Centre for Regulatory Strategy

2024 Asia Pacific Regulatory Outlook

Exploring New Frontiers in an Uncertain World

The Global Regulatory Landscape

Short- and medium-term pressures require an agile strategic approach

The challenging and unprecedented operating conditions that Financial Services (FS) firms have faced for the last few years look set to continue in 2024. Although inflation is cooling and increases in interest rates have slowed, both of those factors continue to weigh on the economy. Considerable economic uncertainty persists, and financial and non-financial risks remain elevated.

Navigating these choppy waters will likely be front of mind for FS executives in the near term. Yet at the same time, the drivers of medium-term term structural change in FS – such as geopolitics (and how they will be affected by elections taking place in several major jurisdictions),[1] sustainability and technological innovation – are no less relevant and will remain close to the top of Boards' and Senior Executives' agendas.

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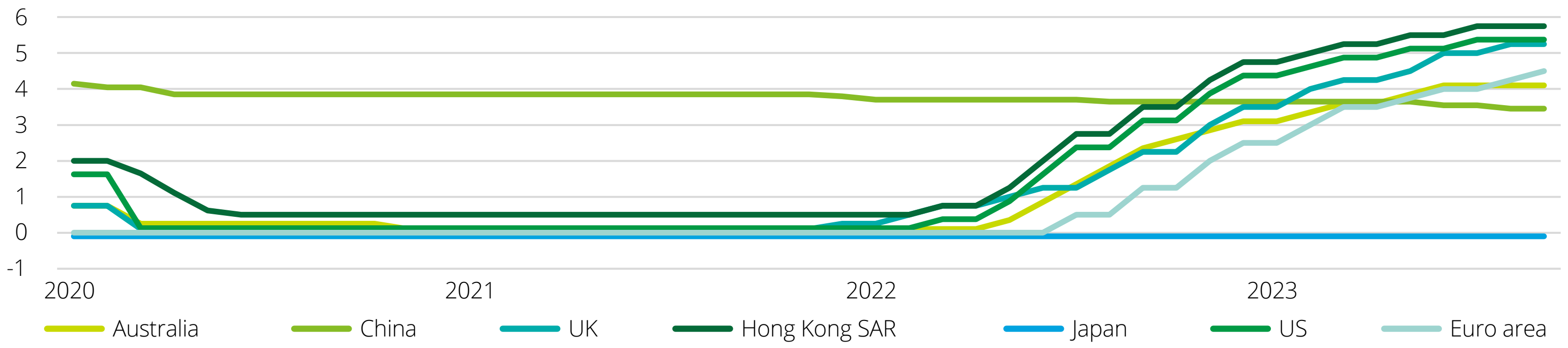
The economic outlook

The IMF predicts a slowdown in global growth in 2024, from 3.0% in 2023 to 2.9% in 2024,[2] with growth in advanced economies set to slow to 1.4%. The World Bank has warned that growth in Asia's developing economies is expected to come in at its lowest rate in five decades (4.5%).[3]

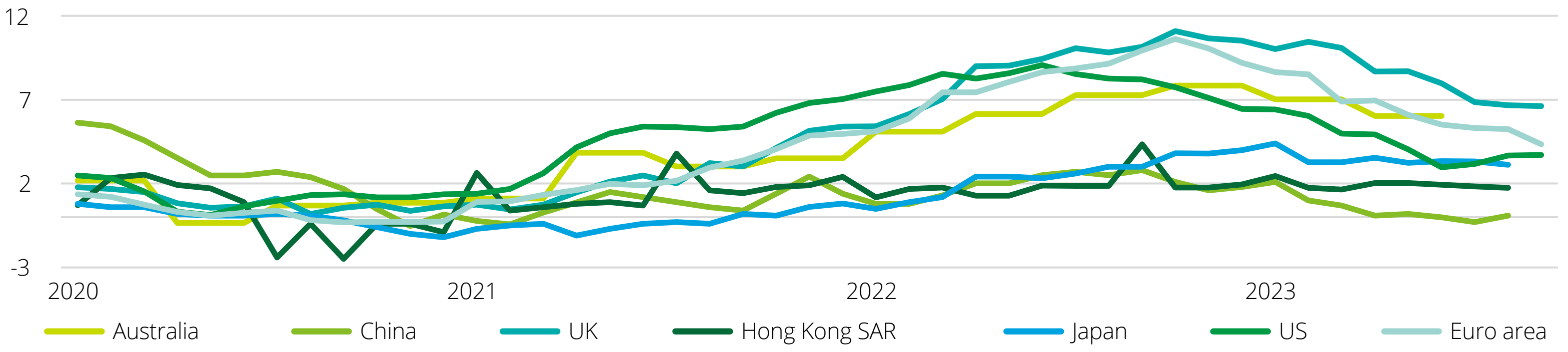
Households and businesses in many parts of the world continue to feel the squeeze of higher inflation (see figures 1 and 2). Although interest rates may not rise further than their current levels, the lingering impact inflation and the rate rises of the last two years is likely to put prolonged pressure on debt servicing ability, increase claims settlement costs, and drive market volatility. Given the long and variable time lag in the transmission of monetary policy, it is likely that a significant portion of the impact of rate rises has not yet been passed on to the real economy.

Figure 1: International policy rates (since January 2020, in percent)



Source: Bank for International Settlements[4]

Figure 2: International consumer price inflation (since January 2020, year-on-year changes, in percent, monthly data)



Source: Bank for International Settlements[5]

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Banks[6] and non-banks (which have significantly increased their exposure to credit markets in recent years) face elevated credit risks. Financial stability authorities have signalled particular concern about two areas: the commercial property sector (in particular office properties), given its vulnerability to lower growth, heightened inflation and interest rates[7] and reduced occupancy levels after COVID-19; and private credit markets, given their rapid growth, sensitivity to rate rises and covenant-lite loan practices.[8]

Concurrently, with cost-of-living pressures continuing to bite, firms should seek to ensure fair outcomes for vulnerable customers, and expect proactive supervisory intervention if they fail to do so. Although the circumstances are different (given the absence of government guarantees and moratoria) supervisors may start taking firms' actions during COVID-19 as the benchmark for fair treatment of customers.

For both firms and their supervisors, maintaining financial resilience in this testing macroeconomic environment remains a top priority.

At first glance, the banking sector appears to be entering 2024 in relatively resilient shape, with strong capital and liquidity ratios (see figures 3 and 4). Yet the failure in 2023 of several mid-sized US banks, followed swiftly by the rescue of a global systemically important bank (G-SIB), offered a timely reminder of two things: firstly, that customer and investor confidence in banks is far from unshakeable, and secondly, that robust capital and liquidity buffers need to be accompanied by strong risk management, controls and governance, robust recovery and resolution plans, and proactive supervisory oversight.

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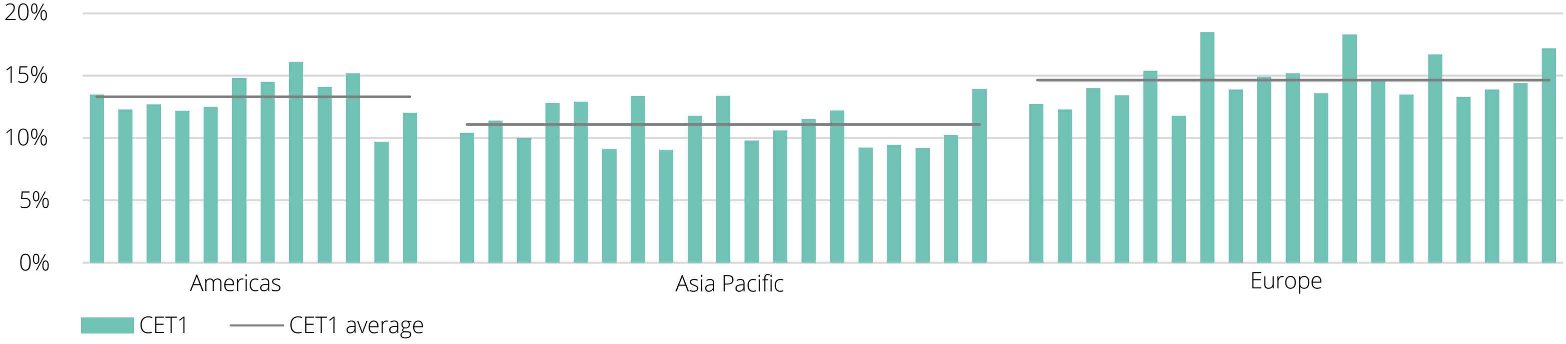
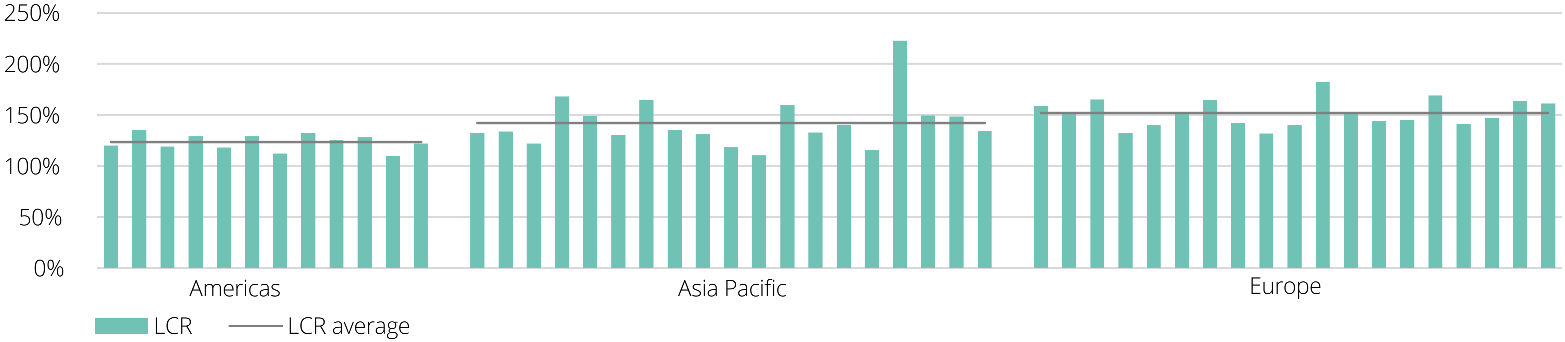
Figure 3: CET1 ratio of top 50 global banks (by total assets) – Q3 2023



Source: Deloitte analysis of banks' Q3 2023 financial reports[9]

Figure 4: Liquidity Coverage Ratios of 50 largest global banks (by total assets) – Q3 2023



Source: Deloitte analysis of banks' Q3 2023 financial reports[10]

The latter of these points will be the focus of the near-term international policy response.[11] But even ahead of any near-term policy change, supervisors will expect banks to enter 2024 with a renewed focus on understanding how changing market conditions are affecting their business. Longstanding supervisory concerns around the sustainability of some banks' business models – including regional banks in the US, Europe and Japan – will come into even sharper focus this year, given the banking turmoil in March 2023 and the change in the interest rate environment. This applies particularly as the initial positive impact on bank margins recedes and risks that built up during the 'low-for-long' era begin to crystallise.

Supervisors will also be vigilant to the impact of inflation[12] and rising interest rates on insurers, although insurers may be able to offset inflation-driven increases in expenses and claims via increased premiums in the medium to long term. Life insurers may earn higher investment returns as a result of higher interest rates, but they may be subject to higher lapse risks if interest rates continue to rise.

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Of equal, or perhaps greater, concern to financial stability authorities will be the resilience of non-bank financial intermediaries[13] **(NBFIs)** – especially in the context of elevated market risk and volatility in global bond markets. Financial stability authorities have expressed growing concern at the potential effect of the growth of speculative positions by hedge funds in US Treasuries, with net short positions in 2023 reaching comparable levels with Treasury market turmoil in 2020.[14]

Supervisors and central banks remain keen to intervene. A key priority is to improve understanding of market dynamics and fill in data gaps – through exercises such as the Bank of England's pioneering System-Wide Exploratory Scenario (SWES),[15] for example, as well as the ongoing work of the Financial Stability Board and the International Organization of Securities Commissions. In the US, the Financial Stability Oversight Council (FSOC) has finalised a framework for designating non-banks as systemic and the Securities and Exchange Commission (SEC) is considering a number of Treasury market reforms to increase transparency and support resilience. The Bank of England has taken tentative first steps towards the creation of a standing central bank liquidity facility for non-banks.[16] The Australian Prudential Regulation Authority (APRA) has strengthened the recovery and resolution framework for banks, insurers and superannuation funds.[17] Yet the European Commission's decision in 2023 not to reform its Money Market Funds (MMF) regulation demonstrated that legislative change may be more difficult to achieve.[18]

Until a comprehensive, NBFI-specific framework is in place, supervisors will continue to use banks as proxies to manage risks in NBFIs – including through further stress testing and scenario analysis, and scrutiny of banks' ability to monitor leverage in NBFI counterparties. Longer term, we may see the macroprudential framework used to improve banks' resilience to NBFIs. The European Commission, for example, is considering[19] NBFI-related changes to the macroprudential toolkit.

In an uncertain and volatile economic climate, supervisors will expect firms across the whole FS sector to ensure that they are financially and operationally resilient. Boards should consider working through various scenarios to test their firms' resilience in a range of possible events.

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Structural change

While the above issues will draw the attention of both firms and policymakers in the short term, firms must not lose sight of the medium-term structural changes that are shaping the FS regulatory landscape. The three themes that we have picked out are unchanged from our 2023 Outlook: geopolitics, technology and climate change. Yet all three have experienced sufficiently significant shifts in the past 12 months that they require revisiting.

Geopolitics

The 'slowbalization' of recent years – characterised by rising geopolitical tensions putting pressure on political support for open trade and investment – looks set to continue in 2024. Governments and business leaders are seeking to de-risk their value chains, with increasing 'friend-shoring'[20] and protectionist measures in critical sectors.[21] According to the IMF, mentions in companies' earnings presentations of reshoring, onshoring and near-shoring have increased almost tenfold,[22] and in our experience, some firms are choosing to bring certain services back in-house to manage operational risk and resilience more effectively.

In our view, there is increased risk in 2024 that geopolitical tensions fragment the global economic landscape further. Possible catalysts can be broadly split into two categories: foreseen catalysts (such as elections) and unforeseen catalysts (such as further escalation in the conflict between Russia and Ukraine, or in the Middle East). The latter category remains highly relevant, difficult to predict and potentially high impact. But looking ahead to 2024, the impending elections across multiple G20 jurisdictions in 2024[23] are the most likely catalysts for large-scale *policy* change.

If new administrations choose to adopt stronger positions on economic security, de-risking or de-coupling, FS firms could feel the impact through sanctions or indirectly through economic and trade flows. Geopolitical risks could also act as drivers of other prudential risks for both cross border and purely domestic firms, for example: affecting market risk through increased market volatility; operational risk through increased risk of direct or indirect cyber-attacks; strategic risks where firms have to exit a market quickly; or credit risks to the extent that any of those risks affect clients' ability to service debt.

For FS firms, navigating this uncertain geopolitical environment will be challenging, and it will be vital to set a robust risk appetite and tolerance levels, use scenario analysis and reverse stress testing, and put in place contingency and recovery plans where risks are particularly elevated.

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Sustainability and climate change

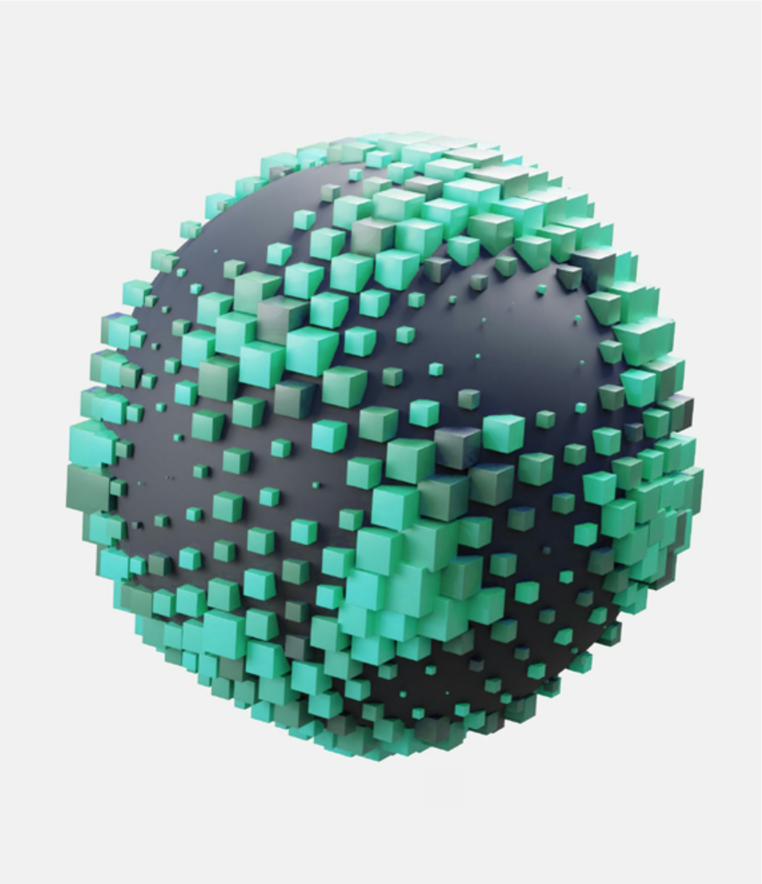
The politics of sustainability are increasingly complex. Given the macroeconomic headwinds and impending elections in many jurisdictions described above, political impetus behind long-term measures in support of net zero could recede if they result in higher costs for consumers and businesses.[24] If this political dynamic persists, and the private sector in turn delays its ambitions, less favourable transition scenarios (such as an abrupt or even a failed transition to net zero) will become more likely. Moreover, climate stress tests undertaken in previous years by FS supervisors indicate that significant deferrals or weakening of sustainability policies could be costly for FS firms in the medium to long-term.[25]

Despite this uncertain background, we do not expect already agreed regulatory and supervisory deadlines to shift substantially in the near term. Regulatory requirements around disclosure, transition planning, and risk management continue to be developed and implemented, while supervisory scrutiny of climate-related (and increasingly nature-related) risks is now 'business-as-usual' in many jurisdictions. Rather, we expect that any shift in the political momentum around climate to have an impact on the next phase of action.[26]

If anything, the prospect of a delayed transition (and the increased transition and physical risks that it could imply) only reinforces the need for FS firms to invest time and resources in ensuring resilience against climate and environmental risks. Supervisors, particularly in Europe, have been clear that they are prepared to use the supervisory toolkit as a 'stick' to incentivise faster progress.

More generally, macroprudential authorities will be wary that actions taken by firms to safeguard their own financial resilience may have unintended consequences for the resilience of the system as a whole. A high-profile example (which we will likely see repeated in the future) was the exit of certain US insurers from high-risk areas (such as Florida and California), citing increased risk of natural disaster such as floods and wildfires and an inability to secure state regulators' approval for rate increases to reflect the much-increased risk.[27]

Boards should, through their actions, set the expectation for their organisation that climate risk is integrated into all aspects of their decision making. In doing so, they should take steps to test and challenge the validity and effectiveness of the information they are being given.



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Technology

FS firms continue to seek ways to leverage new and emerging technologies. In the face of a challenging macroeconomic outlook, firms may be able to achieve short-term cost-efficiencies from use of new technologies, although truly transformational change will require significant up-front investment, a pro-innovation regulatory agenda and widespread adoption for inter-operability.

For firms with a global footprint, embracing technological innovation will require navigation of an increasingly complex global regulatory landscape with jurisdictions moving at different speeds. Regulators are grappling with the ever-challenging questions of when and how to intervene when a new technology emerges, and how to supervise, directly or indirectly, third party providers that are normally outside of their remit. Differing answers to those questions will inevitably fragment the regulatory landscape.

For example, regulators around the world are coming to terms with how to regulate the use of AI, and are doing so at varying pace and with varying approaches. The EU's AI Act[28] will set out a highly prescriptive set of requirements, while the UK and US are planning higher-level, principles-based approaches.[29] FS firms using AI also need to comply with potentially divergent cross-sector regulations (such as GDPR in the EU),[30] and sector specific regulations (such as operational resilience requirements, governance and risk management requirements, consumer and investor protection requirements).

The evolving digital assets regulatory landscape is similarly complex. Regulatory frameworks and perimeters across the globe tend to treat the different types of digital assets and underpinning activities in distinct ways. Unbacked digital assets are a case-in-point. Japan, Hong Kong SAR and Singapore are among the first movers globally, with rules already in place to capture key intermediaries. The EU is closely following. Meanwhile significant work remains to shape detailed rules for this segment of the market in the UK, USA and Australia. Frameworks for fiat-backed stablecoins are also emerging asynchronously across jurisdictions.

For global firms, this complex and potentially divergent supervisory landscape inevitably creates compliance costs and strategic challenges.

International firms operating in the EU, for example, will need to decide whether to 'gold plate' their AI practices outside the EU or to develop different systems. For instance, firms active in both the UK and the EU may start developing their strategy for both markets based on the more advanced EU framework.

International firms looking to develop their digital assets strategy face similarly challenging decisions when deciding which products to offer, when and where to launch, which clients to target and what target operating model to pursue.

Across all facets of technological innovation, previous experience suggests that treating the use of new technologies as a purely 'tech' issue will not work for supervisors. **Boards need to engage fully with, and understand the impact of new technologies on their firm's risk appetite, risk profile, strategy and reputation, and ensuring that use of technology is supported by appropriate controls and governance.**

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Taking the long view

The last few years have been bruising for FS firms, and 2024 could be equally challenging.

In choppy economic waters, the natural inclination for FS firms will be to focus time, resources and bandwidth on short-term issues. But the structural changes to the FS sector driven by geopolitics, climate and technological innovation are not going away, and will shape the regulatory landscape and broader operating environment for years, or even decades, to come. Boards and senior executives have a crucial role to play in ensuring that firms take decisions and make investments now that future-proof their business models.


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Asia Pacific Foreword

The Asia Pacific (AP) region has headed into 2024 with steady recovery in the economy, supported by a resilient financial market. However, the region is still facing a number of risks in the coming year. Geopolitical conflicts persist, posing challenges and potential disruptions to economic stability.

Additionally, uncertainties in interest rate trajectories are creating challenges for businesses, investors and the general population, as they navigate higher borrowing costs and prices, which will continue to impact the cost of living in some jurisdictions. Furthermore, vulnerabilities in the real estate sector will persist into 2024, posing credit risk and uncertainties to FS firms with large real estate sector exposures. Elevated debt levels for households and businesses add to the concerns on debt servicing ability of obligors in some AP jurisdictions, impacting the asset quality for banks and non-bank financial institutions (NBFI) alike.

Innovation in technology, including the rise of digital banks and artificial intelligence, continue to transform the financial landscape, offering customers greater convenience and accessibility to financial services. However, these developments also bring new risks which have put the operational resilience of FS firms under closer regulatory scrutiny, which will continue into 2024.

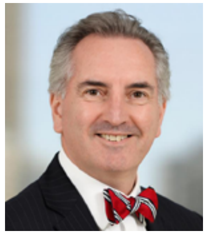
As financial services become increasingly digitised, cybersecurity risk is expected to be more prominent, requiring robust measures to protect sensitive data and systems from potential breaches. Third-party risk will also be a key focus for regulators, as financial institutions continue to rely on external service providers, necessitating careful management of these relationships to ensure security and reliability. Ethical risks will also emerge, as advancements in technologies such as Generative AI raise questions about data privacy, algorithmic bias, and the responsible use of advanced technologies. While AP jurisdictions push forward with the momentum in digitalisation in the FS sector, these risks stemming from technological applications will remain important on regulatory agendas. The ability of digital banks to sustain their innovation and profitability in the face of these challenges also remains uncertain in the current macroeconomic environment. While they may provide enhanced convenience and efficiency for some, they must also navigate and mitigate the risks associated with their operations. Striking a balance between innovation and risk management will be crucial for digital banks to thrive in this modern era of financial services.

Climate change continues to pose ongoing risks to the AP financial market through various channels. The frequency and severity of natural catastrophic events have increased over the past years, impacting FS firms, as well as the communities they serve. For example, property and casualty (P&C) insurers may want to cease underwriting certain risks, or raise premiums to underwrite these risks, to ensure their financial resilience. This can potentially widen the protection gap, leaving the community more vulnerable to climate events. At a macroeconomic level, it is crucial to closely monitor the impact of El Niño on food prices, as weather patterns could result in poor harvest yields, and as such, may intensify inflationary pressures.

Additionally, the transition to a green economy in key AP jurisdictions carries inherent risks that can potentially affect the financial stability of the region. In 2024 and beyond, the AP FS sector will need to continue working closely with policy makers and regulators to improve sustainability reporting, including adopting International Financial Reporting Standards (IFRS) S1 and S2, and enhance climate-related risk management to ensure a smooth transition. Furthermore, FS firms and regulators in the AP region will need to pay more attention to greenwashing, as sustainability-related investment continues to advance.

Asia Pacific Foreword

Overall, as the AP region moves forward in 2024, it must remain vigilant in addressing both the opportunities and risks present in its path to ensure recovery and stability in the financial sector over the long term. This requires proactive risk management, adaptability to changing circumstances, and a keen focus on technological advancements while ensuring compliance with both regulatory standards and community standards.



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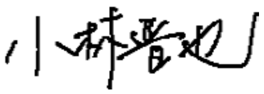

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Macroeconomic Environment and Financial Resilience of the AP Region

Macroeconomic Environment

Given the complexities of factors such as geopolitical tensions, climate shocks, and real estate sector uncertainties, the economic outlook of the AP region presents a mixed picture:

- In Japan, a weak Yen has bolstered exports and inbound tourism, but sluggish domestic demand and limited international demand pose risks to the economy. The Bank of Japan (BoJ) remains cautious about abandoning its negative interest rate policy.
- In Southeast Asia, domestic demand remains a growth factor, but higher interest rates and high levels of debt present challenges to economic recovery.
- Chinese Mainland faces insufficient domestic demand, continued weakness in the property sector, and geopolitical tensions.
- Australia maintains a strong labour market; however, inflation and global interest rates are concerns.
- India has experienced a recovery in domestic demand, with risks stemming from the global economic slowdown and digital disruptions.

Overall, inflation, interest rates, regulatory changes, and industry-specific disruptions are key concerns across jurisdictions in the AP region. Monitoring and adapting to these factors will be crucial for businesses and policymakers alike. The table on the following page (Table 1) provides a summary of key growth and risk factors in the AP economic outlook.

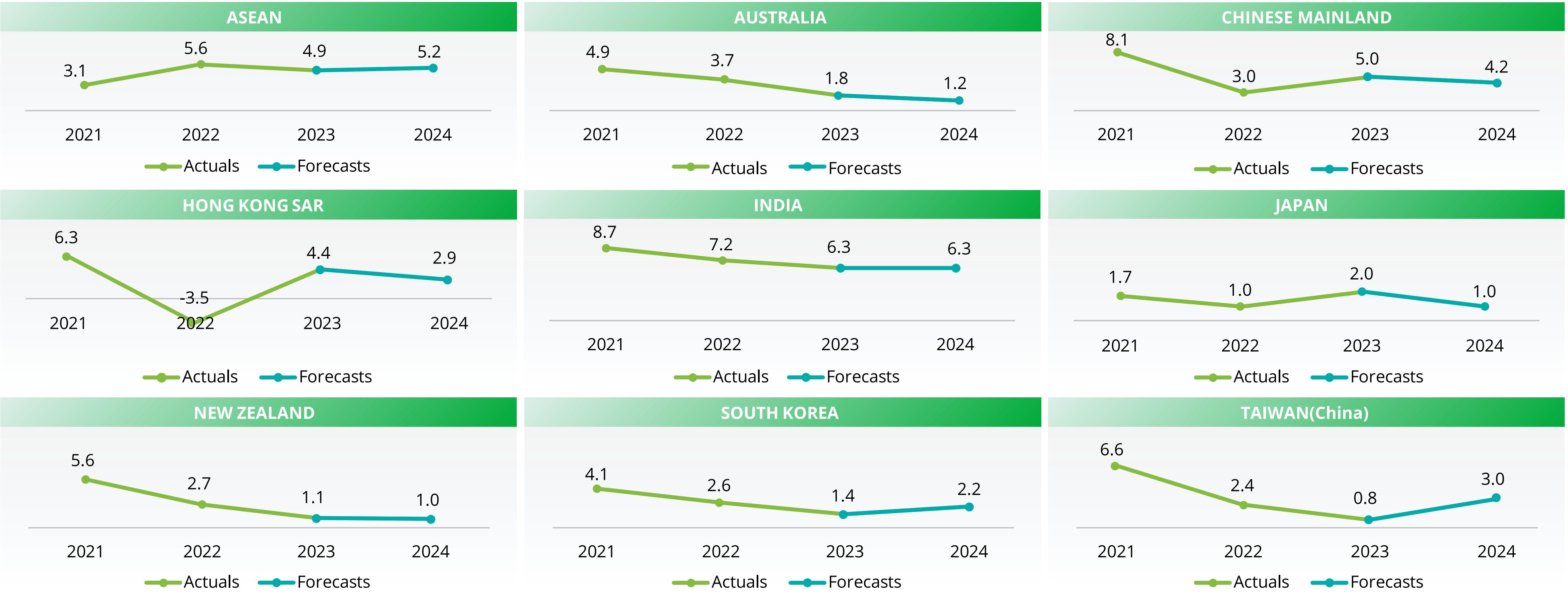
Macroeconomic Environment and Financial Resilience of the AP Region

Table 1: Summary of 2024 economic outlook of key AP Jurisdictions

	Growth factors	Risk factors	Greatest concern from CFO Survey[31]
ASEAN	• Domestic demand robust.[32]	• Higher-for-longer interest rates amidst high debt levels. • Slow recovery of international demand.	Global economic slowdown.
Australia	• Business and households have been resilient to high interest rates.[33] • NBFI risks remain low. • Strong labour market.[34] • Domestic inflation moderates.[35]	• Inflation and high interest rates globally.	Inflation and regulatory change.
Chinese Mainland and Hong Kong SAR	• Policy supports beyond the property sector.[36] • Reopening and revival of domestic tourism.[37] • Continued institutional opening-up of the financial sector.[38]	• Insufficient domestic demand.[39] • Weakness in the property sector, and in exports. • Elevated youth unemployment rate.[40] • Global economic slowdown. Geopolitical tensions.[41]	Regulatory and policy changes.
India	• Recovered domestic demand, rising investment and consumer confidence. • Moderation of inflation.[42]	• Impacts of global economic slowdown through trade. • El Niño impact on domestic food prices.[43]	Digital and technology disruption.
Japan	• The weak Yen bolstered the external sector.	• Inflation. • Domestic demand sluggish. International demand limits exports.	Currency fluctuation risk.

Macroeconomic Environment and Financial Resilience of the AP Region

Figure 5: IMF GDP growth projections of key jurisdictions in the AP region[44]



Macroeconomic Environment and Financial Resilience of the AP Region

Financial resilience in the AP Region

In the first half of 2023, the failures of Silicon Valley Bank and several other regional banks in the US, and Credit Suisse in Switzerland, attracted much attention from both financial regulators and the general public. Although the issues were addressed promptly by the US and Swiss regulators, questions were raised on the effectiveness of bank interest rate and liquidity risk management and resolution regimes, as well as on how to measure and mitigate potential systemic risk stemming from non-systemically important banks. The impacts these events had on the AP region is limited. However, the episodes have prompted regulators to review FS firms' liquidity risk management and resolution regimes, as well as potential risks relating to digitalisation.

Against the backdrop of these developments in the macroeconomic environment, the FS industry in the AP region face the following key risks in terms of financial resilience:

Table 2: AP region key risk factors for the FS industry in 2024

Key risk factors to look out for in 2024

Banking	Insurance	NBFIs and capital markets
Potential credit quality deterioration due to lower debt-servicing ability under the high interest rate environment, especially for smaller banks, and for exposures in weaker sectors such as commercial real estate.	Increased volatility in global capital markets, in particular in lower investment grade assets, challenges insurers' profitability.	Potential sharp and disorderly repricing of financial assets.
Potential for intensified liquidity pressure as higher funding cost persists.	Natural disasters in some AP jurisdictions have impacted the financial resilience of insurers and can potentially widen the protection gap.	Vulnerabilities in NBFIs as a result of the high interest rate environment.

Macroeconomic Environment and Financial Resilience of the AP Region

Banking

The banking sector in the AP region remained resilient throughout 2023, as indicated by financial stability reports of key jurisdictions including Australia, Singapore, Japan, and Chinese Mainland.

However, credit quality of commercial banks is reported to deteriorate slightly in some jurisdictions such as Australia,[45] due to the high interest rate environment, but the loss absorbing capacity of banks remained strong. In Chinese Mainland, the non-performing loan (NPL) ratios of city and rural commercial banks have been increasing rapidly since 2018. The issuance of special local government bonds is expected to accelerate in 2024 to support capital replenishment of these banks.[46] Notably In India, asset quality of commercial banks was reported to have improved in 2023, especially in the personal loan sector.[47] Most jurisdictions in the region have completed domestic Basel III implementation and have met the raised capital standards.

Other contributing factors to a financially resilient banking sector include: regulatory measures implemented during the COVID-19 pandemic, which have helped banks in the region weather the shock, and a low NPL ratio in most jurisdictions.[48]

Insurance

The insurance sector remained sound across the AP region in the past year. However, 2024 may pose some challenges for insurers across the region – extreme weather events in some parts of the AP region are increasing pressure on general insurers' profitability,[49] and potential volatility in the global capital markets and the 'higher-for-longer' interest rate environment may impact insurers' asset side of the balance sheet. For example, in Japan, life insurance companies have reduced their investments in currency-hedged foreign bonds, due to the increase in foreign currency funding costs. If foreign yield curves continue to remain inverted for longer, there could be further downward pressure on foreign bond positions.[50]

NBFIs and capital markets

Credit growth in the NBFI sector accelerated in many AP jurisdictions throughout 2023. Vulnerabilities in this sector have been a key concern for a number of regulators in AP jurisdictions. For example, Chinese Mainland's primary NBFIs rely heavily on Collective Investment Vehicles (CIVs) that consist of fixed-income funds, money market funds and hedge funds as their primary funding instruments. Conversely, Hong Kong SAR and Singapore benefit from hosting international corporations with dollar balance sheets, allowing major global banks in these locations to serve as a source of dollar liquidity. In Japan and South Korea, domestic corporates and smaller banks seek dollar funding from financial market intermediaries and global banks for international operations.[51] Regardless of the form NBFIs take, they share some key risks in the coming year: the 'higher-for-longer' interest rate environment could lead to deteriorating credit quality for NBFIs, and exposure to relatively weaker sectors such as commercial real estate could also impact the NBFIs' credit risk.

Some AP regulators are also concerned about possible sharp and disorderly repricing of assets given uncertainties in interest rate trajectories. Other risk factors include the slowdown of the global economy, persistent geopolitical tension, as well as concerns over real estate sector exposure.

The Future of FS Regulation section in this Outlook will take a closer look at how regulatory priorities focus on addressing these risks.

Macroeconomic Environment and Financial Resilience of the AP Region

Key takeaways for clients

1. FS firms should continue to monitor credit quality of assets, especially smaller size FS firms. While current credit risk stays moderate in the AP region, the 'higher-for-longer' interest rate environment, roll-back of COVID-19 policy measures, together with the high level of household and business debt, remain key risk factors for FS firms in the AP region.

2. FS firms should continue to closely monitor developments in the real estate sector and stay vigilant of vulnerabilities in the real estate sector.

3. Non-bank FS firms involved in credit provision should enhance their capacity to address liquidity risks, and increase their pre-emptive loan loss reserves.

4. Insurance firms should be more proactive in addressing climate-related risks in pricing and overall strategy, including impacts of extreme weather events, the El Niño effect, etc.

Digital Banking

The rapid pace of technological change has impacted the financial services industry significantly over the last few years, providing consumers with convenience-based services such as 'instant' payments and access to new market entrants such as digital banks and 'buy now, pay later' (BNPL) providers.

These developments have benefited from innovation initiatives by regulators, and greater consumer acceptance of 'all things digital'. New market participants, such as digital banks, have promised to 'shake up the traditional banking sector' by appealing to increased consumer appetite for technology driven, streamlined products and services in the retail banking sector. Regulators across the AP region have been keen to encourage the growth of digital banks and increase competition in a market with traditionally high barriers to entry.

Notwithstanding the initiatives introduced by regulators to support innovation and encourage new entrants into the FS sector, many remain cognisant of the potential risks associated with the introduction of digital banks and other non-traditional providers (such as technology companies exploring the provision of financial services to retail consumers). Some of these risks (such as the potential for a bank run) are not new, but may be exacerbated by the ability for consumers to readily withdraw funds. Further, the long-term profitability of many new entrants (such as digital banks and BNPL providers) remains untested, with the potential for these new entrants to disrupt the stability of the financial system one of the top concerns amongst AP regulators.

A digital bank is defined as "a bank which primarily delivers banking service through the internet or other forms of electronic channels instead of physical branches".[52] When it comes to the different forms of digital banks operating in the region, there are mainly three categories:

1. Digital native banks: banks that started independently and are able to provide banking products and services to customers, without any partnership agreement or collaboration with a traditional bank or players from other sectors.
2. Digital banks, which are backed or owned by a traditional bank.
3. Digital banks, which offer banking products and services to customers in partnership or collaboration with players from other sectors, such as an eCommerce or technology company.

Digital Banking

Risks arising from digital banks

Despite the increasing popularity of digital banks in AP, digital banks (especially digital native banks) can face significant challenges. For many digital banks, acquiring and retaining customers can be challenging, time-consuming and costly – particularly when faced with intense competition from established banks and other digital players who have already built a significant brand, customer base and trust. In addition, raising capital, realising profit, and meeting regulatory requirements in a risk appropriate manner are all hurdles that digital native banks need to overcome to build a sustainable business.

These factors, alongside the current challenging economic environment and a higher cost of capital due to interest rate increases in the past year, can make breaking even (let along making a profit) challenging for new digital banks entering the market, particularly 'digital only' banks, that do not have any partnership or collaboration agreement with traditional banks or large players from other sectors.

Further, digital banks also have to contend with similar risks to traditional banks. As such, regulators across the AP region continue closely monitor how digital banks are managing their risks whilst maintaining a lean, and technology-forward operating model. In many AP jurisdictions, regulators have required prospective banks to submit exit plans as part of their licence application process, to ensure an orderly wind-up and exit process in the event of a failure.

Key risks arising from the digital banking sector

Solvency risks in the first few years of operation of new digital banks. The high interest rate environment has contributed to higher funding costs, making it difficult for digital banks to break even or generate a profit. Other factors include the need for substantial investments in technology infrastructure, customer acquisition costs, and the time required to establish a solid customer base. These factors can strain the financial position of digital banks and pose solvency risks.

Digital banks rely heavily on IT systems and technology infrastructure for their operations, making them vulnerable to cyberattacks and potential data breaches. The interconnected nature of digital banking systems, and the vast amount of customer data they handle make them attractive targets for hackers. A successful cyberattack or data breach can disrupt operations, compromise customer information, and damage the reputation and trust of digital banks. Ensuring robust cybersecurity measures and maintaining operational resilience are crucial for mitigating these risks.

Digital banks that rely on non-face-to-face onboarding of customers are prone to money laundering and terrorist financing risks. Scammers may also exploit digital channels to defraud consumers and siphon away their ill-gotten gains.

More broadly speaking, the digitalisation of the banking sector, and the use of social media, could potentially amplify liquidity issues for banks and increase the risk of contagion during a crisis. Digital channels enable rapid and widespread dissemination of information, which can contribute to the rapid withdrawal of funds from banks, leading to liquidity challenges. The interconnectedness of digital platforms may also increase the speed at which a crisis can spread across the banking sector.

Digital Banking

Digital Banking Regulation in Asia Pacific

Across the AP region, the maturity of the digital banking sector remains uneven – with some jurisdictions such as Japan, Australia, Hong Kong SAR and Singapore leading the way, whilst others, such as Thailand, are still in the early stages of consulting on its digital banking framework, with a view to commence acceptance of digital bank licence applications in 2024.

Among the jurisdictions that have issued digital bank licences, Japan, Indonesia and Australia granted licenses to digital banks under the existing licensing framework applicable to traditional banks. Conversely, Singapore, Malaysia and Hong Kong SAR introduced standalone licencing regimes and guidelines for digital banks.

For FS firms and new entrants alike, understanding the current digital banking regulatory landscape and potential risks that could arise in 2024 may help to address some of the concerns held by regulators and consumers alike for this relatively immature sector. Our previous paper, *Digital banks in Asia Pacific: adding value to financial services*, laid out the regulatory requirements for several matured digital banking markets.

Core requirements shared across AP jurisdictions are:

- A credible business plan that demonstrates a sustainable business model;
- A credible plan to meet prudential requirements for new digital banks, and a robust corporate governance framework; and
- A credible contingency plan that includes at least one option to execute an orderly and solvent exit from banking business.

It is worth noting that, although digital banks are supervised under same or similar requirements as traditional banks, transitional arrangements and requirements may apply in the initial years of operation. For example, deposit caps may be applied during initial operating years, such as in Singapore, where digital full banks (DFBs) are subject to a SGD 50 million (USD 37.3 million) aggregate deposit cap at the entry stage, which increases progressively, until eventually removed after the progression stage.[53] AP jurisdictions that are looking to adopt new digital banking regimes intend to post similar requirements. For example, Thailand, which plans to grant the first 3 digital bank licences by the end of 2024.[54]

In its consultative digital bank licensing framework, the Bank of Thailand (BOT) indicated that it will closely monitor and oversee the digital bank's activities in its first 3-5 years of operation. In the event the BOT determines that the digital bank lacks sufficient operational preparedness, or if its planned or ongoing transactions pose risks to the bank's financial stability, the overall financial system, or the welfare of consumers, the BOT has the authority to issue directives to require the digital bank to address the identified issues, suspend or limit the bank's services or transactions, or take any other necessary actions as deemed appropriate by the BOT.[55]

By imposing restrictions in the early stages of a new digital bank's operations, the impact of a potential bank failure on the wider financial system and consumers could be mitigated. Nevertheless, restrictions could also limit the digital bank's ability to break even.

From a financial stability perspective, digital bank failures (such as those in Australia)[56] have so far not presented systemic risk to the financial system. However, liquidity risks, and solvency risks of digital banks will continue to be closely monitored by AP regulators.

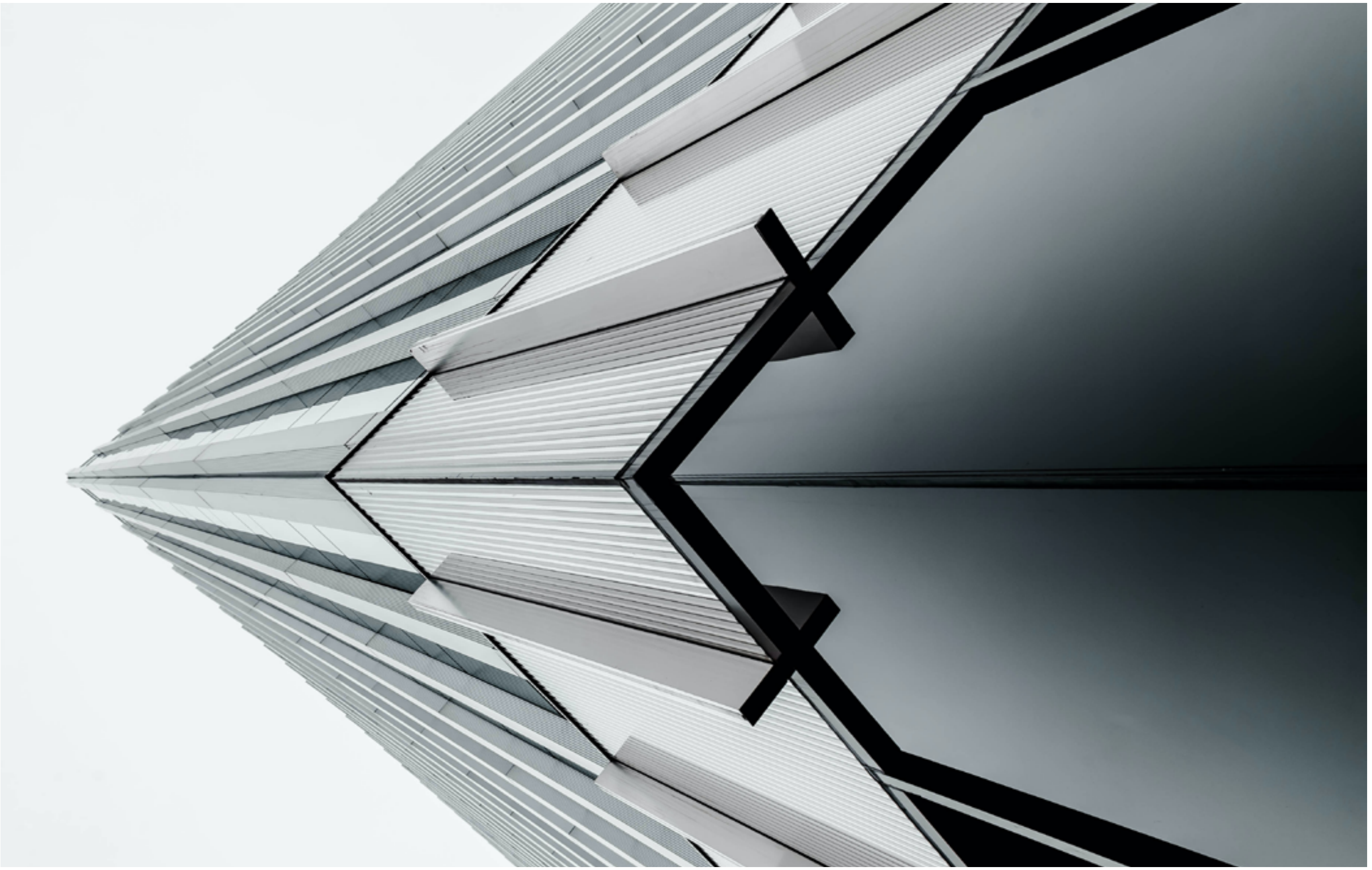
Digital Banking

The high interest rate environment has posed a challenging operating environment for the new digital banks. Other challenges faced by digital banks and what can be learned from the AP cases heading into 2024 include:

1. Digital native banks need to build up knowledge and experience in the financial services sector, especially in risk management and compliance matters.

2. As the digital banking landscape becomes ever more competitive, if digital banks are to become profitable, it is imperative for digital banks to develop and implement strategies to attract and retain customers, whilst continuing to innovate. While some digital banks may be able to benefit from parental support in the short run, they will ultimately need a credible path to profitability.

3. Expanding the customer base by collaborating with a partner can help grow the business and achieve the financial inclusion objectives. However, the terms of such collaboration and the associated third-party risks need to be properly managed.



Operational Resilience

Operational resilience continues to be a priority area of focus for AP regulators in 2024, particularly in the wake of high-profile cyber-attacks and outages. Regulators are paying particular attention to cyber resilience, crisis management and operational risk management practices.

However, progress towards strengthening operational resilience across the AP region is varied, with some jurisdictions such as Hong Kong SAR and Australia forging ahead with implementation of new regulation, whilst others, such as Japan, are in early stages of preparing for implementation.

For FS firms, there are many lessons that can be learnt from jurisdictions ahead in their operational resilience journeys, such as the EU with the *Digital Operational Resilience Act (DORA)*,[57] which at the beginning of 2024, entered its second year of implementation.

Challenges and lessons learnt in operational resilience implementation

	The challenge	Lesson learned
1	Historical approaches to operational risk management in FS have been more focused on internal business processes, and did not always holistically considered the end-to-end process of critical operations/business services.	When identifying critical operations/business services, operational resilience guidelines require FS firms to conduct process mapping from an end-to-end perspective, covering the entire business process (including where elements of the business process are conducted by external third-parties). This shift to end-to-end process mapping requires both time and tailored, role-specific training for internal teams and senior management.
2	Conventional business continuity management previously adopted a predominantly internal lens with respect to the impacts of disruptions to business operations. Operational resilience requires a shift to an 'outside-in' view, and consideration of the systematic implications of disruptions to business operations.	Operational resilience requires FS firms to take a more systematic approach when considering impacts on critical operations/ services and tolerance levels. Beyond impacts on the entity itself, FS firms must consider systemic impacts, including those on their customers and the broader financial system.
3	Operational resilience regulation in the AP region is, in many cases, principles-based, to account for proportionality, sector, and firm specificity. However, in the absence of more detailed requirements, challenges may arise with respect to implementation. For example, at what level of granularity should critical operations/business service be defined?	Taking a considered and justified approach that considers the spirit and intent of operational resilience regulation will help FS firms with implementation activities.

Operational Resilience

Service provider risk management

Increasing cyber-attacks, greater reliance on new and/or unregulated third-party service providers (such as technology companies providing services to the FS sector), and the increasing interconnectedness of the financial system have highlighted the importance of strengthening the operational resilience of regulated entities.

In 2024, strengthening cybersecurity resilience and improving service provider risk management practices will continue to be a key area of focus for regulators both globally, and across the AP region. Several regulators, and global coordinating bodies (such as the Financial Stability Board (FSB)) have published detailed guidance outlining their expectations on what regulated entities should do to build operationally resilient organisations, and have noted the importance of having a robust service provider risk management framework in place.

In December 2023, the FSB published their final report on enhancing third-party risk management and oversight, which included a toolkit for financial institutions and financial authorities. The toolkit aims to support FS firms in the planning, design, and implementation of their third-party risk management frameworks (see Annex for more detail). The report is focused primarily on the provision of critical services, and provides tools to *"help financial institutions identify critical third-party services and manage potential risks throughout the lifecycle of a third-party service relationship."*[58]

Key takeaways for clients

1. Given the time and efforts needed to educate staff and senior management, FS firms should start the implementation journey as soon as possible.

2. For FS firms that are still in the preparatory phases of their operational resilience journey, role-specific training for internal teams and senior management is key to the successful implementation of operational resilience framework.

3. Adopting a shift in mindset, from a traditional and internal focused approach to operational risk management and business continuity management, to an 'outside-in' perspective, is key to supporting robust operational resilience.

4. Maintaining a focus on the spirit and intent of operational resilience will assist FS firms during the implementation of principles-based regulation and guidelines. FS firms should further strengthen third-party risk management frameworks with consideration of the FSB toolkit.

Future of FS Regulation in the AP Region

From new technologies, to emerging risks as a result of challenges to the economic and operating environment, over the last 12 months, we have seen significant changes to the financial services operating landscape.

This has prompted regulators both locally and globally to take stock, and refocus their policymaking, supervision and enforcement priorities for 2024 and beyond.

Across the AP region, regulators continue to transform their regulatory and supervisory approaches to address new and emerging/evolving risks, as well as continuing with prior year programs to build their capability and capacity. In this Outlook, we have observed the following areas of focus for AP regulators in 2024.

Maintaining stability and strengthening the resilience of the financial system

Maintaining the stability and strengthening the resilience of the financial system will continue to be a key theme in financial regulation across AP in 2024. There are three key factors driving this heightened focus: 1) the increasingly complex geopolitical landscape, and its potential to cause further disruption, such as prolonged supply chain issues and heightened market volatility, 2) the interconnectedness of the FS ecosystem, including increasing partnerships with, and reliance on, third-party service providers, and 3) the uncertain interest rate trajectory and the potential for an economic downturn.

As demonstrated by the failure of banks in the US and EU in early 2023, having resilient and well-prepared organisations is critical to the overall stability of the financial system. In the short term, regulators will prioritise maintaining stability and resilience in the financial system, through targeted monitoring of risks and vulnerabilities, and supervisory activities to ensure that banks, insurers, and NBFIs have robust risk management frameworks in place. For example, MAS stated in the recent Financial Stability Review that it will continue to monitor vulnerabilities in the NBFI sector given its systemic implications.[59]

In addition to financial resilience (adequate capital and liquidity buffers), regulators will also focus on strengthening operational resilience (enhancing third-party risk management and cybersecurity measures) and crisis preparedness throughout the FS sector. For FS firms, stress testing and scenario analysis will play a crucial role in assessing the ability of financial institutions to not only withstand adverse events and economic conditions, but recover from these adverse events and restore financial resilience and operations, or exit regulated activity in a timely and orderly manner.

Continued focus on climate and sustainability

Transitioning towards a greener future remains a high priority across AP in 2024 and beyond, with three areas emerging as core areas of focus for regulators across the region: 1) integration of environmental, social and governance (ESG) risks into an organisation's risk management and governance frameworks, 2) supporting the green transition towards net-zero, and 3) improving and aligning climate related reporting and disclosures, whilst safeguarding against greenwashing.

Future of FS Regulation in the AP Region

Managing ESG related risks
The continued focus on addressing climate and sustainability by regulators and consumers alike comes with an expectation that ESG risks, such as climate related financial risks, and social impact risks (the 'S' in ESG), such as labour rights and supply chain risks, are sufficiently considered and integrated into an organisation's risk management and governance frameworks. Regulators across the region have highlighted the need for FS firms to consider how climate related risks and other social impact risks may influence the organisation's strategic objectives and operating environment over the long term, and ensure their risk profile adequately reflects the impact of ESG related risks. This includes revisiting, where necessary, whether existing stress testing scenarios are still 'fit for purpose' based on the organisation's current operating environment and latest available data.

Supporting the green transition towards net-zero
Transitioning towards a greener future remains a high priority across AP. Regulators across the region continue to actively promote green finance initiatives to address climate change risks. For example, the Bank Negara Malaysia (BNM) outlined a strategic priority to *"Position the financial system to facilitate an orderly transition to a greener economy"* in its Financial Sector Blueprint for 2022-26,[60] and in October 2023, as part of Malaysia's Joint Committee on Climate Change, announced a series of initiatives to support the transition towards low-carbon practices and a greener economy.[61]

Elsewhere in the region, regulators such as Singapore's MAS have commenced consultations on proposed guidelines to support the FS industry transition towards a net-zero future. The series of three consultation papers, for banks asset managers and insurers, aims to ensure the proposed guidelines adequately set out the expectations for *"financial institutions to have a sound transition planning process to enable effective climate change mitigation and adaptation measures by their customers in the global transition to a net zero economy and the expected physical effects of climate change."*[62]

The FS sector has long been considered a crucial player in supporting a transition to a greener future. For FS firms, balancing increased regulator, client, and community expectations alongside strategic, profitability and operational objectives will be critical to achieving sustainability goals and the green economy in 2024 and beyond.

Future of FS Regulation in the AP Region

Improving and aligning climate related reporting and disclosures
AP regulators continue to enhance and align their domestic frameworks on climate risk management and disclosure with international standards, such as the International Financial Reporting Standards (IFRS) S1 and S2.[63] Whilst the adoption of international standards across many jurisdictions in AP will result in increased harmonisation of requirements, transparency and comparability, FS firms (particularly those operating across several jurisdictions) should be careful not to take a 'one size fits all' approach.

FS firms should ensure they carefully evaluate the requirements and implementation timelines in their relevant jurisdiction(s), and undertake a comprehensive current state assessment to identify potential gaps and areas for uplift to be addressed (for example, reliable access to quality data) as part of the roadmap to compliance with upcoming climate disclosure standards.

Further, FS firms should guard against greenwashing risk, as regulators are paying closer attention to the reliability of climate-related disclosures, and the threat of misleading product claims.

Digital transformation of the financial services sector

The digital transformation of the FS sector continues to be a priority for many regulatory authorities in the AP region. Regulators are looking to leverage advancements in technology to accelerate digitalisation and enhance efficiencies, reduce regulatory and supervisory burden, and promote the use of digital tools to support financial inclusion and accessibility, and improve the overall customer experience.

Finding the balance between innovation and financial stability
Many regulators across the AP region have outlined long-term strategic priorities to support the digital transformation of the FS sector. However, regulators are cautious of the need to strike a balance between fostering innovation and maintaining financial stability. New entrants, such as digital banks and technology-first financial services providers present both opportunities and challenges for the FS sector.

As noted in this Outlook, there have been several lessons learnt from the recent launch, and subsequent failure, of digital banks in jurisdictions such as Australia and the US. Regulators looking to foster innovation and encourage new entrants – such as digital banks – are looking to these lessons when developing their digital banking regulatory frameworks, to ensure a sound, risk-based approach to help mitigate the risks associated with non-traditional, digital banking operations.

In addition, regulators will be closely monitoring the viability and impact of digitalisation, with a particular focus on 1) how innovation, contributes to financial inclusion while maintaining customer protection, and 2) the resilience and viability of new entrants and their potential impact on financial stability. The digital bank regulatory frameworks in some AP jurisdictions such as Malaysia's *Policy Document on Licensing Framework for Digital Banks*,[64] already capture these elements. Nonetheless, the publication of the Basel Committee's revised (draft) *Core Principles for Effective Banking Supervision*, (incorporating risks related to the digitalisation of finance as 'new risks')[65], will provide impetus for continued emphasis on sound management of digital banking risks.

Future of FS Regulation in the AP Region

For new entrants, conducting a thorough assessment to identify potential risks, and developing a sound risk management framework will be key to meeting regulator expectations and supporting licence applications. For traditional FS firms transforming their business and operations, risk management around third parties, or service providers will be key. Both FS firms and their service providers will be required to ensure effective controls and governance are in place to ensure operational and cybersecurity resilience.

Leveraging data and technology to facilitate the regulatory agenda

Implementing key regulatory measures using data and technology remains a core priority for many AP regulators in 2024 and beyond, with a number of regulators in the AP region (such as Australia's APRA, Hong Kong SAR's HKMA, and Singapore's MAS) having announced data transformation programs and collaboration projects with the tech industry to facilitate their regulatory agenda.

For example, Australian regulators are collecting more data from regulated entities, sharing data between agencies,[66] and continue to invest in their capability and capacity to analyse large swathes of information to obtain deep, evidence based insights on FS firms, third-parties to FS firms, and the broader FS sector. MAS, on the other hand, has launched a digital platform 'Gprnt' for business to report their ESG information.[67] Hong Kong SAR regulators are also considering leveraging fintech to facilitate sustainable reporting and data analysis in the first quarter of 2024.[68] With these deep insights, regulators may be able to agilely identify and respond to emerging risks, and take a more principles and risk-based approach to regulation.

For FS firms, ensuring the accuracy and completeness of data, and understanding of that data is critical, particularly in response to regulatory enquiry. In addition, where data has identified a failure (or potential failure) to fulfill obligations, FS firms should be proactive in communicating to the regulator and other impacted parties, as well as taking necessary steps to close and remediate the breach and reduce the potential negative impact to customer outcomes.

Responding to emerging technologies

In recognition of the rapid evolution of technology, particularly artificial intelligence (AI) tools, policymakers and regulators are responding to calls for the development of regulatory frameworks and guardrails to help guide the use of emerging technology, such as Generative AI tools. Following the passage of the EU AI Act,[69] policymakers and regulators worldwide are likely to accelerate efforts to develop and legislation and regulation around the use of technology and tools driven by artificial technology.

As outlined in our 2023 report, *Generative AI: Application and Regulation in Asia Pacific*, regulators in 2024 will focus on addressing potential risks associated with AI adoption, such as algorithmic bias, data privacy, and ethical considerations, with some prioritising the release of consultation packages for industry feedback. In some AP jurisdictions, such as Australia, policymakers are already moving beyond guidance, working towards strengthening existing laws, and establishing regulatory frameworks to govern the use of AI in the financial sector, ensuring transparency, accountability, and fair treatment of consumers.[70]

Future of FS Regulation in the AP Region

Considerations for organisations when evaluating adoption of AI technologies

How well do key stakeholders (such as your Board, Senior Management and Risk/Compliance teams) within your organisation understand AI technologies? Sufficient knowledge and training on AI technologies and Generative AI is key to ensuring clear understanding of regulatory requirements, and will also help to inform a sustainable, risk-based approach to compliance with the emerging rules.

Consider how AI-related risks fit in with the overall risk management framework. Where appropriate, organisations should consider developing an AI governance framework that is aligned to the overall risk management framework.

In evaluating the use of AI technologies and tools, consider data sources and the existing control framework – is there sufficient coverage to ensure compliance with data protection and privacy rules? How well do existing controls support the prevention of potential breaches in light of the new technologies, particularly in high impact risk domains such as privacy, cybersecurity, intellectual property etc.

Consider the risks and potential impact of using AI technologies on your existing product, service and operating model – for example, does the introduction of AI technologies introduce or increase the risk of consumer harm, intended/ unintended bias, or impact the intended customer outcomes positively?

Future of FS Regulation in the AP Region

Stronger focus on delivering better consumer outcomes

Heightened expectations from consumers and the wider community, particularly with respect to the 'S' and 'G' components of ESG continue to influence regulator priorities. Culture, conduct and transparency continue to be key areas of focus for regulators and FS firms alike – with many jurisdictions moving beyond 'minimum compliance' with product and service regulations, to a more outcomes-based approach intended to protect consumers (particularly vulnerable customers) from harm, and deliver positive financial outcomes to customers.

Protecting consumers from harm remains a high priority for regulators across the AP region, with regulators increasing their focus on failures – whether through direct action (or inaction), from FS firms that result in harm, particularly over the long term. For example, in announcing its 2024 enforcement priorities, the corporate regulator, ASIC reaffirmed its enduring enforcement focus on "*misconduct involving a high risk of significant consumer harm, particularly conduct targeting financially vulnerable consumers,*"[71] alongside an intention to pursue targeted enforcement and surveillance activities to address poor design and distribution of financial products, predatory lending practices to consumers and small businesses, and misconduct resulting in the systematic erosion of superannuation balances.[72, 73]

In other jurisdictions such as Philippines, the Financial Regulators,[74] continue to make progress against the strategic objectives and priority initiatives outlined in the *National Strategy for Financial Inclusion (2022-2028)*, working alongside policymakers to uplift the standard of consumer protection laws, by supporting the passage of the *Financial Products and Services Consumer Protection Act*, and hosting industry 'orientation events' to help regulated entities better understand their new obligations under the Act, as well as to facilitate collaboration and knowledge sharing between participants on self-regulation (compliance) practices.[75]

FS firms focused on delivering better consumer outcomes should closely review their policies and procedures against not only the regulatory requirements, but the outcomes delivered to consumers. Where gaps have been identified, FS firms should be proactive and take considered steps to uplift their practices. This will not only help consumers to avoid harm and poor outcomes, but also help to avoid potentially costly remediation in the future.

Continued focus on capacity building and capability development

In our 2023 Outlook, we discussed how regulators have been transforming their regulatory and supervisory approaches to address new and emerging/evolving risks, as well as their continuing efforts to build their capacity and capability through upskilling, investment in technology, and in some cases, strengthening consultation and partnership efforts with the broader FS industry.

In 2024, AP regulators will continue to invest in strengthening their capacity and capability through better utilisation of technology and data analytics, as well as investing in education and upskilling programs for staff members. For example, ensuring staff are empowered with the right capabilities and sufficient capacity to respond to, and address new and emerging/evolving risks is considered a core strategic priority for the Japan Financial Services Agency (JFSA) in 2023-24.[76]

For FS firms, in 2024, we believe there is a continued opportunity to help shape the future of the regulatory landscape in AP. As outlined in our 2023 Outlook, we believe that to assist regulators in their capacity and capability building, FS firms should continue to actively and constructively engage with policymakers and regulators in the rulemaking process, and be open to sharing insights on industry best practices – particularly for evolving topics such as emerging technologies (including artificial intelligence), digitalisation, and the continued transition towards a green economy.

Future of FS Regulation in the AP Region

Key takeaways

1

Both financial and operational resilience are going to be key themes in the regulatory space across the AP region in 2024. FS firms should proactively assess their capital adequacy and liquidity positions to meet regulatory requirements and embark on the operational resilience compliance journey as early as possible.

2

Regulators across the AP region continue to prioritise protecting consumers, especially vulnerable consumers, and are increasingly moving towards an outcomes-based approach. FS firms should consider the outcomes for consumers when implementing regulatory change, or introducing and/or modifying product and service offerings. FS firms should be proactive and take considered steps to go beyond minimum compliance with regulations, and uplift current practices where necessary, to help deliver positive financial outcomes, while safeguarding consumers from potential harm.

3

Digitalisation will be vital for ensuring profitability of FS firms, as there will be increased competition from new entrants such as digital banks, and even big tech firms. While digitalising their operations, FS firms should ensure the governance and risk management frameworks are updated to reflect the enhanced supervisory requirements on cybersecurity, third party risk management, and even ethical use of AI when applicable.

4

FS firms should ensure that ESG risks, including climate-related financial risks and social impact risks, are adequately considered and integrated into their risk management and governance frameworks. Closing the protection gap in natural catastrophic events will be challenging, but crucial for insurers in building resilience against climate change in AP. In addition, FS firms should actively engage in supporting the green transition, aligning their strategies and practices with regulatory expectations. This includes planning for an orderly transition to a greener economy, and adopting sound transition planning processes to enable effective climate change mitigation and adaptation measures by customers.

Annex

Key elements of the FSB toolkit for financial institutions

FSB toolkit elements	Key considerations for FS firms
Identification of critical services and assessment of criticality	When identifying critical services and assessing criticality, FS firms may consider: 1. The financial, operational or strategic importance of the service to the FS firm. 2. The degree of tolerance for disruption. 3. The nature of data and information shared with the service provider. 4. The substitutability of the service.
Onboarding and ongoing monitoring of service providers	1. Due diligence approaches that can be tailored to the importance of the service. 2. Establishing legally binding arrangements with service providers, including contractual provisions commensurate to the nature of the services. 3. Ongoing or regular activities to identify, manage and monitor the risks associated with the service provider arrangement.
Incident reporting to financial institutions	FS firms are required to detect and address incidents, include those that relate to service provider arrangements. They may also have an obligation to report significant incidents to financial authorities within a specified timeframe. It is important for service providers to also be made aware of obligations relevant to arrangements with the FS firm.

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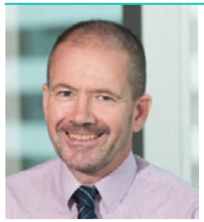

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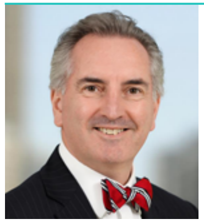

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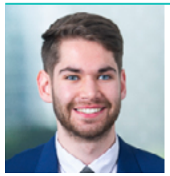

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