

Exclusive Interview with AICB Chief Executive Edward Ling  
'To Walk Far, We Walk Together'

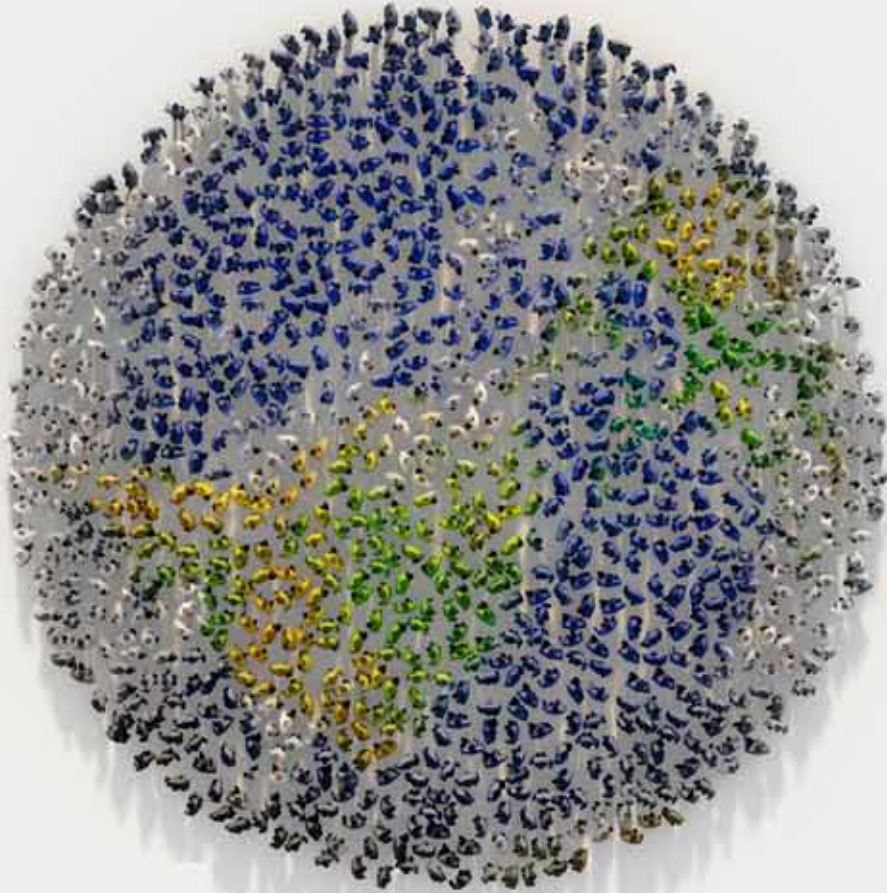
# BANKING INSIGHT

IDEAS FOR LEADERS | DECEMBER 2022

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## Will the Adults in the Room Please Stand Up

Battling climate finance myopia means that we have to be present at the table.



The Strategic  
Value of Threat  
Intelligence

**FINANCIAL CRIME ON  
THE NEW FRONTIER:  
SCAMS ASSOCIATED  
WITH CRYPTOCURRENCY**

A PUBLICATION OF



**FAKE NEWS:  
CAN YOU  
HANDLE IT?**

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## EXCLUSIVE



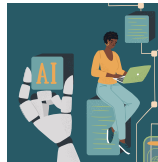
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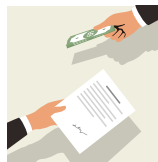
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# ‘To Walk Far, We Walk Together’

By Dr Amanda Salter

In an exclusive interview with **BANKING INSIGHT**, CEO **EDWARD LING** discusses what it means to be at the helm in a post-Covid world.



# WILL THE ADULTS IN THE ROOM PLEASE STAND UP

By Angela SP Yap

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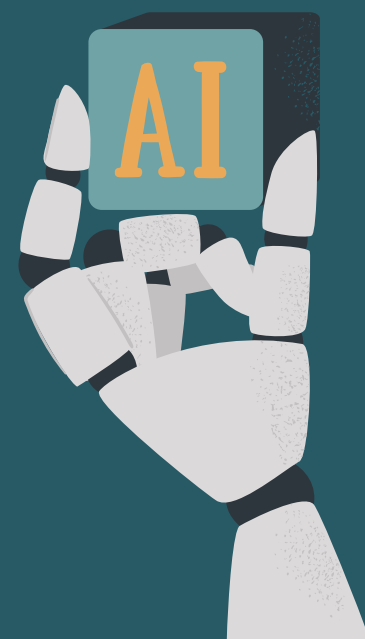
**Battling climate finance myopia means that we have to be present at the table.**



# CAREFUL, YOUR BIAS IS SHOWING

By Julia Chong

IF YOU'RE INTO AI, THIS ONE'S FOR YOU.



In Luxembourg, it wasn't until 1972 that a woman could open a bank account or apply for a loan in her own name without her husband's signature. Thus, women as a population are unlikely to be well represented in historical Luxembourgian banking datasets.

In recent times, Luxembourg's financial regulator, *Commission de Surveillance du Secteur Financier*, warned market players of bias in artificial intelligence (AI) systems, including the use of historical data such as the above if it has not been debiased before it is used to train intelligent systems.

The white paper, *Artificial Intelligence: Opportunities, Risks and Recommendations for the Financial Sector*, provides this example. Suppose a developer creates an AI-based credit scoring algorithm for a bank using historical data. Without taking into account the history of banking legislation in the coding of the algorithm, the modern

The paper also highlights that **"COMPLEX MODELS MAY RESULT IN A LACK OF TRANSPARENCY FOR CUSTOMERS,** to which it would be difficult to explain why a credit request was rejected...Also, if high volumes of credit decisions are automated, errors eventually included in the model would be amplified.

women of Luxembourg could likely be disadvantaged by unfavourable credit scores compared to men. This is because in the past, women applicants were not granted many loans and unless the algorithm was adjusted to account for the dataset bias that existed prior to 1972, the automated credit score could disproportionately penalise women in the form of higher interest rates, fewer product options, or even denial of access to financial services.

The paper also highlights that "complex models may result in a lack of transparency for customers, to which it would be difficult to explain why a credit request was rejected...Also, if high volumes of credit decisions are automated, errors eventually included in the model would be amplified. Similarly, if a few models developed by external providers gain large adoption, design flaws or wrong assumptions contained in the models may have systemic effects."

The commission also highlights that

# MORAL REASONING: HOW DO WE GET TO THE RIGHT DECISIONS?

By Bob Souster

**Understanding how individuals are influenced and what drives their actions (or inactions) hold immense importance for us in banking.**

**A**n overwhelming majority of bankers want to do what is right, for their employers, for the community, for society as a whole and for themselves. An industry that has been built on the trust and confidence of others has to take this as a given. But while we hope to take decisions and actions that reflect goodness, how do we arrive at our decisions about right and wrong? This article considers moral reasoning. It examines some of the factors that influence the thinking of individuals about their decisions. It is not about whether a decision is right or wrong, but the process through which the decision is taken.

## INTUITION

The simplest view of moral reasoning is that there is no reasoning involved at all and that, as human beings, we intuitively know whether something is right or wrong. There may be multiple influences such as parents, friends, teachers, social environment, religion and countless other factors. These have been examined exhaustively by sociologists, many of which write of socialisation, and by psychologists, who are concerned with how the mind works and its impact on behaviour.

Enlightenment writers such as David

Hume believed that concepts of morality were based on the perceptions of individuals and were akin to emotions. Three hundred years later, Jonathan Haidt supported Hume's simple view by writing of 'moral intuitions'. Yet, even in Hume's time, not all authorities agreed that morality relied on instinct. Immanuel Kant, for example, believed that there were universal laws that should always apply, and that these 'maxims' should form the basis of duties or obligations to others.

There is no conclusive evidence as to whether our decisions are driven by instinct or logical processes. Many bankers find themselves in situations in which they have to make snap

judgments reflecting what they genuinely believe to be right. Is this through a finely-tuned sense of justice instilled through knowledge and judgment built from experience, or do their minds subconsciously follow a process?

## COGNITIVE MORAL DEVELOPMENT

Theories of cognitive moral development considered moral reasoning as a process. Most of the theories relating to this approach were formulated by carrying out empirical research, such as by asking people questions and assessing their responses. Jean Piaget studied how cognitive processes developed

Figure 1: Kohlberg's theory of moral reasoning

<p><b>LEVEL One</b></p> <p><b>STAGE</b> <b>Pre-conventional</b></p> <p><b>INFLUENCES</b> The individual is concerned with self-interest, focusing on external rewards and punishments.</p>	<p><b>LEVEL Two</b></p> <p><b>STAGE</b> <b>Conventional</b></p> <p><b>INFLUENCES</b> The individual is concerned with the expectations of others: initially family, friends and peers, later by other influential stakeholders in their lives.</p>	<p><b>LEVEL Three</b></p> <p><b>STAGE</b> <b>Post-conventional</b></p> <p><b>INFLUENCES</b> The individual takes decisions more autonomously, based on principles of right and justice and independently of external influences.</p>
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# THE STRATEGIC VALUE OF THREAT INTELLIGENCE

By Teresa Walsh

# FINANCIAL CRIME ON THE NEW FRONTIER

## SCAMS ASSOCIATED WITH CRYPTOCURRENCY

By Eva Crouwel, Wesley Gibbs, Willem du Plessis, and Nicole Botha

**Avoiding crypto crime requires cooperation.**

### CRYPTO CRIME

Over the last few years, the adoption of cryptocurrency has been on the rise globally, with specifically high adoption rates within the Asian and African markets. However, with the rise in this adoption a shadow side has emerged; that of financial crimes pertaining to cryptocurrency. Most prevalent amongst these crimes, according to a 2022 report issued by blockchain monitoring provider Chainalysis, were cybersecurity related crimes (such as hacks) and scams. In fact, according to the *2022 Crypto Crime Report* compiled by Chainalysis, scams were once again the largest form of crypto-based crime (by transaction volume) with in excess of USD7.7 billion worth of virtual currency misappropriated from victims worldwide.

When looking specifically at increased scams within the Asia region, the struggle is very real indeed. Recent publications, for example by the Malaysian Securities Commission, recorded a

total of RM5.2 billion in losses with over 7,200 reported cases to the Malaysian government from the period May 2020 to May 2022. The contrast is stark; where 1,800 cases were reported in 2020, by 2021 this figure had grown to 3,500 reported cases and 2022 looks to be on track for similar numbers.

Recognising the economic opportunities afforded by these advancements to the general public and enabling the rapid expansion and adoption of (different types of) cryptocurrency, whilst also ensuring the safety of consumers within this new market is a nontrivial task.

### INVESTMENT SCAMS

Investment scams can be considered the largest bane of all financial scams. Investment scams at their core promise big payouts with minimum risks. Promises of quick money and guaranteed returns make these scams attractive to a wide range of consumers.



# AN OVERVIEW OF CRYPTOCURRENCY REGULATIONS IN ASIA PACIFIC

By Dow Jones Risk & Compliance

REGULATORY ACTIVITIES ARE SET TO INCREASE  
ALONG WITH COMPLIANCE NEEDS.

**S**ince the fall of Mt. Gox, regulators around the world have been examining the risks and challenges associated with cryptocurrencies. A now-defunct Tokyo-based cryptocurrency exchange, Mt. Gox was hacked in 2014 for 850,000 bitcoins (at the time worth almost USD500 million), which raised important regulatory questions. While the Tokyo District Court approved a case-related rehabilitation plan last year, the questions of jurisdiction, the financial definition of cryptocurrency and virtual asset service providers (VASPs), security protocols and anti-money laundering/ countering financing of terrorism (AML/ CFT) measures continue to be discussed among regulators and crypto players.

Amidst escalating needs to counter ransomware attacks and to prevent virtual

currencies from being used for sanctions evasion, regulators, led by the Financial Action Task Force (FATF), are scrambling to regulate the crypto industry. It is therefore imperative for businesses to keep abreast of relevant regulations in order to mitigate financial and legal risks in the ever-evolving crypto world.

## REGULATORY LANDSCAPE

### FATF

Although the FATF's recommendations and guidance are not legally binding, they are recognised international standards and many countries are working to comply with them. In October last year, FATF updated the guidance for virtual assets (VAs) and VASPs. Some key recommendations for crypto businesses are:

- VASPs are to be subject to the same relevant FATF measures that apply to financial institutions. This means that customer due diligence, including identification of beneficial owners and politically exposed persons (PEPs), enhanced due diligence for high-risk jurisdictions, record keeping, sanctions screening and reporting of suspicious transactions, are required for crypto businesses.
- VASPs need to be licenced or registered where they are created through an existing or new purpose-built mechanism. VASPs where services can be accessed from a different jurisdiction may also be requested to register in the hosting jurisdictions.
- While the idea is not new, the FATF

# Why Banks Should Bet on Empathy

By Marjorie Giles

Listening pays off in the long run.

In 2020, Accenture conducted a global study comprising 125 senior executives from the top five banks. The subject was Empathetic Banking. A questionnaire was devised to identify these leaders as either Empathetic Banking Leaders, Contenders, or Laggards. Their answers were then compared against the banks' self-reported non-financial performance metrics (customer loyalty, newly acquired customers, customer trust, employee engagement scores, employee productivity, and customer cost-to-serve) and, finally, plotted against their financial performance.

The objective was to quantify how much of a role customer-directed empathy had played in their service model and had they seen the returns of their investment in this new approach.

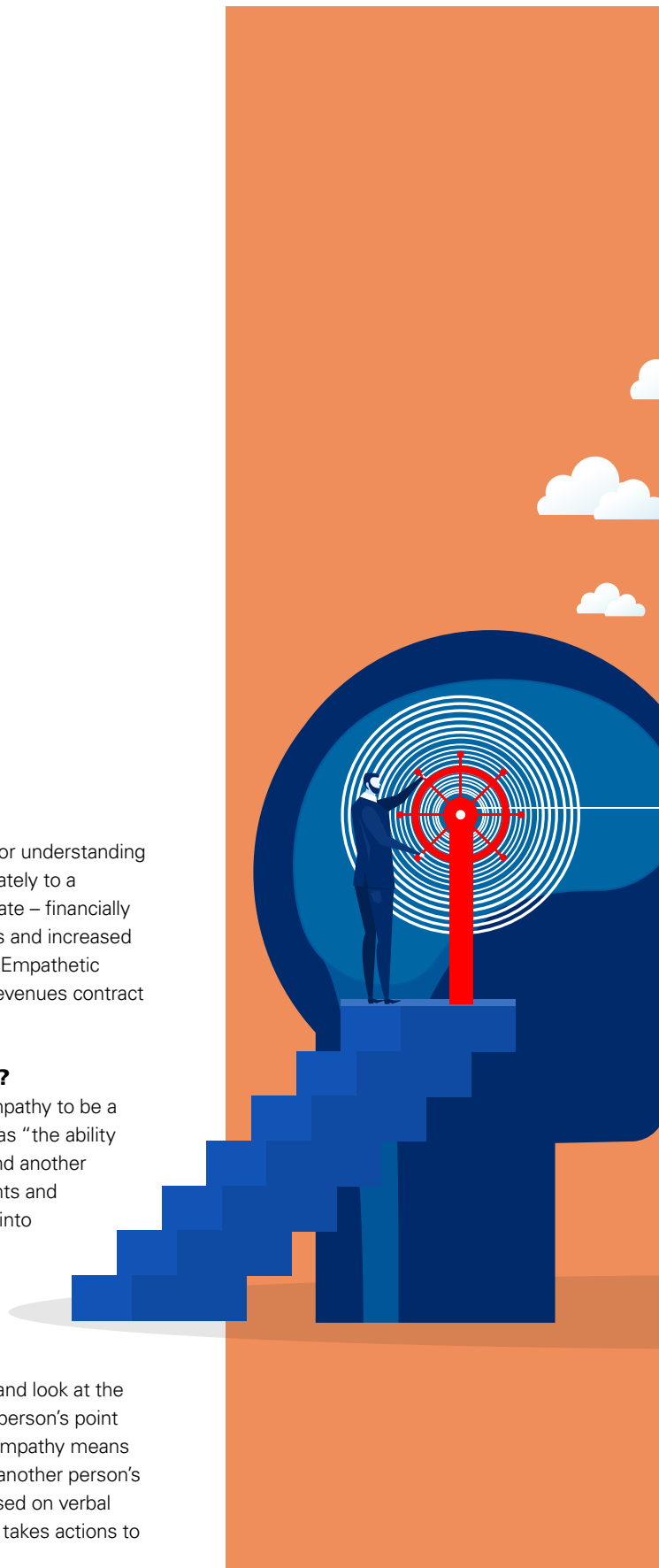
The results, captured in the firm's 2021 report titled *Banking on Empathy: Engaging with Customers in a More Human Way*, showed that banks led by Empathetic Banking Leaders – individuals

with strong capabilities for understanding and responding appropriately to a customer's emotional state – financially outperformed their peers and increased revenue by 1.3%, whilst Empathetic Banking Laggards saw revenues contract by 0.6% on average.

## WHAT IS EMPATHY?

Researchers deem empathy to be a personality trait defined as "the ability to identify and understand another person's feelings, thoughts and situation", categorising it into two types: cognitive and affective.

Cognitive empathy, also known as 'perspective taking', is the ability to step out and look at the situation from the other person's point of view. High cognitive empathy means that a person can 'read' another person's needs and intentions based on verbal and non-verbal cues and takes actions to address the issue.



# THE **FOUR-DAY** **WEEK** IS IMMINENT, ACCORDING TO EXPERTS



# Q-DAY

By Angela SP Yap

## Before quantum hacking becomes a reality.

**C**an you stop a hack that's faster than you?

That is the cybersecurity threat that will confront every system in the world once quantum computing is a reality, which experts predict will occur within the next two to 10 years.

In the December 2021 issue of *Banking Insight*, our feature *Quantum Computing: Finance's Next Frontier* explored the concept of quantum computing and how these breakthroughs are opening new (and profitable) possibilities in financial markets. Its current use cases include Goldman Sachs' lightning-speed pricing of complex derivatives to the accurate simulation of market behaviour. We recommend that our readers revisit the article, which succinctly explains concepts such as 'qubits' and 'superpositioning', as an accompaniment to this piece.

# Fake News: Can You Handle It?

By Kannan Agarwal

*Wrestling a  
US\$78 billion  
problem.*



# How Biodiversity Can Move the Dial on Climate Change

By Chartered Banker, UK

## Approaches to integrate biodiversity into investment practices.

**L**oss of biodiversity is increasingly being seen as a systemic risk, with serious consequences for economic and social outcomes and as the next issue to be tackled along with climate change. There is a growing amount of global coordination, and numbers of bodies and frameworks coming together in order to quantify the impact of finance on biodiversity and identify how the sector can best make an impact.

But how important is a collaborative approach to tackling loss of biodiversity and what are some of the key partnerships driving it forward?

“The short answer is that global coordination is extremely important,” says

Tami Putri, Senior Principal Consultant, The Biodiversity Consultancy. “We’re at an exciting time where we have seen true action, globally, from the financial sector at multiple levels.

“We’re seeing governments commencing studies on understanding how nature is affecting countries’ economies, and we’re also seeing many financial organisations forming partnerships and groups voluntarily and setting themselves up to take action on nature. The most well-known is the Taskforce on Nature-related Financial Disclosures (TNFD), but there’s also the Partnership for Biodiversity Accounting Financials and many others.

Anne-Marie Bor, Coordinator, Finance



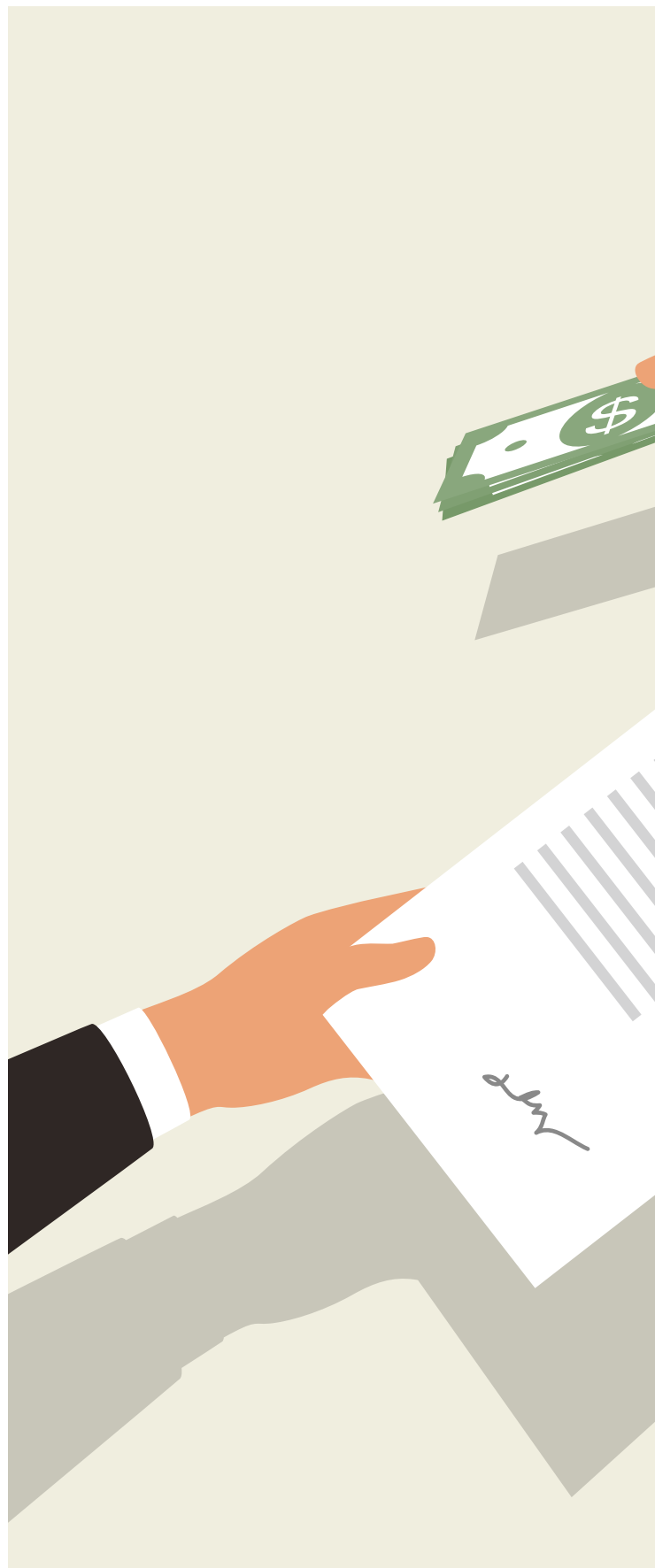
# REPO BY THE MINUTE

By Kannan Agarwal

A US\$13 TRILLION MARKET IS SLOWLY GETTING TOKENISED.

**O**n 17 June 2021, Goldman Sachs executed its first trade on JP Morgan's blockchain-based platform for repurchase agreements (repo), Onyx Digital Assets Network. Joining the Onyx-based repo syndicate enabled Goldman Sachs to trade repos with other third-parties within the network. The initial trade involved swapping a tokenised version of the US Treasury bond for JPM Coin, the digital coin developed by the bank and used for internal purposes, and took precisely three hours and five minutes lasting from origination, to trade, and the subsequent repurchase of the bond. In this instance, turnaround time is critical as the seller is charged interest by the minute.

As far as financial products go, the repo market is one of the slowest to evolve from manual voice-trading operations. Every day, between USD2 trillion and USD4 trillion repos change hands, allowing market participants to tap into low-cost secured financing for more efficient capital allocation. Institutional investors such as asset managers, money-market funds, and corporations with underutilised cash balances can also opt to invest their cash on a secured basis. Finally, central



# THE BUSINESS MODEL CANVAS: A STRATEGY TOOL FOR SUCCESS

By Derek Ariss

ITS SIMPLICITY AND EASE OF USE ALLOWS FOR A TRANSPARENT REVIEW OF ALL CORE BUSINESS COMPONENTS.

It's been said the world is changing faster and faster. So much change is happening these days in business that we need to review and refresh our business strategies repeatedly to survive. This means more strategy sessions at work and more business plans to be drafted and reviewed. Admittedly, I do a lot of business plan checking these days. It's not unusual to have a cup of coffee before I read a business plan for particular clients or organisations I work with.

In my experience, the business plan is often a 60-page-plus document. Usually, the document is thick, high on detail

and strategic positioning, and low on application/implementation. Often the cup of coffee I started with turns into a pot of coffee. Eventually, I get to the point of matching the plan's detail with the implementation steps. All good; I appreciate that's the way things roll these days. But as some of you may be aware, I work in the innovation space as well as consult, and I have been thinking, "There has to be an easier, more transparent way of pulling together the business components for review, modification, discussion, and implementation!". I have found a better way. It is a strategic tool called the Business Model Canvas (BMC).



# SO, HOW MUCH DO YOU MAKE?

By Majorie Giles

## The debate on pay transparency continues.

**P**ay transparency is a policy in which corporations or employers furnish pay-related data to employees. This is increasingly being adopted – through legislation or voluntarily – as a means of tackling discriminatory pay practices by bringing down the barriers of secrecy and is considered by some as a tangible tool towards greater diversity and inclusion in corporations, especially for women in science and technology.

The United Nations’ Sustainable Development Goals also advocates this as part of Goal 8.5, which aims “by 2030, to achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value”.

It’s important to note that each jurisdiction has had to find its own path, navigating the uniqueness of each ecosystem, and that the road to transparency can take many forms:

- > In the US, 17 states currently have laws around pay transparency that allow employees to discuss their

pay without fear of recrimination, but not all of these states require employers to provide salary ranges to job candidates. Some corporations voluntarily use pay-gap reporting as a strategy to prevent possible litigation, although some tech giants have recently been sued for alleged discriminatory pay practices when they did not sufficiently address pay disparities; these cases are still pending in the courts.

- > In the UK, companies with more than 250 employees must publicly declare wage differentials based on either gender and/or race. The threshold for a similar law in Australia is 500 employees.

- > In the EU, parliament voted this April that companies with at least 50 employees must be fully transparent about pay data. If there is a gender pay gap exceeding 2.5%, member states need to ensure these employers work with workers’ representatives to conduct a joint pay assessment and develop a gender action plan.

- > In Japan, effective July 2022, companies with more than 300

employees must disclose women’s pay as a percentage of men’s on their website and further distinguish between permanent and non-permanent employees.

- > In Korea, since 2020, companies must report gender-disaggregated data on workforce characteristics and gender pay gap status, not pay gap data. The underlying causes of the pay gap must be studied and a gender action plan submitted to the government.

When it comes to talent management, studies have shown that opaque pay policies lead to higher turnover, with some employees more likely to leave within six months; whilst pay transparency increased employees’ perception of fairness, trust, job satisfaction, and boosted individual performance. But it is far from a bed of roses.

### DARK SIDE

There are nuances in the pay transparency debate which are rarely highlighted. Multiple studies confirm that making salaries transparent will



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