IDEAS FOR LEADERS | DECEMBER 2018

banking insight

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EXCLUSIVE INTERVIEW WITH LEE LUNG NIEN FELLOW CHARTERED BANKER CEO CITI MALAYSIA

FUTURE-READY LEADERSHIP

A Balancing Act in Trade-Based Money Laundering Compliance

A NEW CYBER FRAMEWORK

GLOBAL FINANCIAL CRISIS DECENNIAL

AT BANKING'S 'TRUE NORTH'?

A decade since the global financial crisis, how much safer are banks today? We review the hits, misses, almost-theres, and future trends.

GREAT TO GOOD

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CONTENTS PAGE

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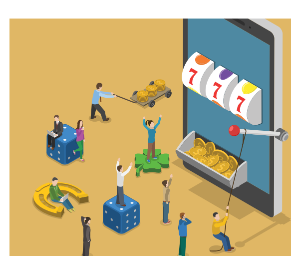


BLOCKCHAIN-ONLY BOND

The World Bank launched the first blockchain-only bond with Commonwealth Bank of Australia on 23 August 2018. The pioneering two-year debt instrument named bond-*i* – which formally stands for 'blockchain operated new debt instrument' but is likely also a silent nod to the continent's famous beach – raised AUD110 million with investors drawn from Australian banks and state treasuries. The uptake and range of state investors reflect the market's keen curiosity in distributed ledger technology. Increasingly, the World Bank has been piloting experimental proof-of-concepts out of its blockchain innovation lab launched in June 2017. These pilot projects are aimed at leveraging the use of disruptive technologies to achieve its twin goals of poverty alleviation and enhanced living standards. ✱

In the first six months of 2018, GBP503.4 million was **STOLEN BY CRIMINALS THROUGH AUTHORISED AND UNAUTHORISED FRAUD.** ~ UK Finance, *Fighting Fraud: Helping to Keep Customers Safe.*

MALAYSIA UPS ANTE ON INCLUSIVE FINANCE

Bank Negara Malaysia, Malaysia Digital Economy Corporation, and the United Nations Capital Development Fund upped the ante on financial inclusion for the nation's middle- and low-income groups with the launch of the Digital Finance Innovation Hub and Inclusive Fintech Accelerator Program. Launched on 26 September 2018, the hub encourages financial institutions and fintech start-ups to innovate and promote financially inclusive technologies to meet the needs of the underserved in Malaysia. Corollary goals include higher economic efficiency in financial intermediation and cost reduction by providing an expanded menu of options, faster provision of financial services as well as more effective utilisation. ✱

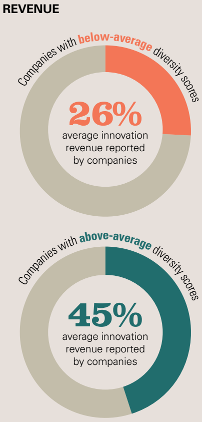
Close to 50% of the adult population in low- and middle-income Asia-Pacific economies **DOES NOT HAVE A BANK ACCOUNT.** ~ IMF, Financial Inclusion in Asia-Pacific.

Diverse Leadership Boosts Innovation

A Boston Consulting Group study suggests that more diverse leadership teams result in more and better innovation and improved financial performance. Companies with above-average diversity in their senior teams clocked significantly better payoff from innovation revenue – 19 percentage points higher compared to companies with below-average leadership teams – as well as higher EBIT margins.

The global consultancy's article, *How Diverse Leadership Teams Boost Innovation,* explained: "People with different backgrounds and experiences often see the same problem in different ways and come up with different solutions, increasing the odds that one of those solutions will be a hit. In a fast-changing business environment, such responsiveness leaves companies better positioned to adapt." ✱

EXHIBIT 1 COMPANIES WITH MORE DIVERSE LEADERSHIP TEAMS REPORT HIGHER INNOVATION REVENUE



SOURCE BCG diversity and innovation survey, 2017 (n=1,681)
NOTE Average diversity score calculated using the Blau index, a statistical means of combining individual indices into an overall aggregate index

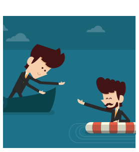
Future-Ready Leadership

BANKING INSIGHT CAUGHT UP WITH LEE LUNG NIEN, CEO CITI MALAYSIA AND A FELLOW CHARTERED BANKER, ON DIGITAL TRANSFORMATION, CLIENT-CENTRIC FINANCIAL SOLUTIONS AND A STRATEGY THAT IS FOCUSED ON SUSTAINABLE GROWTH.

Global Financial Crisis Decennial

AT BANKING'S 'TRUE NORTH'?

A decade since the global financial crisis, **how much safer are banks today?** We review the hits, misses, almost-theres, and future trends.



+ The GFC challenged the theory of 'too big to fail', i.e. that the downfall of certain large, highly interconnected financial institutions would be so disastrous to the status quo that they must be supported by government at any cost.

In 1962, as President John F. Kennedy stood on a podium and announced the winner of a coveted science award, disagreement broke out backstage amongst organisers on how to proceed with the ceremony.

Oblivious that their bickering could be heard over the public announcement system, the president threw a glance over the nervous audience and said drily: "This is the way the administration is really run."

Ten years since the global financial crisis (GFC), time's up for banking to take a leaf out of JFK's book and ask ourselves: "How has this administration really been run?"

Is the financial world any closer to making itself more stable, robust, and ethical?

Here's an overview of the big issues – what we did, didn't and have yet to get right – en route to banking's True North.

TOO BIG TO FAIL

Some survived, some didn't, others grew bigger than before.

The GFC challenged the theory of 'too big to fail', i.e. that the downfall of certain large, highly interconnected

BY AMALINA ANUAR

CENTS AND SUSTAINABILITY

SUSTAINABILITY IS INCREASINGLY RELEVANT TO THE FINANCIAL SERVICES SECTOR, DRIVEN BY ETHICS AND PROFIT. HOW HAVE FINANCIAL INSTITUTIONS PERFORMED AND JUST HOW FAR ARE WE BANKING ON SUSTAINABILITY?

Promoting higher levels of financial inclusion is also a positive sum agenda: In addition to potentially reducing poverty, the banking industry can capitalise on the shared prosperity to be gained from serving the global bottom 40% whose spending power is set to nearly double from US$3 trillion to US$5.8 trillion.

A BALANCING ACT IN Trade-Based Money Laundering Compliance

The complexity in trade-based money laundering compliance…to trade or not to trade?

Over the years, regulators and standard setting agencies categorised trade finance as a "higher risk" business for money laundering, terrorist financing and potential breach of sanctions. Growing complexities and volumes of trade flows create opportunities for criminal organisations to launder proceeds of crime through the international trade system.

Consequentially, financial institutions (FIs) have been facing much difficulty in monitoring and implementing controls in their trade finance business to combat trade-based money laundering (TBML). The problem has been further exacerbated by a lack of clarity in the compliance requirements and regulatory expectations in many jurisdictions.

Whilst controls can be put in place for documentary trade, greater issue lies in open account situations where the FI has far less visibility on the underlying transaction. In documentary trades, regardless of the letter of credit (LC) meeting international and legal standards, where there are TBML and economic sanctions issues, it may still warrant an action from the FIs to report or otherwise take necessary steps to protect the FI, and requires the balancing art of "not tipping-off".

Surely, the unintended consequences of the heightened risk-based approach and regulatory expectations is not to stifle global trade that, in turn, can hurt global commerce by, inter alia, reducing export volumes and increasing transactions cost. There certainly is a legitimate call to balance regulatory wish lists and commercial needs for global trade to thrive. As it stands, the margins for trade

 BY ROBERT SOUSTER

Call of Duty

RULES ARE NOT THE PANACEA FOR UNETHICAL BEHAVIOUR. IT'S NECESSARY ALSO TO **DEFINE THE UNIVERSAL AND INCONTESTABLE DUTIES** OF THE BANKER.

For the last ten years, financial institutions have been working desperately hard to rebuild the trust and confidence of their stakeholders after the seismic events of the global financial crisis. Governments, regulators, even directors and executives of the banks themselves all agreed that change for the better would not just happen on its own, but would have to be driven.

It is now generally accepted that a new, more ethical banking climate relies greatly on acknowledgement of duties. There has been much discussion about how to achieve the appropriate 'tone at the top' and the need to embed the interests of customers and other stakeholders at the heart of everything the bank does. As the majority of banks are joint-stock companies, their primary duty is to maximise shareholder value, but it is clear that this can only be done in a financially sustainable manner by pursuing policies that pay due regard to the interests of customers, employees, the community and even the physical environment. This idea, sometimes referred to as 'enlightened shareholder value', implies that banks need to extend their fiduciary reach beyond customer satisfaction alone.

It is now generally accepted that a new, more ethical banking climate relies greatly on acknowledgement of duties.

Can the duties of banks be codified in some way, and if so, can these codes be used as the basis for transformation? Certainly some banks think so, as it is now unusual to find a bank which does not have some sort of code of practice, code of ethics or other statement of social responsibility. This is probably the most productive approach, because it became quite clear that rules were not a cure-all, especially as some of the most rules-laden systems in the world suffered the same or even more severe problems than less rules-driven systems when the crisis hit them hard. In fact, most professionals are driven by principles, and know that if they adhere to the universally acknowledged standards of honesty and probity, there is less need to rely on copious sets of rules.

The duty-based approach to securing ethical behaviour is built on sound foundations. In the late eighteenth century, Immanuel Kant formulated his concepts of hypothetical imperatives and categorical imperatives as elements of his deontological (duty-based) theories.

A hypothetical imperative arises when a specified action is required to achieve a defined result. In this way, we understand that to become good athletes we have to keep fit and push physical boundaries. To achieve professional competence, we have to study and learn from our experiences.

By contrast, a categorical imperative is an absolute requirement which should apply all the time, regardless of circumstances. When considered in the context of duties of individuals

Trust in the Digital Age

BUILDING A CYBER RESILIENT FINANCIAL INSTITUTION

Highlights from the latest joint study assessing financial institutions' **cyber risk maturity and resilience.**

+ Cyberattacks are now so numerous and sophisticated that some attacks will inevitably get through even with the most robust defence capabilities.

Big Data meets Big Brother

Technology to reduce harmful gambling promises to deliver social good. But how far should banks go to control customer spending? Are we edging closer to China's 'social credit' system, which scores consumers on good or bad behaviour?

With so much valuable customer data available to banks, the question of ethics is never far away. Every financial transaction leaves a digital footprint that can be accessed – and shared. So how should banks be using this data?

It's a question that the gambling and betting industry has been examining in depth. Once characterised by smoke-filled bookies frequented by men, the industry and its