Mohd Rashid Mohamad, CB, Group Managing Director / Group Chief Executive Officer of RHB Bank Berhad
'Opportunities Amidst Challenging Times'

BANKING INSIGHT

IDEAS FOR LEADERS | JUNE 2023

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Crypto's 'Whoa, Nelly!' Moment

Basel is Cracking the Whip with its New Global Standard

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WHEN ALGOS GANG UP

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‘Opportunities Amidst Challenging Times’

Reporting by the Banking Insight Editorial Team

Where customer experience is a key differentiator.

Our exclusive interview in this edition of Banking Insight taps the acumen of ***MOHD RASHID MOHAMAD, CB, GROUP MANAGING DIRECTOR/GROUP CHIEF EXECUTIVE OFFICER OF RHB BANK BERHAD,*** whose decades-long career is a unique meld of his experiences as an ex-regulator and subsequent practice as an international banker. He is an AICB Council Member and also serves on the Institute’s Human Resource Committee.

Q *Global banking is sailing through some choppy waters right now, stemming from a crisis of confidence in the US. Off the bat, what could this mean for banks in Asia and how should we prepare for not just this event, but any future crisis?*

Throughout my 30-year career, the markets have definitely evolved over the years and I have witnessed various financial market milestones in different capacities, including:

+ Asian financial crisis 1997/98;
+ Global financial crisis 2009;
+ European debt crisis 2011/12;
+ Covid-19 pandemic 2020/21; and
+ SVB Bank run 2023.

I have always believed that there are opportunities amidst challenging times. I have learnt a

CRYPTO'S 'WHOA, NELLY!' MOMENT: BASEL IS CRACKING THE WHIP WITH ITS NEW GLOBAL STANDARD

By Angela SP Yap

Countdown begins to bridle an unregulated asset class.

Cryptocurrencies' 'Wild West' days are numbered. What began more than a decade ago as a project to create an independent virtual currency, cryptoassets today – like bitcoin and ethereum – have morphed into flashpoints of financial instability and a hotbed for illicit activities.

Since the stablecoin meltdown of TerraUSD in May 2022 (which we've tackled in previous commentaries of crypto hype in *Banking Insight*), the cryptocurrency ecosystem has been battling to stay afloat in this 'crypto winter'.

Bitcoin, widely regarded as the bellwether for cryptocurrency assets, has dipped below the psychological threshold of USD28,000, whilst ethereum, another popular cryptocurrency, has lost more than 60% of its market value.

WHEN ALGOS GANG UP

By Angela SP Yap

ARE BOT-DRIVEN PRICING MECHANISMS THE NEXT NEW CARTEL?

Collusion.

It's almost as old as business itself. To cop a line from that old Cole Porter tune, "Birds do it, bees do it. Even educated fleas do it."

In the digital age, that 'educated flea' looks very much like a computer. Quick, efficient, and devoid of values, the widespread use of self-learning machines has introduced a deluge of new-age antitrust dilemmas in business.

CODE TO COLLUDE

Think of David Topkins, founder of an online poster store, whose self-coded algorithm was designed to fix the prices for certain posters in collusion with other suppliers on Amazon Marketplace. The US government slapped Topkins with a USD20,000 fine – which he promptly settled – but the case garnered headlines because it involved a disproportionate amount of force against a nondescript online retailer for an inconsequential sum of money.

In a public statement, the US prosecutor, Assistant Attorney General Bill Baer, said, "We will not tolerate anticompetitive conduct, whether it occurs in a smoke-filled room or over the internet using complex pricing algorithms." Word on the street though was that the real motivation behind the case was to gain access to Topkins' code.

Such algorithms are deeply embedded in today's commerce. There's rush-hour surge pricing when hailing a Grabcar and automated price-bidding on platforms like eBay and Amazon.

In 2011, a price war ensued when two competing online booksellers used Amazon's algorithmic pricing tool to automatically change their retail price based on the other store's price. The retail

Will Carbon Capture Find a Captive Audience?

By Kannan Agarwal

Solutions at the forefront of green finance in the region.

As economies in the Asia-Pacific region seek to decarbonise and transition to net zero by 2050, many predict that the demand for cross-border export of CO_2 is set to increase and the region is naturally positioned to reap the benefits of the decarbonisation economy. Recent deals indicate that the region is already positioning itself to reap the benefits of this nascent economy.

In November 2022, the national petroleum company Petronas green-lighted Malaysia's first carbon capture, utilisation and storage (CCUS) project in the Kasawari gas field, 200km off the coast of Bintulu. Once completed by 2025, it will be the world's largest offshore CCUS project, capturing over 3.3 million tonnes of compressed carbon dioxide (CO_2) via a 135km pipeline where it will be injected into a depleted reservoir.

In March 2023, another Malaysian state energy company, Petroleum Sarawak, was granted its first CCUS licence to unlock and commercialise the state's stranded sour gas reserves, which covers CO_2 as well as sulphur.

The International Energy Agency defines CCUS as "a suite of technologies that can play a diverse role in meeting global energy and climate goals. It involves the capture of CO_2 from large point sources, such as power generation or industrial facilities that use either fossil fuels or biomass as fuel. The CO_2 can also be captured directly from the atmosphere. If not being used on-site, the captured CO_2 is compressed and transported by pipeline, ship, rail or truck to be used in a range of applications, or injected into deep geological formations (including depleted oil and gas reservoirs or saline aquifers), which can trap the CO_2 for permanent storage."

Whilst commercial projects are on the move, the regulatory landscape in Asia Pacific is travelling at a more languid pace. With the exception of Australia, other CCUS storage countries in the region have yet to establish a specific policy or regulation of CCUS technology.

ESG AND SUSTAINABILITY REPORTING: CHALLENGES FOR BANKS

By Bob Souster

How to navigate the social / environmental dichotomy.

With increasing public concern about the adverse effects of climate change, there has been a shift in the demands of stakeholders of banking organisations, including customers, shareholders, regulators and the communities in which they operate. While customers once focused on safety and security of deposits and receiving a reasonable return on their deposits, many now consider whether they are dealing with providers that act in an environmentally positive manner.

For many shareholders and potential investors, capital allocation decisions are influenced by the sustainability policies of companies in which they invest. Governments and regulators are turning their attention away from purely financial performance metrics and towards a broader range of indicators which help them to assess companies in respect of their environmental, social and governance (ESG) performance. These changes are permanent, creating new demands, and these will continue to evolve in the future. They will have to be taken into consideration when deciding what information to provide to stakeholders, how the information should be provided and the support necessary to ensure that the information is credible and reliable.

ESG

Though often dressed up in different words and phrases, banks have been familiar with the need to implement sound ESG policies for some time. Even before the Paris Agreement was signed in 2016, many banks proclaimed their commitment to corporate social responsibility (CSR) and some financial institutions were even founded on the basis that they would operate ethically, with a strong social and environmental dimension to their mission and objectives. Examples include Banca Etica (Italy) and Triodos Bank (Netherlands). In 2021, a United Nations initiative prompted the formulation of the Principles for Responsible Banking, initially signed by 129 founders and now supported by over 300 organisations. There is no doubt that ESG is the way to go.

> Governments and regulators are **TURNING THEIR ATTENTION AWAY FROM PURELY FINANCIAL PERFORMANCE METRICS AND TOWARDS A BROADER RANGE OF INDICATORS** which help them to assess companies in respect of their environmental, social and governance (ESG) performance.

Banks have a powerful role to play in promoting global sustainability and many commentators agree that they should accept a moral obligation to play their part. A bank can be a force for good in many ways, through lending, investing and advising clients that are committed to noble social and environmental goals. But this can create new problems and challenges, some of which must be managed extremely carefully. Even with the very best intentions, a bank may find itself supporting a client that purports to be a sustainable company, only later to discover that it is anything but sustainable.

The stark reality is that the bank cannot be technical experts in every

The Crisis-filled Clouds Do Have A Silver Lining

By Chartered Banker, UK

The financial sector is not immune to the effects of climate-change-induced physical devastation; nor can it absorb the costs of transitioning to a greener economy, posits Dr Edward Thomas Jones, Lecturer in Economics.

The G20 forum and the Financial Stability Board (FSB) have both pointed out that climate change is a threat to the stability of the global economy. Studies have shown the link between natural and man-made environmental risks, which include climate change, and economic and financial risks. As former United States Vice President Al Gore might say, there is an "inconvenient truth" that climate change is a systemic threat to financial stability.

HELL AND HIGH WATER

More recently, bank losses have materialised due to physical risks and transition risks arising from impacts on the environment. Physical risks include the effect of environmental risks on infrastructure, agriculture, businesses, and individuals. In the early 21st century, the frequency and intensity of hurricanes increased significantly, causing much greater damage to coastal economies, particularly in the Caribbean, the US and Southeast Asia.

One of the costliest natural disasters in American history was Hurricane Katrina, which hit the Gulf Coast states of Alabama, Louisiana, and Mississippi, including the city of New Orleans in 2005, causing economic damage costing at least USD186 billion. The effect of the hurricane led to high loan losses for banks that had exposure to the impacted areas, leading US regulators to review the adequacy of bank risk models regarding credit risk and hurricanes.

Hurricanes haven't been the only recent natural event to cause considerable financial loss. California's continuous battle with drought, along with unusually high temperatures and dry vegetation, has contributed to devastating fire seasons. For example, Wang et al (2021) estimate that wildfire damages in 2018 totalled USD148.5 billion, which was approximately 1.5% of California's annual gross domestic product.

With increasingly severe storms, floods, and fires, many forecasters envision a crisis that pivots from the physical to the economic. The growing fear is that widespread damage to property serving as collateral for loans and to assets underpinning other investments could cause devastating financial blowback to banks. If sea levels

The effect of the **HURRICANE LED TO HIGH LOAN LOSSES FOR BANKS THAT HAD EXPOSURE TO THE IMPACTED AREAS,** leading US regulators to review the adequacy of bank risk models regarding credit risk and hurricanes.

THE HEAT IS ON

By Julia Chong

Be ready for more prescriptive climate regulation in finance.

FORGING BUSINESS RESILIENCE IN A POST-QUANTUM WORLD

By Christophe Barel

In a not-too-distant future, the maturing of quantum computing technology could prove devastating to institutions unprepared for its impact on cybersecurity and business risk.

For many business leaders, quantum computing is a far-in-the-future consideration, as the technology is still in its early development stages. Significantly more powerful than classical computers, quantum computers use qubits instead of bits, which makes them capable of performing difficult calculations, navigating complex algorithms, and breaking current encryption methods.

With such capabilities, quantum computing presents many opportunities for optimising operations, performing complex risk analysis, and other boons to business. However, the same technology could arm cybercriminals with the most potent tool yet in their ever-evolving arsenal. Financial institutions must prepare their information security systems to move to post-quantum cryptography (PQC) today to be resilient in the face of tomorrow's threats.

CHANGES TO EU CLIMATE POLICIES ACCELERATE NEED FOR ADAPTATION OF MALAYSIA'S SUSTAINABILITY FOCUS

By Raja Amir Shah Raja Azwa

Opportunity for Malaysia to relook at sustainability framework and reinforce progress made in integrating sustainable business practices.

The climate change policy agenda got another significant boost in December with the European Parliament's passing of legislation that would apply tariffs on imported products based on how much carbon dioxide is used in their production.

Specifically, European companies that import products which are highly carbon-intensive in their production will have to buy carbon credits to cover the value of the carbon dioxide emissions that they embody. These products include iron, steel, cement, fertilisers, aluminium and electricity.

The production of industrial goods in this list currently collectively account for around 13% of global emissions, while energy, which includes electricity, accounts for around 73% of global emissions.

Concurrently, early December saw the European Union (EU) pass similar laws relating to commodity suppliers in palm oil, cattle, soy, coffee, cocoa, timber and rubber having to prove their products are not derived from land subject to deforestation.

There is no denying that these policies are likely to be challenging for large exporters of these products to Europe, including Malaysia, which could see demand for their exports fall. But the reality is that this is the direction of travel for policy. While this will be challenging in the short run, there are also clear long-run opportunities. These policy changes help to better align the price signals to encourage a faster energy transition, which should help to mobilise investments that are needed to make it happen.

The main objective is to limit the use of fossil fuels and the impact of deforestation to thus lower carbon dioxide emissions. The necessary reaction is to be clear-eyed about these policy changes and for countries to adapt and work out what are the opportunities. It also offers the potential to markets like Malaysia to demonstrate the strides they're making in areas like deforestation and other sustainable practices which can be a differentiator to other countries.

VIRTUAL REALITY: REAL SALVATION IN THE MENTAL HEALTH SPACE

By Shein Shanin

Metaverse platforms could change the game in a post-Covid world.

The year is 2020. Like many in the world, Michelle is feeling isolated and depressed. Living alone in her small New York apartment, Michelle learns that her mother in Texas has just passed away from Covid-19. Unable to go out and seek help, her colleagues at the bank, who see her via video calls, notice a change in her usual bubbly demeanour but aren't able to provide physical or mental support. Her work begins to deteriorate and eventually, she worries that she might lose her job.

Enter virtual reality (VR), a simulated experience that uses 3D head-mounted devices (HMDs) and pose-tracking technology to immerse users in a digitally constructed world.

In the VR world, Michelle discovers *Death Q&A,* a digital space for individuals to open up about grief, loss, and mortality under the veil of anonymity. Creating an avatar, she attends the weekly hour-long sessions on the platform together with dozens of other people – each represented by an avatar to protect their identity – who come together to candidly express their deepest, darkest feelings shared with no one else…except other avatars in the metaverse. Free from the fear of judgment, Michelle has finally found her tribe.

But what exactly is the metaverse? Simply put, it is an immersive virtual world that is accessed using VR or augmented reality HMDs. The metaverse is where physical and digital lives overlap and has been called an "embodied internet" by Mark Zuckerberg, CEO of Meta (formerly Facebook).

Like many other metaverse platforms, *Death Q&A* is littered with avatars, providing a form of escapism and anonymity that is increasingly becoming a way for many like Michelle to regain control of their mental health. However, it needs to be pointed out that these types of virtual platforms are not a replacement for therapy but an accessible alternative for people in times of need.

MENTAL GOES BOOM

A study by the World Health Organization (WHO) found that 30% to 80% of people with mental health challenges never seek treatment. This is due to numerous complex reasons, including stigma, a lack of awareness, limited access to treatment or resources, financial constraints, or a sense of bereftness in seeking much-needed support.

However, when offered treatment by their employers, the uptake by staff speaks for itself. According to a July 2022 survey titled *Banker Burnout: A Temperature Check* of over 200 financial service professionals jointly produced by UpSlide and Censuswide:

- 72% of investment bankers are considering leaving the industry to avoid workplace burnout;
- Only 2% of investment banking employees believe they have a good work-life balance; and
- 32% of investment bankers would like greater support for mental health, including regular check-ins and offers of medical consultations.

SIGNPOSTING SOURCES OF SUPPORT

By Chartered Banker, UK

What's The Right ESG Framework For You?

By Julia Chong

Deciding on the best sustainability reporting standard for your organisation.

As environmental, social, and governance (ESG) standards take centre stage, there is healthy competition when it comes to sustainability reporting initiatives. Corporations that are eager to redefine their value by incorporating ESG metrics have a range of competing systems to choose from.

Navigating the landscape of sustainability reporting can seem daunting and is not for the fainthearted. At last count, in April this year, the Grantham Research Institute on Climate Change and the Environment listed 3,144 policies and laws related to climate change alone, excluding other sustainability-related regulations.

The Task Force on Climate-related Financial Disclosures' (TCFD) notes encouraging progress in its 2022 *Status Report* as all regions significantly increased their levels of disclosure over the previous three years. The average level across the 11 recommended disclosures was 60% for European companies (+23 percentage points since fiscal year 2019); 36% for Asia Pacific (+11 percentage points); and 29% for North America (+12 percentage points).

Although on the uptrend, there is still a long way to go for organisations to achieve their respective sustainability commitments.

In line with the global transition to a low-carbon economy, on 26 September 2022, Bursa Malaysia announced enhanced sustainability reporting requirements for Main Market- and ACE Market-listed issuers, in accordance with international best practices. Julian Hashim, Chief Regulatory Officer of Bursa Malaysia, stated: "Come 2025, all Main Market-listed issuers will be

Taking The First Step with Nature: The Next Risk Frontier

By Divyaasiny R Rajaghantham and Wan Noorfatin binti Wan Mohd Zani

Imminent threats of the nature crisis demand swift and decisive action.

The past decade has witnessed an unprecedented decline in nature. Nature loss is also inextricably interlinked with climate change, and achieving global goals for addressing one cannot be in isolation from the other. With half of the world's total gross domestic product, approximately USD44 trillion, being moderately or highly dependent on nature, nature loss has far-reaching consequences not just for the ecology, but also for the economy.

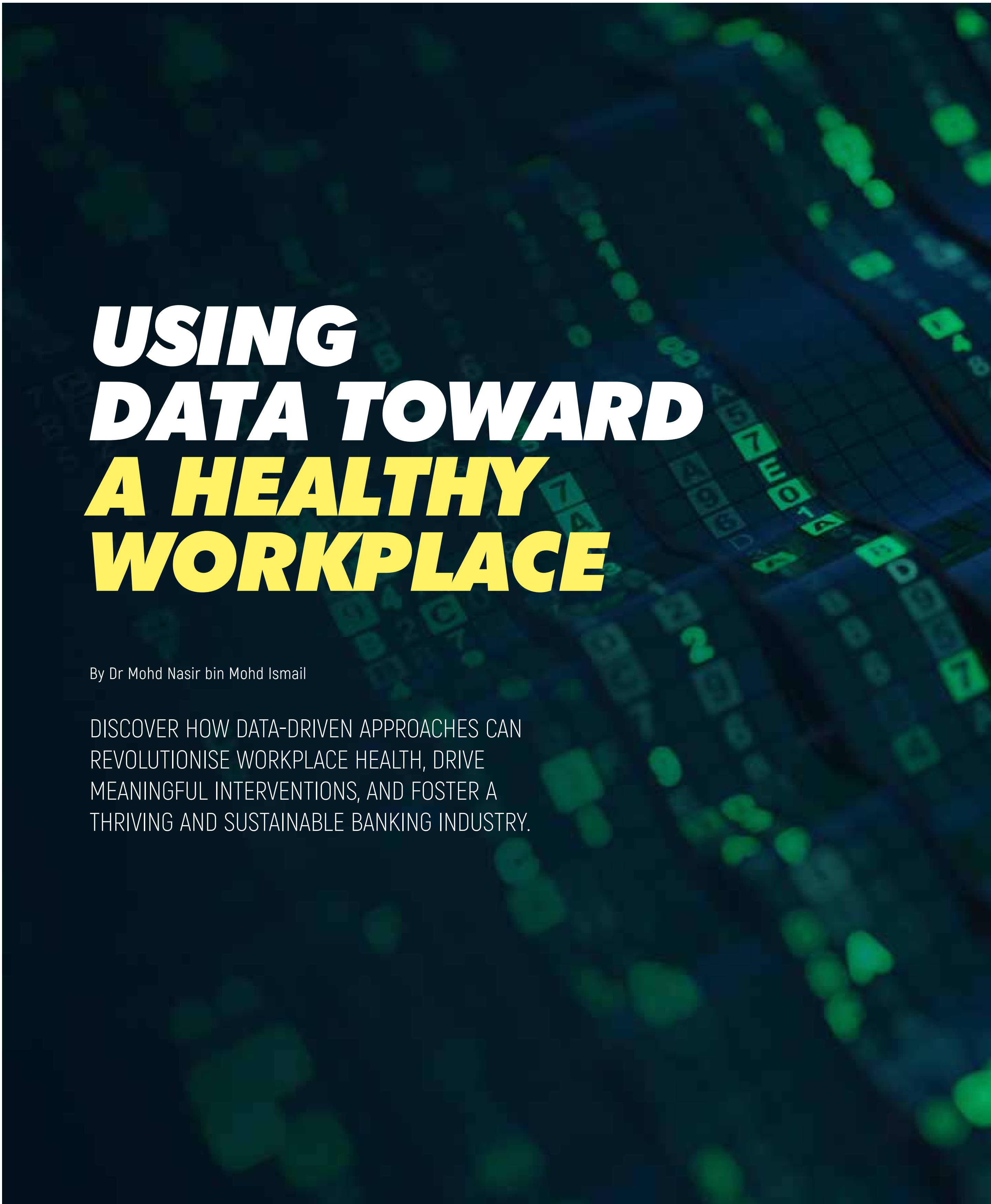
While the climate debate has synthesised around the Paris Agreement's ambitions to keep global warming below 1.5°C, there has been no equivalent target to spur nature action until now. Last year, representatives from 196 countries, including Malaysia, convened in Montreal, Canada, for a global summit that ended with a landmark biodiversity agreement, known as the Global Biodiversity Framework (GBF), to halt and reverse biodiversity loss by 2030. The significance of this landmark deal lies in the fact that countries can now refer to the GBF's overarching goals and targets as their 'North Star' to guide biodiversity agendas at both national and sectoral levels.

The World Economic Forum has flagged biodiversity loss as a critical threat over the next decade, making it clear that addressing nature loss is an urgent priority. According to the Global Forest Watch annual forest analysis, our planet lost 3.75 million hectares of tropical primary forest in 2021, equivalent to the size of one football pitch, every six seconds. Given Malaysia's status as one of the world's megadiverse tropical countries, the country's rapid economic development has heavily relied on its abundant natural resources. As a result, we inherently face high economic exposure to nature-related risks, which makes us vulnerable to changes in biodiversity and its related ecosystem services.

UNDERSTANDING NATURE-RELATED RISKS: IMPACTS, DEPENDENCIES, AND FINANCIAL IMPLICATIONS

Fundamental to managing nature-related risks is understanding how the financial sector is exposed to them. According to the Network for Greening the Financial System, nature-related risks arise from the impact-dependency relationship between an organisation with nature, which may affect the economic performance of the organisation and subsequently pose financial risks to the financial institutions that are financing, investing, or underwriting them.

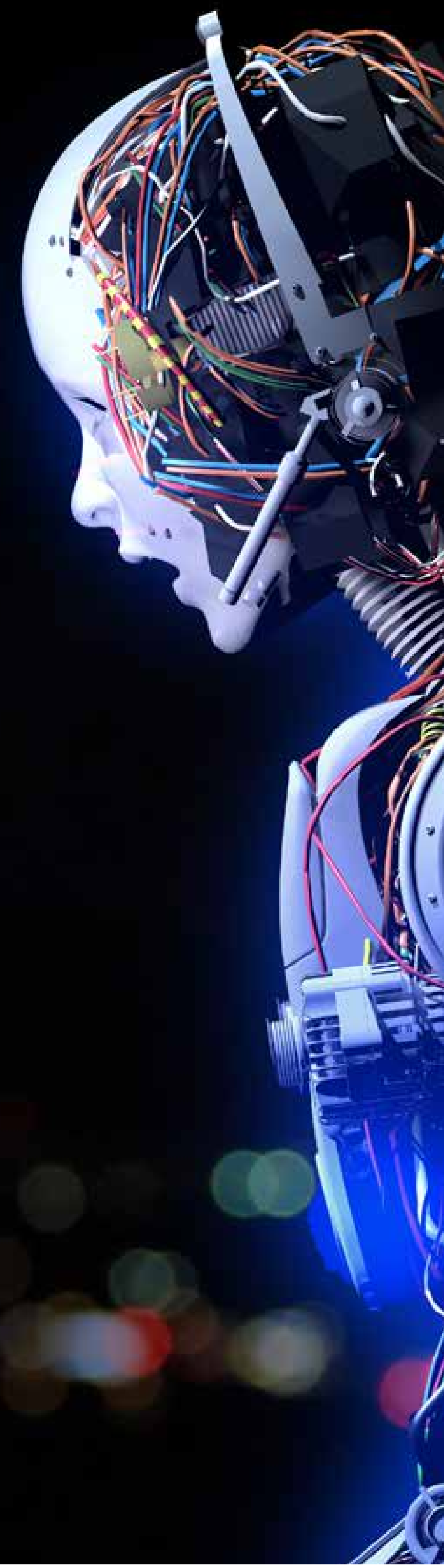
Similar to climate-related risks, nature-related risks consist of physical and transition risks. Physical risks are



USING DATA TOWARD A HEALTHY WORKPLACE

By Dr Mohd Nasir bin Mohd Ismail

DISCOVER HOW DATA-DRIVEN APPROACHES CAN REVOLUTIONISE WORKPLACE HEALTH, DRIVE MEANINGFUL INTERVENTIONS, AND FOSTER A THRIVING AND SUSTAINABLE BANKING INDUSTRY.



CREATIVE COACH, HALLUCINATING HELP, OR MISLEADING MUSE?

By Dr Amanda Salter

GENERATIVE AI HAS A LOT TO OFFER, BUT IT CAN'T YET TELL THE DIFFERENCE BETWEEN FACT, FICTION, AND FANTASY.

In recent headlines:

"Microsoft to invest USD10 billion in OpenAI, the creator of ChatGPT."

"Google invests USD300 million in artificial intelligence start-up Anthropic."

"Salesforce Ventures launches USD250 million generative AI fund."

The more cautious amongst us might be tempted to roll our eyes and dismiss generative artificial intelligence (GAI) as yet another flash in the technology pan, like the metaverse and non-fungible tokens. But as Forrester Research predicts in their recent trends report titled *Generative AI Prompts Productivity, Imagination, and Innovation in the Enterprise,* ignoring GAI would be a costly mistake.

For the uninitiated, GAI is next-level AI that automatically creates content such as artwork, music, text, videos, programming code, and simulations in response to conversational input (also known as 'prompts') from the user. Its output mimics original content and can appear highly realistic and plausible. Popular GAI tools to date include ChatGPT (a language generator) and Midjourney (an image generator).

IN FS WE (MIS)TRUST?

By Chartered Banker, UK

According to 2023's Edelman Trust Barometer, the financial services sector remains the second least trusted sector – after social media. Why and what can be done?