Faradina Ghouse, CB, Group Chief Compliance Officer at AmBank Group and Chairman of the Institute's Compliance Officers' Networking Group (CONG)
"Build and Experience Small Successes"

BANKING INSIGHT

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Ready to Face the Wind

Fortune doesn't always favour the bold.

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Writing the Rules of the Road for Artificial Intelligence

PREPARING FOR WHAT'S AROUND THE CORNER

CAN YOU HEAR ME, GEN Z?

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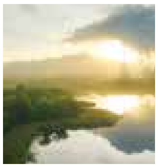

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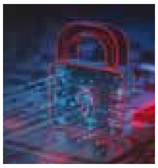

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‘Build and Experience Small Successes’

Reporting by the Banking Insight Editorial Team

When the road ahead is not for the fainthearted.

The dynamic landscape of banking has elevated regulatory compliance from back-office function to a potential competitive advantage. Studies prove that when compliance leaders work hand-in-hand with strategy teams, sustainable structural solutions are possible. Banking Insight taps into the expertise of ***FARADINA GHOUSE, CB, GROUP CHIEF COMPLIANCE OFFICER AT AMBANK GROUP AND CHAIRMAN OF THE INSTITUTE'S COMPLIANCE OFFICERS' NETWORKING GROUP (CONG)***, on scaling structural change and rising to meet the demands of the profession.

READY TO FACE THE WIND

By Angela SP Yap

Fortune doesn't always favour the bold.

WRITING THE RULES OF THE ROAD FOR ARTIFICIAL INTELLIGENCE

By Julia Chong

Global monitor of the diverse regulations designed to create trustworthy tech.

With the masses buzzing about generative artificial intelligence (AI) tools like ChatGPT and DALL-E, many long-established players are finally experiencing the long-awaited boom in the sector. Leading AI-chipmaker Nvidia cleared the USD6 billion profit mark this August whilst OpenAI, the company behind ChatGPT, is reported to be generating over USD80 million in monthly revenues (up from USD28 million for the whole of 2022) after its chatbot became a pay-for-use platform.

These companies currently operate in a relatively burden-free environment. There is no super-regulator and the industry is not heavily regulated; compliance costs are at a minimum as most operate within the known confines of the tech world with such costs already embedded in their day-to-day operations; and, let's face it, it is more creatively and financially rewarding to be a tech nerd in this day and age than it has been at any other time in human history.

However, this is set to change as regulators (and some standard-setters) in major jurisdictions compete to fill the void, each with their own version of the rules and laws to navigate the ethical and governance landmines posed by AI.

As it stands, the diverse approaches adopted by each of the authorities indicate that there is no single approach, no 'yellow brick road' in ensuring AI systems are governed well. It is crucial that bankers, in their roles as both users and financiers, have a birds-eye view of the key drivers, objectives, and guardrails that will shape the trajectory of AI governance in the decades to come.

CHINA

As the world's largest producer of AI research, China is also ahead of the pack in the regulatory space as the first nation to roll out AI regulations. The following are key points excerpted from a July 2023 white paper by Matt Sheehan for the Carnegie Endowment for International Peace, *China's AI Regulations and How They Get Made.* The author relied on the English translations of Chinese legislations for the analysis.

China's AI regulation is the most voluminous and comprehensive issued to date by any jurisdiction. Outlining new technical tools such as disclosure requirements, model auditing mechanisms, and technical performance standards, the following are some of the most visible and impactful laws and regulations issued by the government:

- **Ethical Norms for New Generation AI.** This high-level guidance for ethical norms that should be embedded in AI governance sets moral norms, including ultimate human control and responsibility over AI systems. Issued on 25 September 2021, it is overseen by the country's New Generation AI Governance Expert Committee which sits under one of China's ministries and recommends policies and areas for international cooperation in the field.

- **Provisions on the Management of Algorithmic Recommendations in Internet Information Services.** This first major binding regulation on algorithms was enacted on 31 December 2021, motivated by government fears about algorithms controlling how news and content are disseminated online, specifically ByteDance, the parent company of TikTok, and the 2017 CCP backlash against the app in which user feeds were dictated by algorithms. The

THE CHANGING FACE OF COMPLIANCE

By Bob Souster

Greater reliance on qualitative assessments may be on the cards.

Few functions in the banking industry have seen as many changes in their fields of operation than in compliance. Once regarded as a specialist area with a narrow focus on legal and regulatory matters, the work of compliance departments has expanded in scope and has moved steadily to occupy centre stage. This article examines some of the drivers behind such changes and looks ahead to the challenges of tomorrow.

The traditional view of compliance regarded it as a function that was necessary to ensure that the organisation operated within existing laws, regulations and generally accepted standards. This aligned with a simplistic view that ensuring adherence with rules would prevent undesirable behaviours and hence adverse outcomes to the organisation and its stakeholders. It also led many bankers of the past to be attracted to a 'box-ticking' approach through which the level of compliance would be assessed by the extent to which the organisation operated within legal and other parameters. The global financial crisis of nearly two decades ago shattered the illusion that a rules-based approach was sufficient or adequate.

To many bankers today, the **CRISIS DESCRIBED ABOVE IS EITHER A DISTANT MEMORY OR OCCURRED BEFORE THEIR TIME.** Some younger bankers were still in elementary school when Lehman Brothers collapsed and Northern Rock was rescued by the UK government's intervention. Yet one does not have to go as far back to understand that lessons were not learned and that history can repeat itself.

At the time, bankers became subject to profound public scrutiny, with some contemporary commentators complaining that those responsible for the ethical deficiencies "should have been locked up". But there are simple reasons why nobody (or very few) people were locked up: firstly, some of those responsible for the demise or near-demise of their employers did not break any rules and operated within the letter of the law; secondly, they were actually doing what bankers were then expected to do, which was to make judgments about risks and rewards within the frameworks that existed at the time. In the words of Tracey McDermott, former Director of Enforcement and Financial Crime at the Financial Services Authority (FSA), as reported in the *Chartered Banker* magazine's 2015 article, *The Compliance Balancing Act,* "In the same way as regulators have to stop ourselves reaching for rules, you have to stop yourselves reaching for ever more prescriptive controls to try and fix deeper seated issues. We have learned that rules alone are not the answer – the FSA rule book expanded significantly during the period building up to the crisis – but did it make people behave better? History would suggest not."

To many bankers today, the crisis described above is either a distant memory or occurred before their time. Some younger bankers were still in elementary school when Lehman Brothers collapsed and Northern Rock was rescued by the UK government's intervention. Yet one does not have to go as far back to understand that lessons were not learned and that history can repeat itself. The relatively recent demise of Silicon Valley Bank

Moving Beyond Pledges

By Ira Poensgen

Why transition plans are key for a net-zero, climate-resilient world.

In recent years we have seen a tidal wave of companies announce climate targets, most often in the form of commitments to reduce their greenhouse gas emissions. According to data collected by Net Zero Tracker, over 50% of the world's 2,000 largest companies (covering a total of USD27 trillion in revenue) have set targets to reduce their emissions to net zero. This signals a momentous step change in private sector climate ambitions.

However, establishing the integrity of these commitments is often difficult. Most firms provide limited information about what steps, if any, they are taking today, to meet tomorrow's targets.

Developing and disclosing transition plans are critical next steps in the corporate climate journey. Such plans can serve a myriad of different purposes.

THE VALUE OF THE TRANSITION PLANNING PROCESS

First and foremost, transition planning can be an immensely valuable exercise for the firm itself. For many companies, particularly those embedded in global supply chains, climate change poses a complex and multifaceted challenge. Firms have to grapple with pressures to rapidly decarbonise their own operations and value chain, in a context where the entire economy around them is transitioning in tandem. At the same time, they also need to respond to the increasingly severe physical impacts of the changing climate.

Responding to these challenges requires firms to answer fundamental questions about what role they want to play in tomorrow's economy, and what steps they need to take now to get there.

WHAT RESOLUTION PLANNING MEANS AND WHY IT MATTERS

By Perbadanan Insurans Deposit Malaysia (PIDM)

Trust as the cornerstone in finance.

In the intricate world of finance, trust stands as the cornerstone upon which the entire system rests. However, this trust can be remarkably fragile at times. Even a misstep is capable of eroding the confidence of depositors and investors, potentially impacting not only a single financial institution, but may send rippling effects to the rest of the financial system. One notable example that underscores the fragility of trust is the case of Silicon Valley Bank (SVB) in the US where depositors' widespread panic and loss of trust resulted in the bank's rapid collapse and impacted other regional banks.

An important component of depositors' trust is also the ability of the financial safety net (FSN) authorities to ensure the functioning of the financial system, both during good and bad times. During the failure of SVB, the Federal Reserve, Federal Deposit Insurance Corporation (FDIC) and US Treasury worked together to enhance confidence in the banking system and prevent disruptive failures.

PIDM AS ONE OF THE FSN AUTHORITIES IN MALAYSIA

As one of the FSN authorities, PIDM is mandated not only to protect depositors but also to resolve a failed member institution with minimal cost and impact to the financial system. PIDM works hand-in-hand with Bank Negara Malaysia (BNM) and the Ministry of Finance (MoF) in ensuring trust and confidence of Malaysians in our financial system.

An important element in ensuring trust is for each FSN player to be

T — R — U — S — T

TRANSPARENCY
Transparent communication fosters confidence and helps stakeholders make informed decisions.

RESILIENCE
Ability to adapt and build resilience of the financial system by fulfilling our respective mandates.

UNITED
Collaboration among stakeholders with specialised but shared responsibilities to prepare for an effective resolution.

SKILLED
Having the right and complementary skills, and capability to ensure financial stability.

TOOLS AND POWERS READY
Having in place adequate and effective tools to support the respective mandates.

DON'T FEED THE DISINFORMATION MACHINE

By Kannan Agarwal

Your ad spend could be fuelling this shadow economy.

THE AI IMPERATIVE: RESHAPING CYBERSECURITY IN FINANCIAL SERVICES

By Christophe Barel

THE INTEGRATION OF ARTIFICIAL INTELLIGENCE (AI) WITH FINANCIAL CYBERSECURITY OFFERS EXCITING POSSIBILITIES AND FORMIDABLE CHALLENGES.

FOLLOWING THE MONEY IN SOUTHEAST ASIA

By Amanda Gore

Banks must work with other actors to combat transnational criminal groups.

The 2023 AICB conference was more spectacular than ever this year with the launch of the national scam awareness campaign set to educate local citizens in order to help combat the growing problem of scam centres in the region. With advancements in artificial intelligence (AI) and generative AI, scam centres are becoming more sophisticated and proficient in targeting and scamming their victims. Leveraging technology to alter their voice/face on video calls makes it increasingly difficult to recognise the potential scammer.

In the Malaysian context, Tom Clifford from Feedzai suggests that: "Whilst many measures have been put in place with the Royal Malaysia Police force, these actions are failing to deter the growth in scams in Malaysia recording over 72,000 scams cases resulting in over RM5 billion in losses between 2020 to 2022."

Scam centres are a growing regional issue which was also highlighted in the release of a United Nations Office on Drugs and Crime 2023 report *Casinos, Cyber Fraud and Trafficking in Persons for Forced Criminality in Southeast Asia*. The report highlighted the issue of forced criminality where trafficked victims from up to 40 different countries were trafficked into scam centres that promoted bogus crypto investment scams and/or linked into illegal gambling operations. The report highlights two types of victim:

1. Trafficked persons that are controlled through violence and intimidation; and
2. The scam victims that lose large amounts of money.

Other items of note from the report include:

+ The host countries used in scam operations include Cambodia, Laos PDR, and Myanmar but also increasingly Malaysia.
+ Recruitment agents can play a key role to traffic unsuspecting victims into scam centre "jobs" and then promptly disappear.

Profits were estimated to be between USD7.5 billion and USD12.5 billion for one unspecified country in the Mekong region.

Clifford suggests that real-time detection is the key to better identification of scams and stopping the funds before they leave the bank. Key indicators such as hesitation in clicks, ongoing calls whilst transactions are being made and unusual transactions to new beneficiaries for unusual amounts can all be risk elements to be considered. Outside of this, investment into inter-bank consortium models can also help share identified fraudsters and stop the flow of funds before they become too large.

Preparing for What's Around the Corner

By Chartered Banker, UK

By the end of the 2020s there will be a plethora of new job titles hitherto unknown even among field experts. How can professionals equip themselves and confidently tackle the changes ahead?

In recent years entire economies and industries have been completely transformed as technological developments have advanced leaps and bounds. New technologies have redefined the goods and services consumers demand, reinvented businesses' operations and processes, created whole new industries and sectors, and broken down geographical boundaries.

As a result, the skills, talent and job roles required in this new world will likely be very different to those of the past – while understanding exactly what those will be in such a fast-changing world is difficult. In fact, a report carried out a few years ago by the Institute For The Future (IFTF) forecast that an astonishing 85% of the jobs that will exist in 2030 haven't even been invented yet.

While that statement may feel provocative, a glance at some of the roles that have emerged in recent years supports the notion that there may well be plenty of new ones to emerge between now and the end of the decade. Who in 2005 would have foreseen today's demand for mobile app developers, virtual design and construction consultants, cloud and artificial intelligence (AI) specialists, and blockchain engineers?

And, while the exact roles of tomorrow are difficult to predict, Rachel Maguire, Research Director, IFTF, believes the focus will certainly continue to be on digital. "By 2030, we'll likely be living in a world where artificial assistants help us with almost every task, not unlike the way email tries to finish spelling a word for users today.

"For the humans, for the people who are digitally literate who are able to take advantage, they'll be well positioned to elevate their position, elevate the kind of work they can do, because they have, essentially, an orchestra of digital technologies that they're conducting. They're playing the role of a conductor, but the work's being done, at least in partnership, with these machines." Others also believe that tech and digital roles will dominate the required skill sets of the future. *Forbes,* for example, recently published a report titled *The Top 10 In-demand Skills for 2030.*

Top of its list was 'digital literacy', and *Forbes* predicts more than half of all jobs in 2030 will require an understanding of digital technology. As AI and

DO YOU KNOW OF THE EMOTIONAL BANK ACCOUNT?

By Angela SP Yap

Checking in the right way.

If you are stuck in a rut in your relationships with family, friends, or colleagues, you might want to give this next idea a spin to see if it changes your perspective.

In the evergreen read, *The Seven Habits of Highly Effective People,* author and motivational guru Stephen R Covey writes about the fundamentals of an emotional bank account, a concept he created to assist people in shifting their perspective and enhance relationships at home and at work.

The concept is straightforward. Every relationship we have is thought of as a bank account and each time we interact with that person, we are either depositing into or withdrawing from the reserve of trust in that emotional bank account. Deposits are made through our positive actions – whenever we interact and perform acts of honesty, kindness, or integrity – and a withdrawal is made through negative actions – disrespect, breaking a promise, or ignoring a partner's problem.

Like a regular bank account, you can only withdraw when your account is 'in the black', i.e. you've put in more deposits than withdrawals and the account is in surplus. However, if you have not invested time and effort to build a positive emotional bank balance with a person, you're likely 'in the red' and can't withdraw because of insufficient capital. You will recognise the symptoms – tension, miscommunication, resentment, molehills turning into mountains – and the only way to come back to a healthy balance is to make more deposits.

LITTLE ACTS OF GOODNESS

Covey outlines six major ways to make a deposit, which we've summarised below:

+ **Understanding the individual.** Really seeking to understand another person is probably one of the most important deposits you can make and it is the key to every other deposit. Be mindful though that what might be a deposit for you – going for a walk to talk things over, working on a common project – might be perceived as a withdrawal for the other person if it doesn't touch his or her deep interests or needs. The common denominator is to understand people deeply, the way we want to be understood, and then to treat them in terms of that understanding, without us projecting our intentions onto others.

+ **Attending to the little things.** Little kindnesses and courtesies are big things in a relationship, whilst small discourtesies, little unkindnesses, little forms of disrespect result in large withdrawals. As with many things in life, the scales are often unbalanced and such is the human condition. It takes more investment to build, and very little to break, trust.

+ **Keeping commitments.** This is a major deposit and, correspondingly, breaking a promise is a major withdrawal. Life does throw the

CAN YOU HEAR ME, GEN Z?

By Angela SP Yap & Kannan Agarwal

Banking has its work cut out as younger generations turn to finfluencers and social media for financial advice.

Elbowed out – that's what happened to banks when financial influencers, or 'finfluencers', came onto the stage.

Whether it's about personal finance, investing know-how, or how to get out of debt, finfluencers are increasingly using their social media credibility on platforms such as TikTok, Instagram, and YouTube to provide tips, opinions, and advice about financial matters and are reaching out to younger generations far more effectively than banks.

In the US, almost 80% of millennials and Gen Z get their financial advice from social media, according to a joint survey by Forbes Advisor and market research firm Prolific earlier this year. The same trend is echoed in a 2022 report published by FINRA Investor Education Foundation examining the changing landscape of investors in the US which found that:

60% of investors **aged 18 to 34** use social media as a source of investment information. In comparison, only **35%** of investors **aged 35 to 54**, and **8%** aged **over 55** use social media for this purpose.

More than one in five were relatively new investors with **less than two years** of experience.

These numbers run in tandem with the deteriorating level of trust that the younger generation have of traditional sources of information. Of the 16 industry sectors identified by Edelman, financial services ranked 15th in trustworthiness.

The world's demographics are in the midst of significant change. We explore the potential impacts on wealth and productivity, as well as the long-term effects on banks.

Shifting Sands

By Chartered Banker, UK

The world's population was projected to reach eight billion on 15 November 2022 – more than three times larger than it was in 1950. And based on current trends, the estimates the population could grow to about 8.5 billion by 2030 and 9.7 billion by 2050.

The pace of growth is, however, slowing – with projections suggesting that a peak of about 10.4 billion people will be reached in the 2080s.

The largest increases in population took place in the early 1960s, but the pace of growth has slowed as fertility levels decreased with the greater availability of contraception and as countries developed their economies. Increased levels of education, especially among girls, and more job opportunities for women have also played key roles.

On average, women are now giving birth twice, rather than five times, as they were in 1950. Figures vary across regions, however. In sub-Saharan Africa, women are giving birth more than four times and in the Pacific region, or Oceania (excluding Australia and New Zealand), three times. The result of this is that the populations of 61 countries are expected to drop by at least 1% between now and 2050.

Many Asian countries, meanwhile, have rapidly ageing populations. Japan leads the pack with nearly 30% of its population now over the age of 65 and some other nations in the region are not far behind. And at fewer than 800,000, Japan had record low births last year. South Korea, meanwhile, broke its own record for the world's lowest fertility rate, with the average number of babies expected per woman falling to 0.78.

Here, we examine what these trends mean for economies, banks and their future plans.

INEXORABLE, POWERFUL AND SCARY

Author and former economic consultant Russell Jones says: "I'm always of the opinion that demography is one of those things that never gets the attention it should do because it's such a slow moving process. It's inexorable and powerful, but it doesn't really fit into the five-year or four-year time frame of the electoral cycle. We had this great post-war boom, which was built on very rapid population growth after the Second World War. But nobody ever really mentioned it unless they had to.

"Now we're starting to see a lot of the opposite problems coming through and some of the numbers are really scary. I think the UK is okay by most standards, but in some countries – Japan, South Korea, Germany and Italy – it's really frightening. They're confronted by significant declines in their overall population, but we're all going to have to deal with the fact that the economy won't grow as fast and that we're going to have a huge number of people that we have to look after. And I think that in the next 40 or 50 years, we'll see some dramatic changes in societies, especially if we put climate change on top of that. It's a whole new ballgame."

NASTY SPIRAL

Jones believes that there is a vicious cycle at play. "As we grow more slowly, which we've been doing for some time, the amount of wealth that people can expect during the course of their lifetime declines, and then their willingness to have children is reduced. And then as the willingness to have children falls, economic growth falls. You get into a nasty spiral. I think that's something that is definitely affecting a lot of countries, certainly in Japan and South Korea.

There are, according to Jones, two factors that make economies grow. "One is how many hours are being worked," he says, "and that's very much dictated by how many people a company employs, and

THE INTERROBANG EFFECT: HOW ASKING BETTER QUESTIONS CHANGES EVERYTHING WITH HUMANS AND MACHINES

By Derek Ariss

SECURING SECRETS

By Julia Chong

UP YOUR GAME IN TRADE SECRET RISK MANAGEMENT.

Although it is common for most organisations to already have in place non-disclosure clauses or separate confidentiality agreements to protect their intellectual property (IP), given the rapidly evolving digital landscape and proliferation of new technologies embedded into current work processes, it is prudent for corporations to reassess their secrecy policies and corresponding risks on an ongoing basis.

Most executives are familiar with patent registration and IP protection, a trade secret, however, is more extensive and covers a broader spectrum of intangible assets that are of significant commercial value to a company. Think of KFC's secret herbs-and-spices recipe (which was reportedly leaked on social media recently) or Google's search algorithm. An equivalent in banking could be the banks credit policy or the digital approval keys to its smart contracts.

The established processes and protocols to protect the value of these intangible assets are known as trade secret risk management, an evolving practice that is gaining ground amongst risk professionals as companies increasingly bank on innovation to deliver customer value.

Trademarks, patents, customer lists, business strategies and ops, business processes, formulae, algorithms, software code – essentially any aspect or innovation which gives the corporation a competitive advantage against their competitor – should be defined and protected as a trade secret. In banking and finance, such trade secrets are spread throughout the back, middle, and front offices.

One of the leading authorities governing standards in this sphere is the World Intellectual Property Organization (WIPO), an international United Nations agency responsible for the development of a global IP architecture, which defines a trade secret as follows:

Hold On To A Good Catch

By Dr Amanda Salter

Five ways savvy employers keep their best employees.

A 2022 study by the National Australia Bank found that 25% of Australian workers looking to switch jobs were in the finance and insurance services sector, a worrying increase from 19% earlier in the year. Digital and data workers, one of the most valuable skillsets for a progressive organisation, represented the highest proportion of people looking to change jobs, at 27%. The 'great resignation' is clearly not over yet.

Don't leap to the conclusion that salary hikes alone will solve this problem. Research done by MIT last year showed that compensation ranked only 16th among all the factors that influence employee turnover. Temporary measures such as off-cycle wage reviews are kind but difficult to rollback even if inflation falls. So, what else can be done to keep hold of your most valuable employees?

Here are five avenues that forward-thinking banks can explore.

1 FIX YOUR SPECIALIST CAREER PROGRESSION PATHWAYS

Many organisations promote their best individual contributors to management based on their technical skills. If you have a fantastic data scientist, the sensible reward is to promote them to the next level as a data science manager. Right?

Wrong. This is the classic 'Peter principle' – a part-satirical management concept by Dr Laurence J Peter and Raymond Hull to describe how people in hierarchical organisations tend to rise to "a level of respective incompetence" – in action, and can be a costly mistake. Don't assume that everyone who can do a highly skilled job at expert or master

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