decline. Concerns expressed in earlier surveys about capital availability, liquidity and credit risk in the banking system have begun to ease, suggesting that the operating climate for banks is turning.

Although confidence about the macro-economic outlook has strengthened, concerns remain over the stability of the Eurozone and slowing growth in emerging markets, particularly China.

The outlook for tapering quantitative easing (QE) by central banks is widely seen as crucial to global economic prospects.

Macro-economic environment dominates Asia Pacific concerns

Respondents in Europe and North America have the strongest concerns about regulation and politics. The top concerns in the Asia Pacific region relate to macro-economic disruption and the risk of sharp changes in interest rates.

Macroeconomics, chiefly the effect of rewinding stimulus measures created by QE, is the number one concern in the Asia Pacific region that covers diverse economies, including China, Singapore, the Philippines, Malaysia and Australia, among others.

Based on the survey, this is **the only region that sees attracting and retaining young talent as a top ten risk issue.**

As for Thailand, Boonlert said he expected a brighter outlook for the banking sector on expectations that stimulus measures after the recent political unrest will revive the economy. This would benefit bank loans and earnings growth.

In the first quarter, Southeast Asia’s second-largest economy contracted by 0.6 percent year-on-year and 2.1 percent from the previous three months, National Economic and Social Development Board data showed.

“We believe that Thai banks remain reasonably positioned to weather the challenges in a more cautious lending environment,” Boonlert said.

“The sector should benefit on hopes of an economic recovery as we’re more positive about the economic outlook in the second half. However, risks from non-performing loans (NPLs) remain a threat for banks’ asset quality.”

Among the 2014 rising risks, **technology risk** dramatically jumped to number four from number 18 due to growing concern about cybercrime.

“As banks move towards greater digitisation, they need to focus on how to better manage technology risk and criminality as a result of concerns about the vulnerability of outdated systems to cybercrime and outages,” Boonlert said.

“Banks need to be concerned not only with their own back office systems but also with related reputational risks arising from third party outsourcing and off-shoring activities. At the same time, the increasing need to manage the reputational risks associated with the rapid growth of social media mustn’t be underestimated.”

