Exclusive Interview with Ms Lee Jim Leng, Group Managing Director and Chief Executive Officer of Hong Leong Investment Bank Berhad

Next-gen Banking

BANKING INSIGHT

IDEAS FOR LEADERS | **JUNE 2022**

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Inflation:
WHY WE SHOULD ALL TAKE 'SMALL STEPS IN A DARK ROOM'

Banking's response will be a reflection of its values. Tread carefully.

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Is Your Board Thinking About Cognitive Diversity?

READY FOR WHATEVER COMES: MOVING TOWARDS CYBER RESILIENCE

WEB 3.0: SHOULD YOU CARE?

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‘Free from Financial Fragility’

This is the World Bank’s message in its *World Development Report 2022: Finance for an Equitable Recovery,* a clarion call for financial institutions to look beneath the surface and address fundamental shortcomings that get in the way of our efforts to build back better.

Carmen Reinhart, Senior Vice President and Chief Economist of the World Bank Group urges: “Prior to crises, it’s often the things that you don’t see that ultimately get you. There is reason to expect that many vulnerabilities remain hidden. It’s time to prioritise early, tailored action to support a healthy financial system that can provide the credit growth needed to fuel recovery. If we don’t, it is the most vulnerable that would be hit hardest.”

Although the share of non-performing loans remains largely unimpacted despite contraction in the economy, the organisation warns that “this may be due to forbearance policies and relaxed accounting standards that are masking significant hidden risks that will become apparent only as support policies are withdrawn”.

Its President, David Malpass, states: “The risk is that the economic crisis of inflation and higher interest rates will spread due to financial fragility. Tighter global financial conditions and shallow domestic debt markets in many developing countries are crowding out private investment and dampening the recovery. It is critical to work toward broad-based access to credit and growth-oriented capital allocation. This would enable smaller and more dynamic firms – and sectors with higher growth potential – to invest and create jobs.”

The report emphasises that the policy mix of a healthy financial sector must both free up resources for urgent investments and halt the spillover of financial risks, and highlights why improving institutional capacity to manage insolvency is mission critical:

- When households and businesses are saddled with unsustainable debts, consumption, job creation, and productive investment are suppressed.
- The longer the time needed to resolve a bankruptcy case, the larger the losses to creditors.
- Higher creditor losses reduce the availability of credit in the economy and raise its cost.
- The longer the bankruptcy process, the more time overindebted ‘zombie’ firms have to absorb resources that could support equitable economic recovery if they were redeployed to more productive firms.

WHAT IS... FINANCIAL FRAGILITY

A financial system’s susceptibility to large-scale financial crises caused by small, routine economic shocks.
~ Economists Roger Lagunoff and Stacey Schreft

Zombie Firms

While there is no universal or formal definition, it is generally agreed that zombie firms are economically unviable, manage to survive by tapping banks and capital markets, and identifiable by these quantitative benchmarks:

1. Leveraged above the sample annual median
2. Interest coverage ratio (ICR) below one
3. Negative real sales growth over the preceding three years.

The high leverage and low ICR help identify firms that cannot cover their debt-servicing costs, while negative sales growth identifies firms with low growth prospects, as sales growth is a good predictor of firms’ future performance. ~ *US Federal Reserve*

Next-gen Banking

Reporting by the Banking Insight Editorial Team

Where the game changer is you.

Hard on the heels of one of the greatest crises in history, banks have been rapidly adapting on multiple fronts – new regulations, emergent technologies, customer expectations – to remain solid, agile, and relevant. It is fitting then that this issue of *Banking Insight* taps into the knowledge bank of **MS LEE JIM LENG**, Group Managing Director and Chief Executive Officer of Hong Leong Investment Bank Berhad, whose style throughout her 30-year long career is defined by the constant pursuit of innovation in all aspects of life. Beyond technical knowledge, her spirit – an unorthodoxy coupled with pragmatism – is what the industry needs to successfully transform into next-generation banks. Here are her thoughts.

Q ***You've long been an advocate for finance to look beyond mere profit and prioritise values. In your opinion, how has the landscape for environmental, social, and governance (ESG) issues changed in the past decade and do you feel there is genuine buy-in amongst the larger banking community to the principles of sustainability?***

The landscape has definitely become more robust and organised in the attempt to address ESG issues more effectively with the imposition of well-

INFLATION:
WHY WE SHOULD ALL TAKE 'SMALL STEPS IN A DARK ROOM'

By Angela SP Yap

BANKING'S RESPONSE WILL BE A REFLECTION OF ITS VALUES. TREAD CAREFULLY.

IS YOUR BOARD THINKING ABOUT COGNITIVE DIVERSITY?

By Julia Chong

The culture of 'think different' begins at the very top.

Mention the word 'diversity' and the first thing that comes to mind is likely gender, ethnicity, or age; but have you heard about cognitive diversity?

Many corporates and boards are actively broadening the gender, ethnicity, and age spectra of their recruits, teams, and committees. Getting more women of merit into positions of leadership, ensuring ethnically diverse representation on boards, actively recruiting from a range of experiences and backgrounds – these measures come under the ambit of demographic diversity, which is the differences in age, gender, ethnicity, and race. Yet, no matter how hotly these goals are pursued, it addresses only part of the diversity equation.

BUCK THE TREND

What's missing is an equal emphasis on cognitive diversity, described by Janine Schindler, a Forbes Councils Member and master certified coach, as "the inclusion of people who have different ways of thinking, different viewpoints, and different skill sets in a team or business group".

Her thought leadership piece, *The Benefits of Cognitive Diversity,* bemoans that there is significant resistance to diversity of thought; people and organisations tend to hold back and seek comfort in the same. "Perhaps," she explains, "they want to hire an exact replica of Ted from accounting because he was so good at his job. Or, there are managers who feel comfortable hiring people who graduated from their own alma mater. There are even those who attain a new position with a new employer and then proceed to hire their former colleagues from a previous employer, one at a time, until the old team is all back together."

"There is no doubt that people feel comfortable surrounding themselves with

"Overall, we believe that a **COGNITIVELY AND DEMOGRAPHICALLY DIVERSE BOARD IS BEST EQUIPPED TO PERFORM** its obligations and help a company compete, innovate and respond to disruption in today's challenging international markets."

SHOULD BANKS BE THE 'CLIMATE POLICE'?

By Bob Souster

Bankers can assist in incremental transition and champion initiatives for a better world.

All over the world, large banks, and many smaller ones, have embraced strategies and policies consistent with the need to reduce the impact of climate change. There is some debate as to whether this should be an ethical obligation of organisations, or merely supererogatory, or in plain English, something they will be applauded for but are not obliged to do.

At a webcast by Bangor University on 23 February 2022, Alex Sanchez, CEO of the Florida Bankers Association in the USA, warned that bankers should not be expected to be the 'climate police'. The essence of his argument was that if governments are committed to sustainable environmental goals, they should enact legislation that will direct banks to put policies in place that are consistent with this. Ultimately, if legislators want banks to stop lending to fossil fuel companies or any other industries that desecrate the environment, it is up to them to put the necessary laws in place. Otherwise, said Sanchez, the fiduciary duty of bankers is to serve their customers as the trusted advisers that they are expected to be. He has a point.

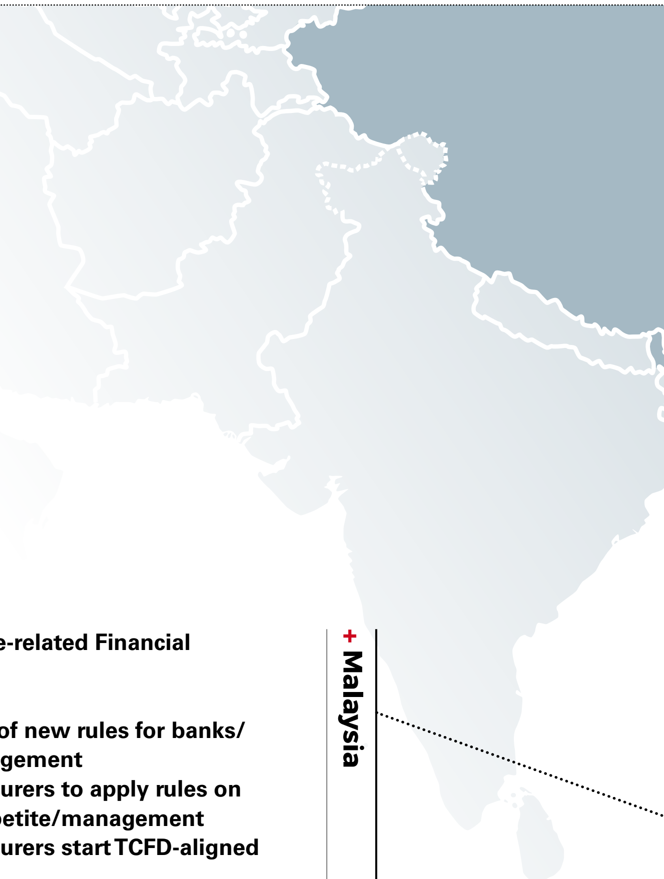
The detrimental effects of climate change are generally accepted and there have been many supranational and national efforts to mobilise **COMMERCIAL ORGANISATIONS TO CONTRIBUTE TO THE REDUCTION OF THE POTENTIALLY DEVASTATING EFFECTS ON FUTURE GENERATIONS.**

The detrimental effects of climate change are generally accepted and there have been many supranational and national efforts to mobilise commercial organisations to contribute to the reduction of the potentially devastating effects on future generations. Few would disagree with the noble aspirations of the sustainable development goals agreed by the United Nations and ASEAN, which if achieved should ensure a better quality of life for our children, their children and subsequent generations.

Yet, there are many arguments suggesting that banks, and indeed any commercial business enterprise, should not rush into hastily formulated environmentally friendly policies. An example is the commitment of many countries to replace road vehicles driven by internal combustion engines with electronic vehicles (EVs). At face value, this might appear to be a logical step, supported by visions of congested cities and towns with many thousands of cars and trucks spewing out pollution every day. However, the analysis is thin and the human costs have not been analysed thoroughly at all. EV batteries have a projected life of 10 years, which in practice suggests that the market value of a second-hand EV will plummet after about 5 years. In addition, there is a human cost in terms of disposal of spent batteries as well as the misery caused by child labour in many countries that mine the cobalt necessary to manufacture them.

ASIA PACIFIC ESG REGULATORY CALENDAR

By Moody's ESG Solutions



More information on the latest regulatory state of play across key jurisdictions for 2022 and beyond available in Moody's ESG Solutions' quarterly Regulatory Calendar.

The information in this infographic is as of April 2022 and is an excerpt from the Regulatory Calendar document.*

+ Malaysia

Legislation: **Taxonomy**
Timing: **2H2022: Final Securities Commission Malaysia voluntary taxonomy standard**

The Securities Commission Malaysia is currently developing a voluntary principle-based taxonomy encompassing four environmental and two social objectives.

Segments Impacted: **Banks, Asset Managers, Insurers & Corporates**

Legislation: **Task Force on Climate-related Financial Disclosures (TCFD) Reporting**
Timing:

- **1 June 2022: Entry into force of new rules for banks/insurers on climate risk management**
- **31 December 2023: Banks/insurers to apply rules on governance, strategy, risk appetite/management**
- **31 December 2024: Banks/insurers start TCFD-aligned disclosure**

Malaysian authorities have tabled proposed new rules for the inclusion of climate risks in banks' and insurers' risk management processes, notably mandating them to start applying TCFD-aligned disclosures by 31 December 2023 for FY2024.

Segments Impacted: **Banks & Insurers**

+ Singapore

Legislation: **Banking Rules**
Timing: **March 2022: Start of Monetary Authority of Singapore's (MAS) first climate stress testing for banks**

In March 2022, the MAS will conduct its first climate stress test on banks which will reference the Network for Greening the Financial System's climate scenarios.

Segment Impacted: **Banks**

Legislation: **Sustainable Reporting**
Timing:

- **June 2022: Banks, insurers and asset managers are expected by MAS to make voluntary climate disclosures**
- **By 2023: All issuers will need to report on a 'comply or explain' basis for financial year (FY) 2022**
- **By 2024: Mandatory reporting for issuers in the financial industry, agriculture, food and forest products industry, energy industry for FY2023**
- **By 2025: Issuers in the materials and buildings industry and transportation industry also scoped in mandatory climate reporting for FY2024**

The Singaporean authorities have finalised their framework for mandatory climate disclosures for issuers built on the TCFD recommendations.
In parallel, the MAS expects financial institutions (banks, asset managers, insurers) to start reporting on climate risks according to the TCFD recommendations from June 2022, however this is not mandatory. The MAS is expected to consult on mandatory climate disclosure rules for financial institutions in the coming months.

Segments Impacted: **Banks, Asset Managers, Insurers & Issuers**

Source: Moody's ESG Solutions; Graphics/Presentation by AICB

PEDAL TO THE METAL FOR DIGITAL CURRENCIES

By Kannan Agarwal

All eyes on CBDC pilots.

The central bank digital currency (CBDC) landscape is bursting with activity. In a previous issue of *Banking Insight*, we reported that over 85% of central banks polled by the Bank of International Settlements (BIS) in October 2020 confirmed that they were engaged in some form of work on CBDCs. Coincidentally, around the same time, the Sand Dollar – the Bahamas' digital iteration of its fiat currency – was piloted and China's digital renminbi, the e-CNY, was tested in several cities.

Since then, the pace has ramped-up in the CBDC space, mostly in the wholesale segment, in both emerging and advanced economies. At least 100 jurisdictions are currently experimenting with some form of CBDC, with the most successful demonstrations coming out of those which partner the spectrum of financial stakeholders – banks, non-banks, tech companies, advisory firms – in designing their CBDCs. Here's a round-up of some of the latest experiments:

By Christophe Barel

Financial institutions must act in concert to defend against threat actors.

READY FOR WHATEVER COMES: MOVING TOWARDS CYBER RESILIENCE

Supply Chain Critical

By Chartered Banker Institute, UK

Corporates are tending to their supply chains with increased care and attention – something financial services providers are only too keen to help them get right.

The supply chain is a simple enough concept: a business works with a series of different suppliers to help construct a product or service that then relies on being sold on to various buyers. The timing, location and financing of all the necessary components needed to come together to make things happen, all stand or fall on the ability of everyone across the chain to execute and manage their responsibilities sufficiently well.

Unfortunately for businesses of all sizes, the realities of factors outside their control – from sudden geopolitical shocks, to legislation, environmental or natural disasters – have made supply chain management a business-critical issue that is now a strategic as well as a logistical concern.

For financial services providers, the change in focus over the past decade to prioritise a more holistic engagement strategy with corporate banking customers has brought with it various opportunities. These include building out more innovative financing instruments that can help support the cash flow and working capital needs for the ambitious company with targets to meet.

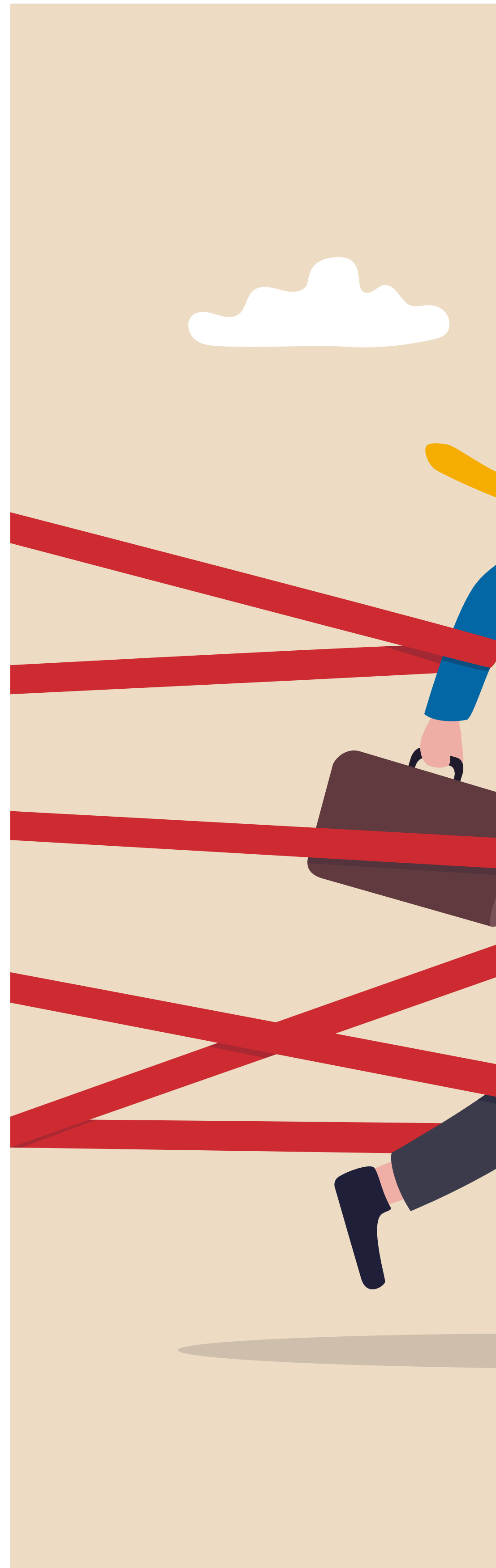
With this in mind, supply-chain-specific financial products have gained much traction in recent years as an enlightened solution to the commercial challenges companies face in navigating increasingly complex supply chains.

But what does supply chain finance (SCF) currently look like and what makes it a compelling proposition for businesses?

Matthew Davies, Director of Invoice Finance & Asset Based Lending, UK Finance, says that, although it is often referred to as 'reverse factoring', the term actually encompasses a greater diversity of products intended to help free up cash across the supply chain.

"Everybody typically defines SCF slightly differently," he points out. "But at a high level we would define it as simply a buyer-led finance facility – where it is put in place by the corporate buyer of goods or services in order to support the businesses that supply it. It can be provided

DON'T GIVE UP ON HAPPINESS



FREEDOM WITHIN THE FRAMEWORK: THE COMPETITIVE ADVANTAGE IN A CHANGING WORLD

By Crystal Cha

Freedom and discipline need not be at odds with each other.

When discussing freedom and structure within organisations, the two concepts are often seen as polar opposites at odds with each other. Common wisdom holds that small companies can allow autonomy and flexibility but grow more rigid as they scale. For managers trying to strike a balance between what is often seen as opposites, it can feel like a choice between the lesser of two evils: a 'Wild West' type of freedom or a bureaucratic hellhole from a *Dilbert* comic strip.

But freedom and control aren't necessarily opposites; they can work hand in hand within a framework that provides structure without being suffocating. Dr Thun Thamrongnawasawat, Professor of Practice at the Asia School of Business and prolific leadership author, teaches us how trust and autonomy can enable agility and innovation, how to balance freedom and good governance, and how leaders and managers should rethink the way they manage their people, using the approach called Freedom Within the Framework.

WEB 3.0: SHOULD YOU CARE?

By Kannan Agarwal

WHAT IT IS, WHAT IT COULD BE, WHY IT MATTERS.

In the 1990s, less than 1% of the global population had access to the internet. Today, that figure has leapt to 59.5%, equivalent to 4.66 billion people, with 92.6% of them accessing it via their mobile devices, according to Statista.

This ever-growing digital footprint has resulted in an unprecedented number of breach-of-privacy scandals – Cambridge Analytica, LinkedIn, Equifax, to name a few. Unsurprisingly, McKinsey & Co's recent survey of American consumers found that more than 50% of consumers do not trust the companies and brands they patronise – including financial institutions – to protect their private data. Other perception surveys around the world point to the same.

It is no wonder that many are now opting to either deactivate their social media user accounts in attempts to reduce their digital footprints or move towards an upcoming third generation of the internet known as Web 3.0, in order to protect their data from the companies who access and may even be profiting from it.

So, what exactly is Web 3.0?

BOOMS & BUSTS

Although inventors like Nikola Tesla had visions of a "world wireless system" as early as the 1900s, it wasn't until the 1980s, when British computer scientist Tim Berners-Lee invented the world wide web (or 'www' as we know it today) that the online world manifested into something tangible, comprehensible, and useful for the everyday man.

This early version is considered Web 1.0, static websites where data is accessible online and information is pushed to users; no interaction, no engagement. Browsers like Netscape and MSN contained millions of 'read only' websites that were built for the sole purpose of sharing information with a large audience, an information superhighway that was a massive collection of content oligopolised by phone companies and cable networks. Millennials today will snicker looking at an old-school Yahoo browser with word-only search capabilities (a far cry from Google Lens and other interactive features that are commonplace today), but back then, the notion that you could get information any time, any day while sitting at your desk was nothing short of revolutionary. It led to a frenzy of interest and speculative investing in all internet-based businesses, which eventually resulted in the dotcom crash in 2000.

With millions of investors having crashed and burned in that encounter, interest in the internet waned. It was only around 2007, when the next disruption of the internet went mainstream and the tech sector started getting hot again. This is Web 2.0, a transition from basic read/write functions to social networks; the internet was abuzz and became the place for people to virtually gather, interact, and collaborate. The exponential rise in blogs, online fora, private chatrooms, wikis became *de rigeur*.

By today's standards, if you don't have a social network footprint on one of the main social media platforms – Facebook, Google, LinkedIn, Twitter, YouTube,

EXPONENTIAL THINKING:
FUTURE PRINCIPLES TO REDESIGN OUR BRAIN'S OPERATING SYSTEM

By Derek Ariss

Experiment, stay open-minded, be flexible.

Welcome to a period in the world when things are getting extremely interesting. Times are changing and, for most of us, the skills that we have developed in the past are not the skills that we will need to navigate our way forward into the future.

For example, many of us will remember a time, perhaps only one generation ago, when you could go to school, graduate, look for a job, and eventually get employment. If you worked hard, you would keep that position for the rest of your work life. Even with changes, most of us had significant moments of stability. Today, having a good education is still very useful; however, finding a job for a lifetime is almost impossible. More importantly, the chances are high that your present work situation will last only about 48 months. Career changes will happen regularly and more frequently. Pre-Covid, it was estimated the average person today would change jobs over 12 times throughout their career.

Life is very different now than a few years ago, mainly due to technology. Thanks to technology driving change so quickly, a lot of the past patterns can't be used as a projection of where we will be in the future. Courtesy of technology, information is available to everyone who has access to the web. Due to this, people, if they choose, can make great strides forward in all areas of life, be they commercial or personal. Technology has also been shifting and changing the area of financial services. In finance, technology drives multiple organisational structures from past centralised structures to now become decentralised structures, e.g. Traditional centralised financial models are now being shifted to decentralised finance models. Technology impacts our currencies and storage of value, where digital currency formats are constantly hitting the headlines of current news topics ranging from digital dollars to NFTs (non-fungible tokens).

In finance, technology drives multiple organisational structures from past centralised structures to now become decentralised structures, e.g. Traditional centralised financial models are now being shifted to decentralised finance models. **TECHNOLOGY IMPACTS OUR CURRENCIES AND STORAGE OF VALUE,** where digital currency formats are constantly hitting the headlines of current news topics ranging from digital dollars to NFTs (non-fungible tokens).

SPACS: ALL THAT GLITTERS MAY NOT BE GOLD

By Chartered Banker Institute, UK

WILL SPECIAL PURPOSE ACQUISITION COMPANIES STILL BE MAKING HEADLINES DURING 2022, AND ARE INVESTORS REALLY WRITING THEM A BLANK CHEQUE?

For the unfamiliar, a special purpose acquisition company (SPAC) is a form of 'cash shell' investment vehicle that raises funds from investors at an initial public offering (IPO) for the primary purpose of taking over an existing company. Typically, the target company is unlisted, hence merging with a listed SPAC presents opportunities both for the SPAC investors to enter the private equity space, and for the target company to go public without the regulatory hassle of conducting its own IPO.

The target company, however, is usually undetermined and universally undisclosed at the time of IPO. In essence, investors in a SPAC IPO do so without knowledge of which company they will ultimately be invested in – they are often said to be handing over a 'blank cheque'.

For example, at the time of Digital World Acquisition Corp's IPO in August 2021, investors were unaware that the SPAC could become a vehicle to take Donald Trump's Trump Media & Technology Group public, under controversial plans announced just weeks later.

While SPACs are not new, their popularity and prevalence have surged during the pandemic. In 2020 and 2021, respectively, 248 and 613 SPACs were floated on US exchanges, raising a total of USD83.4 billion and USD162.5 billion from investors. This compares with 59 SPAC listings during 2019, raising GBP13.6 billion in total – itself a more than decade-long high, according to data from spacinsider.com.

I predict that SPACs will continue to make headlines in 2022, not least because, following a slowdown in mid-2021, SPAC activity appears to be gearing up again. In addition, as time begins to run out for SPACs formed at the start of this wave, the value delivered to investors through SPAC deals will attract keen scrutiny.

SAFEGUARDS IN PLACE

At face value, the SPAC concept is strikingly alike the opportunity described in the following cautionary anecdote. Famously, it is said that an 18th century promoter "absurdly" and "preposterously" lured irrationally credulous investors of 1720 London, during the South Sea Bubble period, to invest in "a company for carrying on an undertaking of great advantage, but nobody to know what it is" (Mackay, 1841).

However, reassuringly, modern SPACs feature several safeguards which can, in principle, reduce investors' exposure to downside risk. Above all else, the IPO proceeds are held in a trust account until a merger is conducted. If the SPAC fails to identify a merger target within a pre-defined period (usually two years), it is liquidated, with the balance of the trust account returned to shareholders, normally gross of fees.

Even if a merger opportunity is identified, and a majority of SPAC shareholders vote to approve the transaction, each shareholder still has the chance to redeem their share capital from trust. Alternatively, they can sell their shares at the market price if that is higher. On the flip side, an investor who wishes to remain invested post-merger may gain additional exposure to upside potential through warrants,

BRAND LOYALTY HAS A NEW METRIC

By Julia Chong

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