Exclusive Interview with Chartered Banker, Datuk Nora A Manaf, Group Chief Human Capital Officer, Malayan Banking Berhad
Banking is about Expanding the Possibilities of Humanity

BANKING INSIGHT

IDEAS FOR LEADERS | **DECEMBER 2020**

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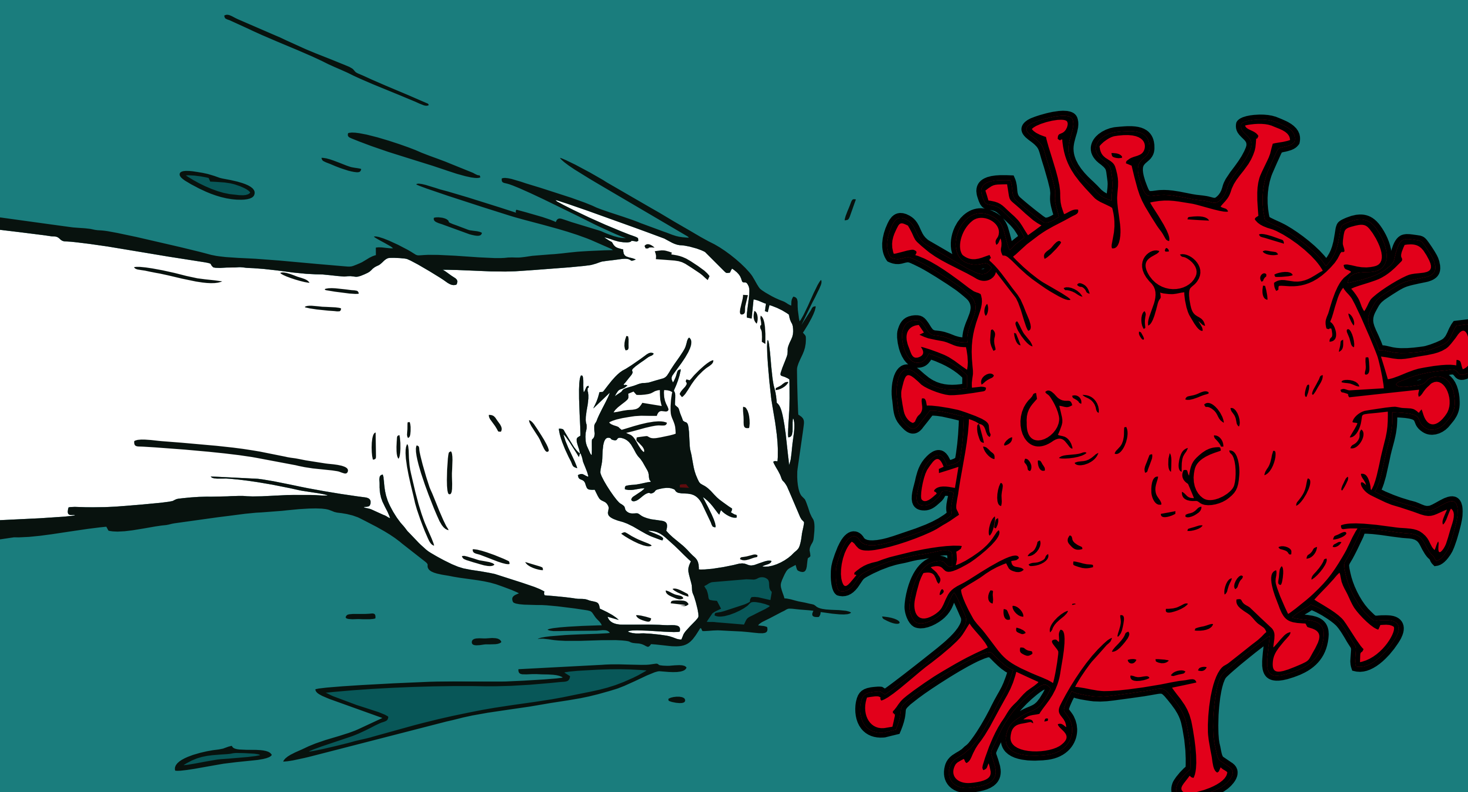

Winning the Battle and the War

Wresting fatigue determines whether this crisis marks your finest hour or the darkest day.

Sustainable Lending: The New Normal?

THE POST-COVID OPPORTUNITY FOR BANKS

WHEN OPEN BANKING BECOMES A REALITY

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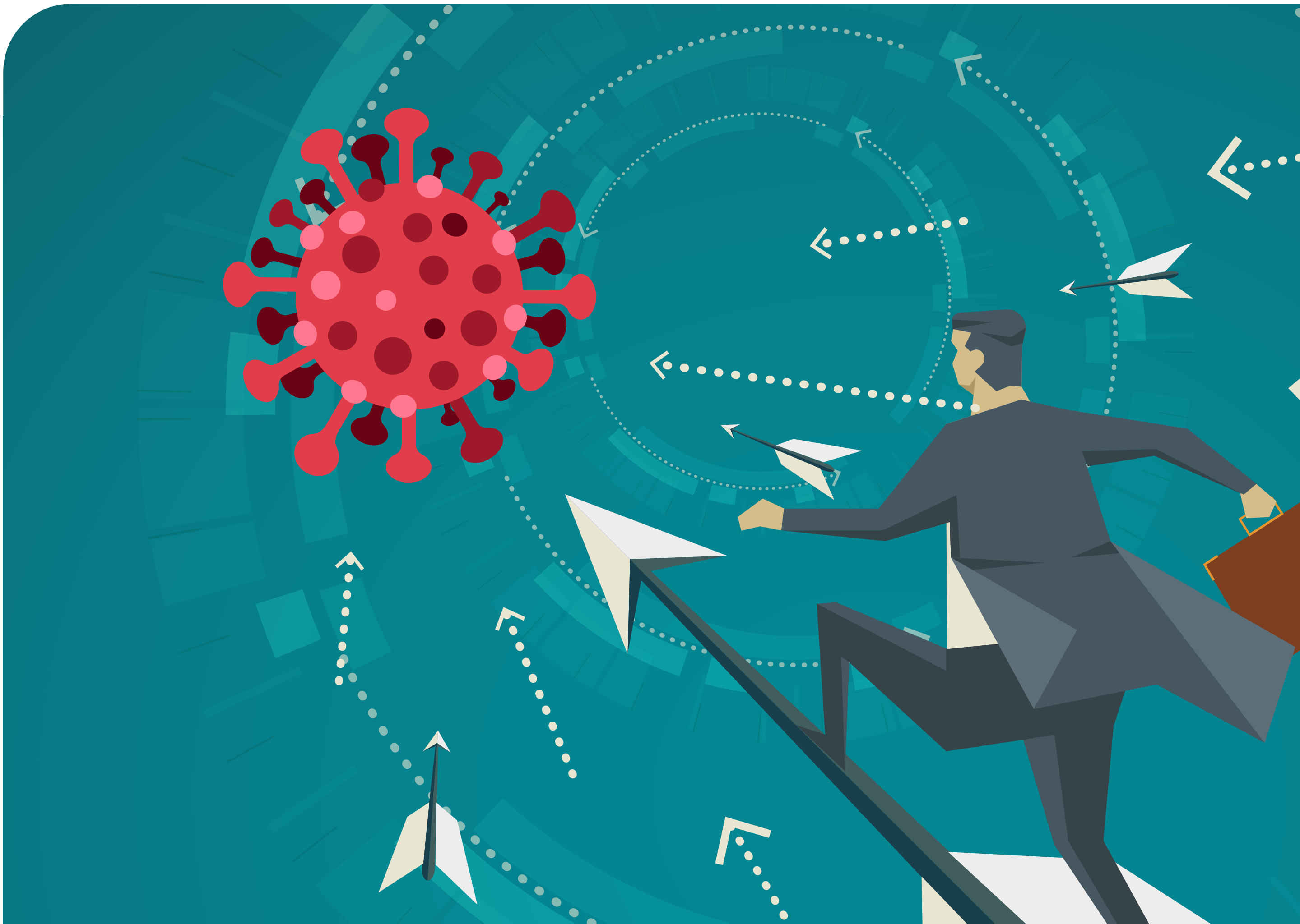
We're delighted to catch up with Chartered Banker, **DATUK NORA A MANAF**, Group Chief Human Capital Officer at Malayan Banking Berhad and member of the Board of Examiners at the Asian Institute of Chartered Bankers. With 25 years of talent management experience and recognition as a Global Top 50 Human Resource Professional, her insights into the science of building people is a steer for Chartered Bankers to embody the gold standard of the profession.

BANKING IS ABOUT

Expanding the Possibilities of Humanity

Reporting by the Banking Insight Editorial Team



WINNING THE BATTLE AND THE WAR

By Angela Yap Siew Peng

- WRESTING FATIGUE DETERMINES WHETHER THIS CRISIS MARKS YOUR FINEST HOUR OR THE DARKEST DAY.

Roberto Capodieci

SAVANT OR SUBVERTER?

By Angela Yap Siew Peng

Whichever you choose to believe, this blockchain expert isn't mincing his words.

Of the technologies touted to shift the world, blockchain ranks at the top of the list and Roberto Capodieci is at its forefront. The founder and CEO of Blockchain Zoo is recognised as one of the first-movers in the technology and a specialist in lawful interception systems.

In 1980, at age six, Capodieci taught himself to code when his father brought home the world's first pocket computer, a Sharp PC1210. At age 10, he developed and sold his first video game software. By 1988, he had started his first company by developing a system for optical archiving and document sharing. All this by the 'ripe old age' of 14.

Described as possessing "a rare combination of business acumen and deep tech skills" by Matteo Rizzi, Europe's top 40 most influential fintech figures, Capodieci is set to launch ZooBC, a technology platform currently in beta stage to make blockchain more stable, secure, and scalable for everyone.

Q ***Your involvement in software development goes back to the early 1980s, in the days when many people hadn't even heard of computers. How did your journey in computing evolve from teenage obsession to a near four-decade career?***

Actually, my specialisation in consulting for law enforcement agencies (LEAs) began when somebody tried to rope me into international drug dealings.

Back to how it all began. I love mathematics, a trait that runs in the family. When I was young, my father showed me a pocket computer. The machine asked, "What's your name?" and when I wrote 'Roberto' it interacted with me. It would say something nice to me or if I didn't answer with my name, "I don't want to talk to you". I was shocked at how this could happen. Then I saw the code and took the machine away from my father.

This was how I learned to code in BASIC (the programming language in the 1980s). That was my first deep exploration into the 'brain' of a computer, and my parents supported this passion, or at least it was like a jump in the dark, because no one thought the computer would be an everyday part of life like it is today. At the time, it was just a toy or something strange.

As a teenager, I ran a profitable business cloning computer games. In the early days, there were no piracy or copyright laws when it came to video games because it was so new. So I was distributing computer games and always had kids coming over to my house to collect their floppy disks. One day, someone approached me and said: "Hey, I heard you have a talent for distributing things. Do you want to become part of selling cocaine?"

I was shocked but he was serious. So I said I'd think about it, then I went to the police and told them that about this guy. They introduced me to the anti-drug department, we did a big drug bust operation, and I became friends with the officers from the anti-drug unit in the northeast of Italy.

Once, when I was with them, the officers were sitting around the table with a highlighter, each with a huge pile

AML COMPLIANCE HANGING ON A WIRE

By Julia Chong

WITH RECORD-HIGH FINES AND A LEAK MORE DAMAGING THAN THE PANAMA PAPERS, IT'S TIME BANKS GET THEIR AML/CTF PROGRAMMES BACK ON TRACK.

STAKEHOLDERS: WHO ARE NOW THE KEY PLAYERS?

By Bob Souster

Rights and obligations must be broadened if a financially sustainable future is to be our common vision.

Most businesses now accept that to provide for a financially sustainable future they must move away from the narrow view of stakeholder obligations and towards a more inclusive model. Conventional economics suggests that profit is the return to the entrepreneurial factor of production, and in the past it has been argued by some authorities, notably Milton Friedman, that generating returns to shareholders should be the only purpose of a company. To engage in acts of social responsibility, added Friedman, amounts to a tax on shareholder wealth, as it is the shareholders themselves who should be able to make decisions on whether or not funds are committed to such purposes. If this narrow approach was even ever acceptable, it certainly no longer applies. All business organisations have to manage relationships with a wide range of stakeholders and while shareholders occupy a rightful place in their number, they are no longer the only key players, and not even the most important key players. This article explains why.

The simplest definition of a stakeholder is any party who can affect the organisation and be affected by it. Stakeholders can be individuals, legal entities, or even inanimate; for example, it is now accepted that the physical environment is a stakeholder, though its guardians can only promote its welfare by proxy. Stakeholder relationships may be viewed as sets of rights and obligations, akin to an actual, or sometimes, implied contract. Just as a shareholder has a right to a dividend if declared, the organisation has an obligation to pay it. Likewise, employees have an obligation to provide their labour just as the employer must pay a salary and provide statutory benefits.

> The simplest definition of a stakeholder is any party who can affect the organisation and be affected by it. Stakeholders can be individuals, legal entities, or even inanimate; for example, it is now accepted that the **PHYSICAL ENVIRONMENT IS A STAKEHOLDER**, though its guardians can only promote its welfare by proxy.

The boards of directors of banking organisations must take their stakeholders into consideration when formulating and implementing their strategies and policies. In doing so they face multiple, and often conflicting, demands. If a bank decides to restructure its organisation to achieve greater efficiency, this may please customers, who will receive better service, and also shareholders, who are likely to see increased dividends, provided the decisions and actions are sound. However, some customers may be less impressed if they rely on branches that are to be closed, and employees may be

SUSTAINABLE LENDING: THE NEW NORMAL?

By Chartered Banker Institute, UK

With both businesses and banks busy embedding environmental, social and governance practices into their activities, the post-Covid-19 world is perfectly poised for a green and inclusive recovery.

For all its shocking impact on health, society and the economy, Covid-19 represents just a taste of the havoc that the climate crisis could wreak. The Committee on Climate Change has led a chorus of calls for the UK government to make the pandemic a defining moment in the fight against global heating.

In theory, they are pushing at an open door. Businesses claim to be committed to a green recovery. More than 90% of companies surveyed by HSBC aim to re-engineer their businesses to be more sustainable.

The onus is on lenders to play their part. Corporate and commercial banks have a vital role in supporting a recovery that is not only 'green', but sustainable and inclusive. Coupled with increasing regulation, this pressure is set to accelerate the growth of lending that encourages sound sustainable practices.

PRICE AND PERFORMANCE

'Green loans' to finance defined environmental projects have been a feature of the market for some time. The term is sometimes used to encompass the relatively recent product class of sustainability-linked loans (SLLs). Both are now covered by Loan Market Association voluntary frameworks. The key difference between the two is that SLL pricing is directly linked to the borrower's performance against agreed sustainability targets.

In early financings, the borrower benefited from reduced loan margins if they met these criteria. If they fell short of their sustainability goals, the lender did not reduce the margin, but there was no additional penalty. Recently, however, two-way pricing has become more prevalent, with the borrower facing a price increase if their performance dips.

Could this lead to a perverse incentive –

DECENTRALISATION: DOING IT RIGHT

By Dr Amanda Salter

As new work practices unfold in banks, learn to pivot quickly, but not spin out of control.

Banking has weathered the unexpected Covid-19 crisis far better than many other industries. Across all markets, from retail to investment, Asia-Pacific banks have quickly evolved ways to continue to offer critical services to customers, keeping society and economy going through the initial shock and the subsequent downturn.

One aspect of the new normal that is contributing to swifter recovery is a long overdue shift towards decentralisation in the banking operating model.

Decentralisation itself is not a new concept, and arguments (for and against) have been ongoing across the business world. In the context of a global bank, a decentralised operational structure means that decision-making takes place at a local level. Accountability, leadership, authority, and responsibility is distributed to individuals or units across multiple levels within the organisation. In other words, the person or persons closest to the customers, local regulators and the situation at hand have the control and authority to make decisions.

Findings of a 2017 joint research project by Harvard, Stanford, and MIT, titled *Turbulence, Firm Decentralization and Growth in Bad Times*, confirm that decentralisation helps firms to cope better with an economic downturn than their more centralised counterparts. The study found that firms which delegated more

CATALYSING BANKABLE NATURE SOLUTIONS THROUGH BLENDED FINANCE AND BUSINESS MODEL INNOVATION

By World Wide Fund for Nature

The monetary value of nature is estimated to be around US$125 trillion in which half of the world's GDP amounting to US$44 trillion is highly dependent on it and potentially exposed to risk from nature loss. Around 1.2 billion jobs in the nature-related sectors such as farming, fisheries, forestry, and tourism are dependent on the effective management and sustainability of healthy ecosystems.

However, climate risks and biodiversity loss are becoming more significant in the age of the Anthropocene, evidenced by the growing economic and financial losses impacting businesses, financial institutions, governments, and society. In Malaysia alone, more than 50 natural disasters in the past 20 years have resulted in over RM8 billion losses with more than 3 million people affected through displacements, injuries, and death. Businesses such as Pacific Gas & Electric, a public utility company with US$20 billion market capitalisation in the US, filed for bankruptcy in 2019 due to lawsuit cases by the

THE QUANDARY OF DIGITAL PAYMENTS

By Dr Eli Remolona

WHEN IT COMES TO DIGITAL PAYMENTS, THE NEAR FUTURE IS NOT SO HARD TO PREDICT.

With the advent of private digital payments, central banks around the world are finding themselves in a quandary. Their role in the payments system, after all, is one of their core functions, along with monetary policy and banking supervision. The quandary is about how to take advantage of the new technologies to foster payments efficiency, while maintaining the integrity of the system.

ROOTS OF MODERN PAYMENTS

Our modern payments system has its roots in 17th century London. It was there that wealthy merchants started to store their gold with goldsmiths. Soon the goldsmiths began to issue promissory notes backed by the gold in their vaults. These notes became so widely accepted as a means of payment that the full backing of gold became unnecessary.

By the Restoration period in England, the goldsmiths had organised an unregulated system

WHEN OPEN BANKING BECOMES A REALITY

By Ng Hui Chen & Prof Dr Nafis Alam

Institutions should relook legacy business models.

Banks are getting transformed from branch-based banking to a digitally focused service provider driven by a low-cost, efficient and rich customer experience. Openness and collaboration amongst the banks have emerged as a new normal for the banking sector. The Covid-19 pandemic has further accelerated the digitalisation move and shifted the consumers' perception in adopting technology in their daily life. Open Banking, a term that was viewed as 'hype' a few years ago, has now become a reality.

WHAT IS OPEN BANKING AND ITS CURRENT STATUS?

Customer data are often treated as a highly confidential assets of the banking industry, partly attributed to regulatory requirements such as the Personal Data Protection Act and banking secrecy laws. However, this 'closed' banking model has caused inefficiencies and unsatisfactory banking experience for the consumers as they often fail to have a unified view of their financial position. The banking model needs to be adapted to deliver value and satisfy customers' experience in the era of digitalisation.

As a result of this, the concept of Open Banking was coined. It is a mechanism that allows banks to share the financial data of their customers with the third party through application programming interfaces (APIs). This data sharing inititives has given rise to new channels for payments and wealth management services. Customers can now aggregate their financial accounts into one platform to better manage their financial transactions. Small payments can be made seamlessly between accounts at different banks.

Open Banking gained traction even before Covid-19 pandemic spread across the globe. The Financial Brand in early 2020 reported that as much as 87% of

THE CRUNCH AIN'T EQUAL

WHEN PANDEMIC, SOCIAL JUSTICE & FINANCE COLLIDE

By Kannan Agarwal

IN THE THROES OF THE DEEPEST GLOBAL RECESSION SINCE WWII, INCLUSIVE FINANCE MUST BE THE CORNERSTONE TO OUR RECOVERY.

Some have called this pandemic The Great Equaliser. Others think otherwise.

Since the outbreak, the World Economic Forum reports that the combined wealth of US billionaires increased by over US$637 billion to US$3.6 trillion.

Top of the pops is Jeff Bezos, whose personal net worth jumped a whopping 63% during the pandemic and is now worth US$184 billion. In October, Bezos' digital behemoth Amazon announced a record third-quarter profit of US$6.3 billion with plans to expand its physical fulfilment centres to keep pace with demand. Others on the list include Eric Yuan (Zoom), Mark Zuckerberg (Facebook), Steve Ballmer (Microsoft), and Elon Musk (Tesla and SpaceX).

Then we have the bottom of the pyramid – 81% or 3.3 billion citizens who have had their workplace fully or partially closed according to the International Labour Organization (ILO).

This isn't about disenfranchisement, an ever-present spectre in every recession. This crisis is different from others as it's resulted in a windfall for the ultra-rich, the 1%, with no existing redistribution effect for the rest of the 99%.

Digital companies like Amazon, Google, Facebook – which benefited the most from the fallout – have paid zero or negligible levels of income tax for years. Amazon's 2017 and 2018 tax filings with the US Securities and Exchange Commission show US$0 and hundreds of millions dollars in tax rebates the company received from the government.

After intense backlash from the media and citizens, this year, it declared US$162 million in taxes for 2019. The news was greeted with acerbic headlines – 'Amazon finally owes federal income taxes this year' by *The Verge* media and 'Jeff Bezos spent more on this house in Beverly Hills than Amazon has paid so far in

REDEFINING RELATIONSHIPS

By Chartered Banker Institute, UK

BANKS CAN RETAIN CORPORATE CUSTOMERS IN THE POST-PANDEMIC ERA – BUT THE PRICE MAY BE LOSING BRAND OWNERSHIP OF THE RELATIONSHIP

At the height of the pandemic, fintechs and challengers in the banking space saw an opportunity to support businesses in need – and demonstrate their own credentials.

Iwoca, for example, launched its OpenLending platform with a clutch of partners, claiming it would provide micro-businesses with "fast and digital access to finance at a crucial time". And Trade Ledger forged a 'taskforce' with fintech peers Wiserfunding, Nimbla and NorthRow, with a similar mission to channel funds to struggling small- and medium-sized enterprises (SMEs).

The bottleneck was to be at least partly eased by the Chancellor's introduction of bounce back loans. But Trade Ledger Founder and CEO, Martin McCann, says now: "There was a huge issue with cash flow liquidity, and we could see a need in the market that wasn't being fulfilled to solve the short-term needs of SMEs.

"In terms of sheer scale of need, this was wartime – and peacetime capacity just wasn't working."

RACE TO THE CLOUD

Now that the war is abating, who is best placed to serve the banking needs of battle-scarred businesses?

Business-facing banks have come into their own in the sense of supporting businesses to forge useful connections, review their supply chains and adapt their business models to the new reality. Their deep knowledge of clients and the sectors they operate in is now more valuable than ever.

Where corporate banks have fallen behind the challengers – and even their own retail operations – is in the deployment of open application programming interfaces (APIs) to serve clients more efficiently. That gap was mercilessly exposed by borrowing experiences during the pandemic.

As a result, digital investment programmes that might have been expected to stall amid a major crisis are instead being stepped up, according to Sankar Krishnan, Executive Vice President of Capital Markets and Banking, Capgemini. "There is increased spend at the banks as they pursue digital at a pace faster than anyone thought," he says.

One priority is the replacement of the creaking payments infrastructure: "What is coming out of the pandemic clearly is the need for a faster compute. Our number one business now is the move to the cloud – every bank is asking how they can do this."

TECH POACHERS

Cloud migration is a good start. But in the face of competition, incumbents may finally need to embrace single-platform partnerships if they are to retain their share of the business market.

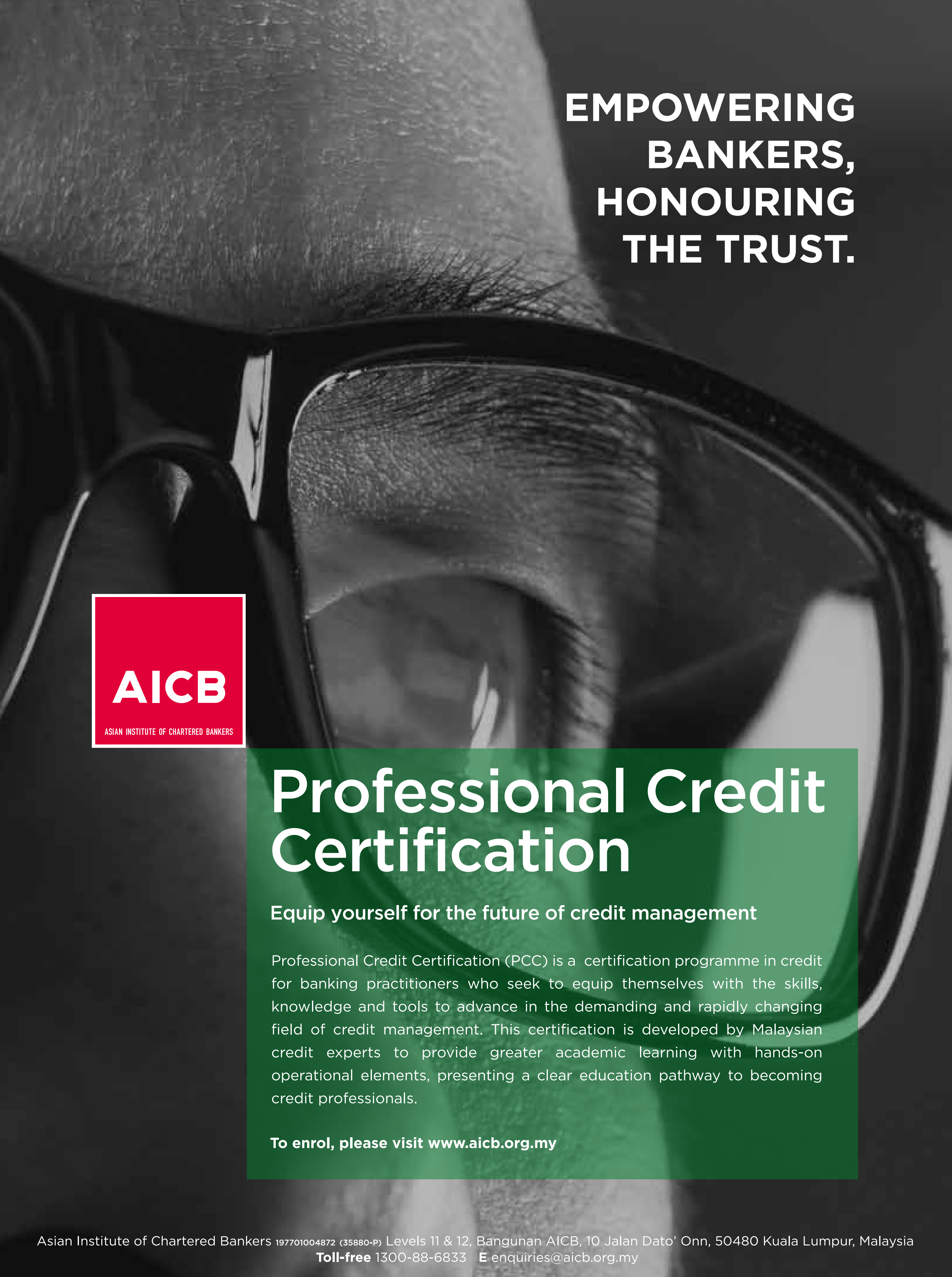
One route is via Big Tech. This summer, Goldman Sachs led the way by teaming up with Amazon to introduce lending facilities for sellers using the tech giant's marketplace. With sellers' consent, Goldman will be able to use the businesses' revenue data from the platform to support credit approvals, according to initial reports on the deal.

The move follows last year's deal in the retail current account space involving Citi and Google. At the same time, tech has begun to poach senior banking figures – Bank of America CTO Howard Boville now heads IBM's cloud division, while in June, Google Cloud hired Citi Fintech CEO Yolande Piazza.

"We are going to see a lot of experienced bankers move to Big Tech over the next few years," Krishnan predicts. "They bring good knowledge of financial regulations and how real-time payments work."

BANKS: THE NEW INTEL?

He sees the Goldman/Amazon deal as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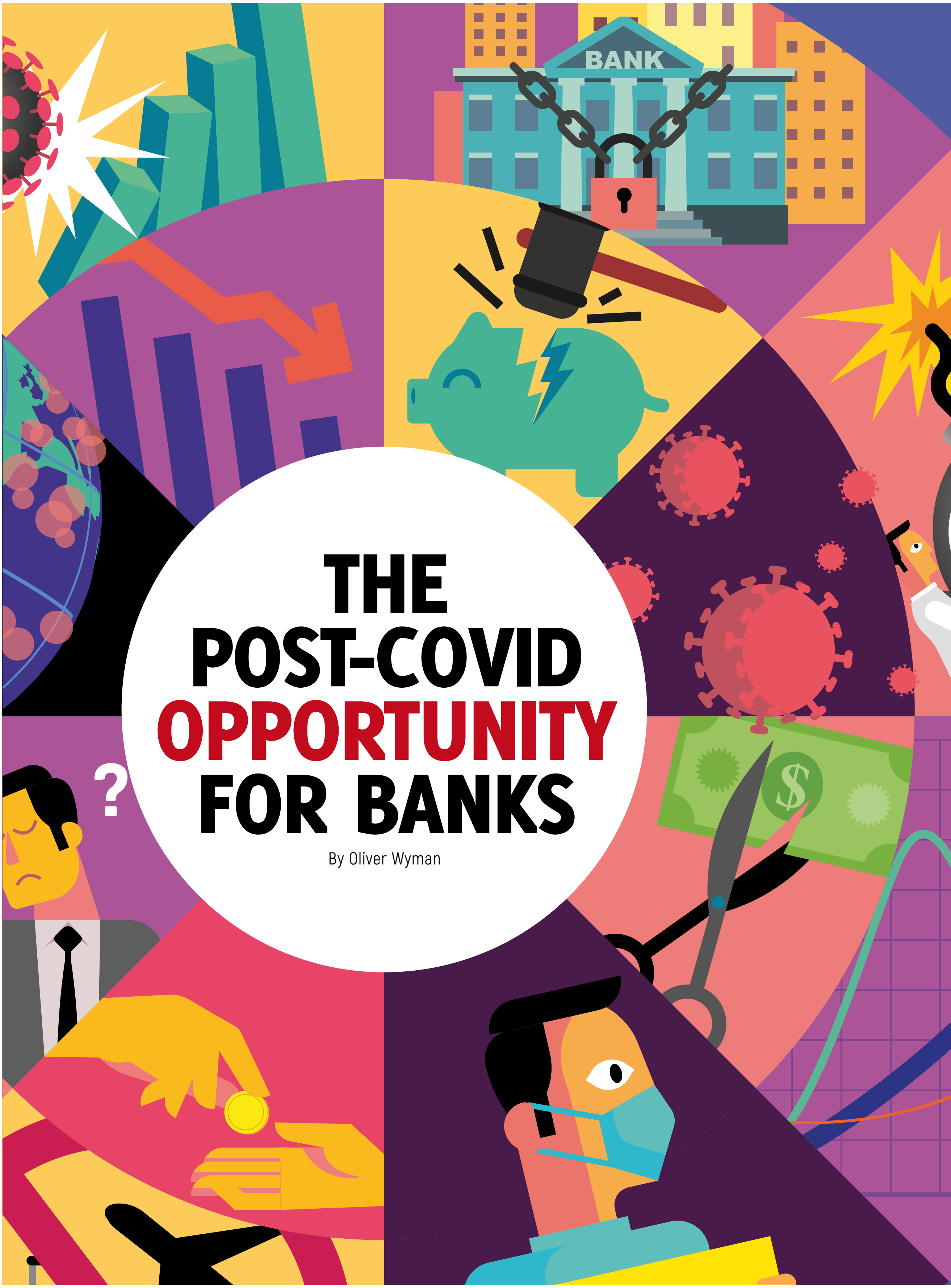

THE POST-COVID OPPORTUNITY FOR BANKS

By Oliver Wyman

CHANGE AND THE FAST AND FURIOUS FUTURE

By Derek Ariss

Prepare to surf the waves of change coming your way.

Welcome to an incredible time of change! In previous articles, I have stated that technology drives the rate of change at an ever-increasing speed. Now I am saying that technology and environmental shifts are creating change faster than before!

Everywhere we look, there are modifications, alterations, and adjustments going on. Governments are shifting, the 'New Normal' created by Covid impacts how we work, travel, transact, and communicate. Underlying all of this is still the theme of digital technologies.

How do we manage? What are our coping tools to steer through this ever faster-paced future? We want to be able to come out of this positive, refreshed, and in control.

In this article, we will present a cross-section of information by examining change. We will look at how we react to change, and how we can improve the reaction. In addition, we will present the skills we need to develop and make riding the wave of change positive, productive, and exciting.

GETTING TO RAPID-FIRE CREDIT DECISIONING

By Julia Chong

Models to predict the Now.

Banks are no stranger to risk, but some risks are more equal than others.

In Banking Insight's July/ August issue, our article, *Simulating Mega Risks of Tomorrow,* covered much of the response to the pandemic, including adjustments and alternatives which banks must consider in their risk modelling as historical analysis breaks down under the weight of scrutiny.

We continue our focus on credit risk, this time on banks' obligations and experimentations in improving the quality and efficiency of credit risk management.

But first, some necessary updates on the regulatory front.

GOAL POST IN SIGHT

Referred to by the market as 'Basel IV CVA', on 8 July 2020, the Basel Committee on Banking Supervision (BCBS) issued its final revisions to the credit valuation adjustment (CVA) risk framework, which is applicable to all derivatives (except those cleared through a qualifying central counterparty) and the fair value of securities financing transactions (SFTs). Its policy paper, *Targeted Revisions to the Credit Valuation Adjustment Risk Framework*, is based on consultations with and feedback from market participants in November 2019 and the proposed amendments align parts of the CVA risk framework with the final market risk standard and capital requirements for bank exposures to central counterparties.

This latest and final round of credit risk adjustments by the supervisory body is aimed at relieving banks' operational burden, incentivising central clearing, and promoting consistency in implementation. With this, the goal post is now in sight. Postponing the deadline for implementation by 12 months, the BCBS has now confirmed go-live on 1 January 2023.

FUTURE-PROOFING YOUR RISK MANAGEMENT FUNCTION

By Dr Eric H.Y. Koh

Key requirements for a comprehensive and sustainable competency development journey.

Banks are confronted with a limited risk management talent pool. One way of future-proofing your risk management function comprehensively and sustainably is by implementing a proposed integrated approach to competency development.

THE CHALLENGE

The 2008 global financial crisis (GFC) had severely dented both the financials and also the image of many global banks. Who could blame US taxpayers for being infuriated with the US$475 billion bailout? Ten years post-GFC, the pain continues as regulators worldwide penalised banks some US$375 billion for misconducts such as money laundering, securities fraud and London Inter-bank Offered Rate rigging. The crisis and these embarrassing penalties point to a fundamental problem: risk management weaknesses.

In order to address this problem, banks may resort to poaching risk management professionals, engaging consultants, or building better systems. Such actions may be necessary but they are not the panacea to the ongoing fundamental problem. Such actions, especially when taken in isolation, may neither be comprehensive nor sustainable. For instance, if you poach from your competitors, they may one day poach your professionals too and the musical chair continues with ever-increasing salaries but not necessarily better talents. Besides, it is pointless to hire professionals from another bank if they are not able or willing to integrate into your bank.

Some may suggest revisiting staff qualifications at various seniority levels. Others may suggest looking at staff retention. While these are important, publications on such matters abound. What seems lacking, however, is discussions on the key requirements for a comprehensive and sustainable competency development journey. This

Some may suggest **REVISITING STAFF QUALIFICATIONS** at various seniority levels. Others may suggest looking at staff retention. While these are important, publications on such matters abound.


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