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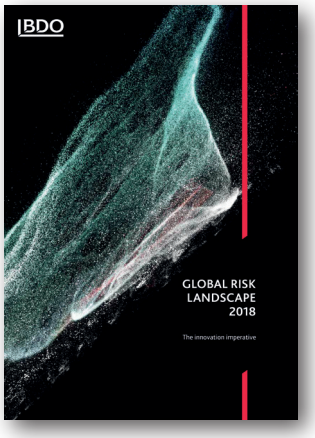
ASIA PACIFIC: A PERFECT RISK STORM AHEAD?



BDO's Global Risk Report 2018 reveals a diverse range of risks on the agenda for business leaders across the Asia Pacific, as fewer than one in five agree their business is sufficiently future-proofed.

FOR MORE INFORMATION:

MARITA CORBETT
National Leader, Risk Advisory Services, BDO Australia

Marita.Corbett@bdo.com.au

RICKY CHENG
Director, Head of Risk Advisory, BDO Hong Kong

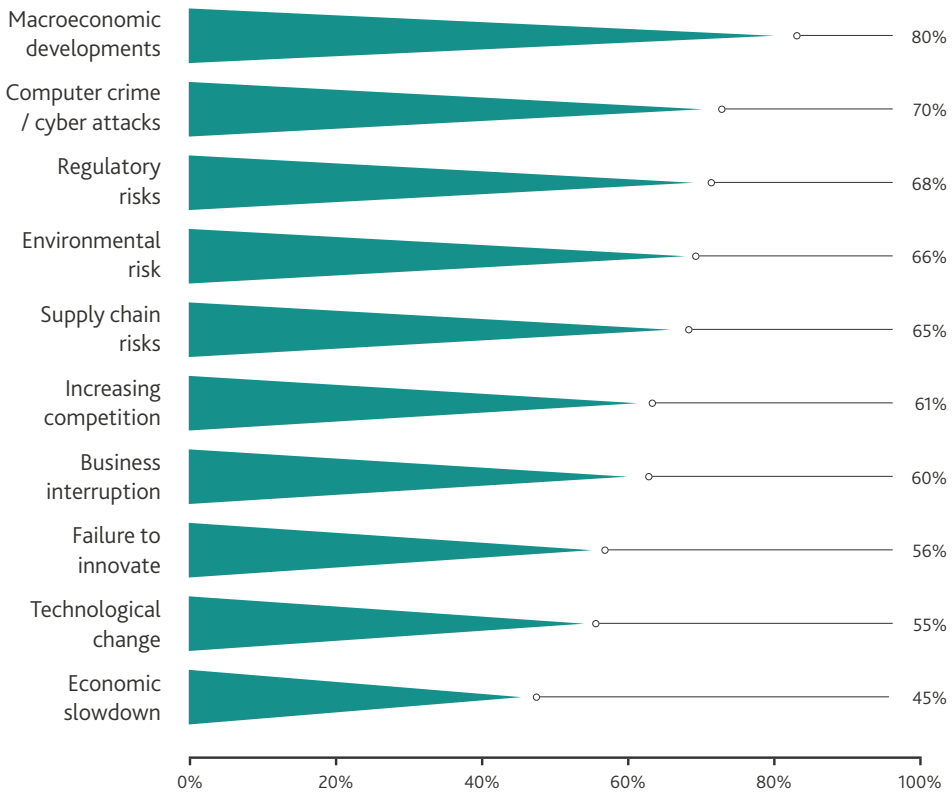
RickyCheng@bdo.com.hk

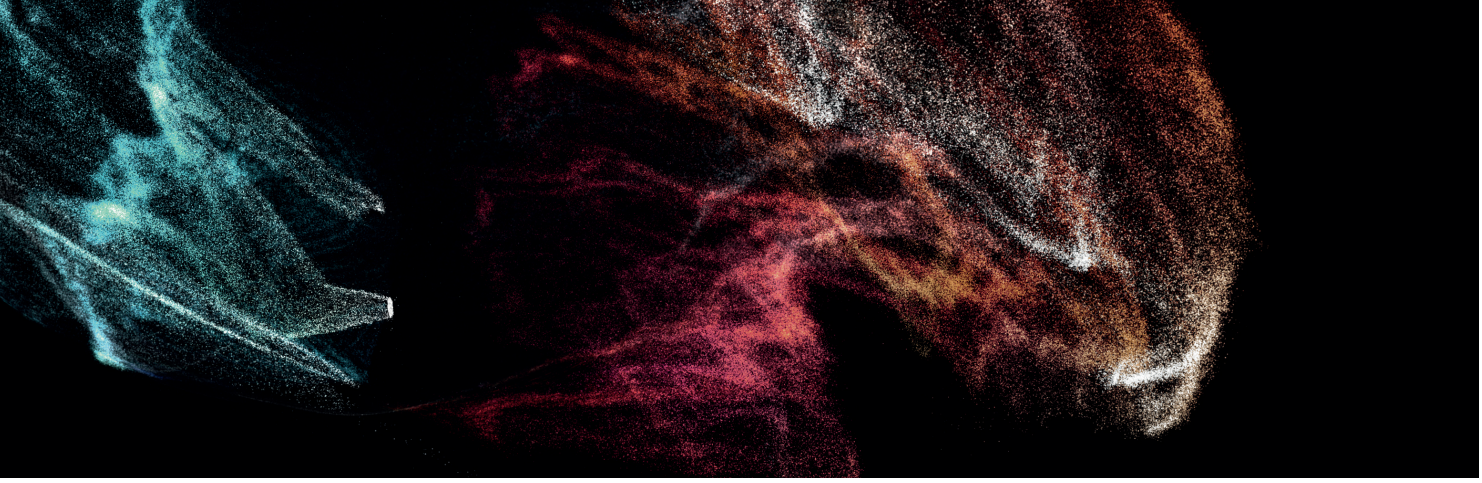
Businesses across the Asia Pacific today face a complex set of interrelated risks, all of which have the potential to derail their future growth and undermine business performance. Disruptive factors such as changing customer behaviour, new regulation and the speed of technological change all weigh heavily on the minds of business leaders.

To uncover which issues pose most cause for concern and how confidently companies in the region feel they can respond to the risks on the horizon, BDO captured the views of 166 C-suite executives from companies across the Asia Pacific.

Our survey results show that the risks facing Asian Pacific companies are diverse. When asked about the risks they feel their company is most unprepared for, 80% of respondents cite macroeconomic developments, closely followed by computer crime or cyber hacks (70%) and regulatory risks (68%). Environmental (66%) and supply chain (65%) risks complete the list of the top five concerns, see Chart 1.

CHART 1: TOP 10 RISKS REPORTED BY EXECUTIVES IN THE ASIA PACIFIC





That so many business leaders are worried about macroeconomic risk can be explained in part by the rise of protectionist economic policies across the globe.

The introduction of tariffs in 2018 on raw materials such as steel and aluminium by the USA has a direct impact on businesses exporting into that market, particularly from China and India[1]. The lack of clarity on the USA's engagement with the Trans-Pacific Partnership (TPP) adds further uncertainty about future global trading opportunities[2].

Heightened macroeconomic risk feeds directly through to growth prospects. For example, the International Monetary Fund (IMF) expects gross domestic product (GDP) across the Asia Pacific to grow by 5.5% in 2018.

However, the gap between advanced and developing countries in the region remains significant. While GDP growth in Australia, Japan, Hong Kong and Singapore is estimated at 3.0%, 0.7%, 2.7% and 2.6% respectively, India, Vietnam and Bangladesh are all expected to enjoy annual growth close to, or in excess of, 7%. The IMF predicts 2018 will see China grow at its slowest rate since 1990, albeit still at a relatively healthy 6.5%[3].

Given the increased frequency and severity of cyber-attacks, it is encouraging to see so many business executives placing this risk high on their boardroom agenda. Financial centres such as Hong Kong and Singapore represent major targets for cybercrime, but no business is immune.

A recent report in The Times of India newspaper suggests that 75% of small and medium-sized business in India have experienced a cyber breach in the past three years[4].

In Australia in 2017, the average total cost of a data breach was $2.51 million[5]. In Hong Kong, more than 6 in 10 (61%) Hong Kong small and medium businesses suffered from a cyber breach within the past three years. More recently, one of the famous broadband network operators has been hacked and as reported, personal data of some 380,000 customers hacked[6].

To offset the risk of cyber-attacks, further investment in security infrastructure and better awareness training for employees will be necessary.

Regulatory risks are also front of mind. The variety of regulatory changes, coupled with the introduction of new financial reporting requirements, mean that Asia Pacific businesses will need to take a proactive approach to managing regulation to ensure continued compliance. While regulators in some key financial markets are consulting the market about the introduction of new listing mechanism such as weighted-average voting rights and attracting new business such as biotech firms, regulators such as Securities and Futures Commission in Hong Kong are putting more strengths in enforcement actions for setting the tone for market practitioners to follow.

of C-suite executives in Asia say greater agility would help their business respond to changing market conditions more successfully.

2018 is expected to be a particularly active year for regulatory change. There are major reforms underway in Hong Kong, Japan and South Korea to reduce working hours and increase minimum wages[7]. Changes in company taxation and scrutiny over financial institutions is on the agenda in Australia. Changes to local data protection regulations are coming into force in many domestic markets, and Asia Pacific companies doing business in Europe will have to make sure they are compliant with the EU's General Data Protection Regulation (GDPR) from May 2018 onwards.

1. Nikkei Asian Review, 'Trump's steel and aluminium tariffs take effect' (March 2018): https://asia.nikkei.com/Economy/Trade-tensions/Trump-s-steel-and-aluminum-tariffs-take-effect

2. Washington Post, 'A Timeline of Trump's Complicated Relationship with the TPP' (April 2018): https://www.washingtonpost.com/news/worldviews/wp/2018/04/13/a-timeline-of-trumps-complicated-relationship-with-the-tpp/?noredirect=on&utm_term=.98cca2ceefa5

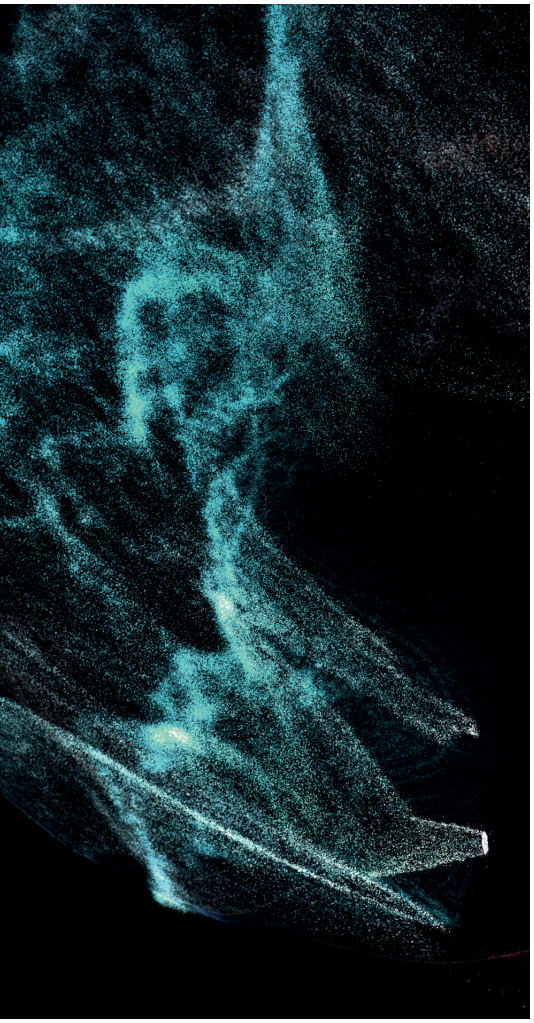
3. IMF, 'Regional Economic Outlook: Asia Pacific Region' (October 2017): https://www.imf.org/en/Publications/REO/APAC/Issues/2017/10/09/areo1013

4. The Economic Times, 'Here's why India's small businesses are sitting ducks for cyber criminals' (October 2017): https://economictimes.indiatimes.com/tech/internet/heres-why-indias-small-businesses-are-sitting-ducks-for-cyber-criminals/articleshow/60921023.cms

5. "2017 Cost of Data Breach Study, Australia – Benchmarked research sponsored by IBM Security Independently conducted by Ponemon Institute LLC, June 2017"

6. "ESET 2017 SMBs Survey" https://www.cw.com.hk/it-infrastructure/61-smes-suffered-a-data-breach-past-three-years

7. Bloomberg, 'Asia's most overworked country succeeds in reducing working hours' (February 2018): https://www.bloomberg.com/news/articles/2018-02-28/asia-s-most-overworked-country-succeeds-in-reducing-work-hours

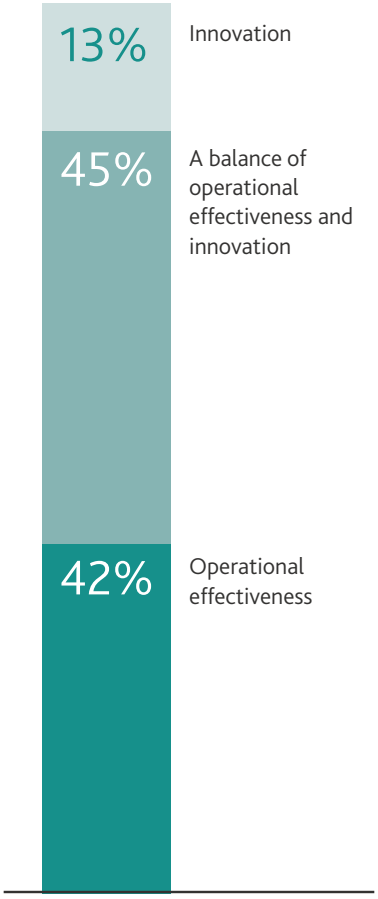


How can businesses weather this encroaching perfect storm of increased risk? In some areas such as environmental risk, leading businesses in the Asia Pacific show a growing appetite for complying with international standards such as ASTM's global environmental standards. Greater transparency helps to address the demand for increased investors and public scrutiny of operations, and supply chains.

In other areas, increased risk and volatility means business leaders will need to become more agile decision-makers and better prepared to adapt their strategy and operations as the external environment changes. Although the benefits of greater agility are recognised by the vast majority (92%) of senior executives, being agile in practice requires improved insight and foresight of the risks on the agenda, and a tighter approach to enterprise risk management.

Our survey reveals that today a greater proportion of business leaders in the Asia Pacific see operational effectiveness as the key driver of success for their company, with far fewer prioritising innovation as their engine for growth, see Chart 2. With so much change underway, businesses in the region recognise they cannot simply rely on business as usual to fuel growth. With only 17% of business leaders in the region agreeing that their business is sufficiently future-proofed, business leaders cannot afford to ignore the multiple risks on the horizon, or the opportunities for business model innovation.

CHART 2: WHICH OF THE FOLLOWING IS MOST IMPORTANT TO THE SUCCESS OF YOUR COMPANY?



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