IDEAS FOR LEADERS | JUNE 2018

banking insight

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'NEXT SET OF OPPORTUNITIES FOR BANKS IS IN SLOW MONEY'

Catching Up With the Platform Economy: A New Ecosystem of Platforms

THE 'ABSOLUTELY' GENERATION

BANKING IN THE DIGITAL AGE

DISRUPTION. REINVENTION. REVOLUTION.

Defining a future blueprint for empowering businesses to be ready for a digitally invasive world, where the touch points and interactions are different from traditional models

DATA IN THE DARK

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MALAYSIA FEATURED IN THE LIST OF TOP 25 BANKS IN ASIA PACIFIC

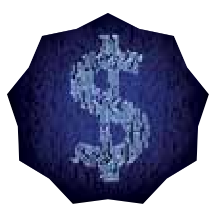
According to The Banker's Top 25 Banks in the Asia Pacific 2017 report (Excluding China and Japan) 2017, Malaysia Building Society entered the highest movers list with a Tier 1 capital increase of 35.36%, while Maybank grabbed the 17th position. Indonesia-based Bank Mandiri and Bank Rakyat Indonesia also entered the highest movers list for the first time. The rise of Indonesian banks in the list has led to a drop in rankings for a number of Taiwanese and Thai banks. Australia-based ANZ Banking Group was ranked first, moving the erstwhile topper National Australia Bank to the second position. The total number of South Korean banks remain unchanged in 2017 with seven banks in the rankings. ✱

"85% OF BANKS CITE IMPLEMENTATION OF A DIGITAL TRANSFORMATION PROGRAMME AS A BUSINESS PRIORITY FOR 2018"

— *Global Banking Outlook 2018, Ernst & Young.*

The Global banking Outlook 2018 published by Ernst & Young states a complete digital transformation is imperative for banks to protect themselves from "the impacts of future downturns on financial performance and business continuity". It states that banks need to channelise investments on "end-to-end processes and infrastructure" to improve efficiency of the entire organisation instead of investing in specific projects, especially customer-facing interfaces. The global consultants recommends banks to be more "digitally mature". ✱

The Digi-Way

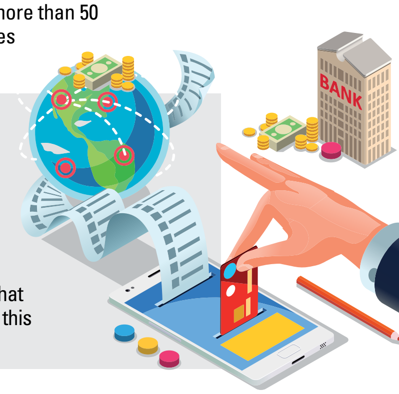


Thailand's central bank Bank of Thailand is developing its own **digital currency** to conduct interbank settlements through 'Project Inthanon'. It aims at exploring the use of the wholesale central bank digital currency in back-office operations and is expected to make transactions cheaper and faster.

DEALING WITH TRANSITION

In 2017, the UN Environment Programme Finance Initiative convened 16 leading banks from four continents to publish a jointly-developed methodology for an increased understanding of climate change and impact of climatic actions on business for banks. Following this, a Guide was published on 26 April 2018, which is expected to help banks manage risks associated with the transition to a low-carbon economy. It also provides guidance on methods of seizing opportunities arising out of such transitions.

HONG KONG'S CENTRAL BANK recently issued revised guidelines for virtual banking entities following a thorough public consultation. The central bank has already received enquiries and interest applications from more than 50 companies and is aiming to award licences for virtual banks by the end of the year. ✱



PwC'S 2017 DIGITAL BANKING SURVEY reveals that consumer banking habits have continued to evolve, especially since users now have a choice of where and how they bank, thanks to the availability of digital banking tools. However, traditional banking is still preferred by some. The report concludes that "banks need to think 'mobile first' to win in this market". ✱

In its April 2018 publication, Asian Development Outlook 2018: How Technology Affects Jobs, the Asian Development Bank mentioned technology will be the driving force behind better-paid jobs and economic growth. Although new technologies replace manpower, they also "unleash countervailing forces that generate more jobs". Acknowledging the truth that technology replaces jobs, it suggests governments across developing Asia to respond to the challenge by exploiting the new opportunities they provide. This can be done by focussing on "skills development, labour regulation, social protection and income redistribution". ✱

Ethics, Integrity and Professionalism

THE THREE PILLARS OF FINANCIAL STABILITY

IN AN EXCLUSIVE INTERVIEW, **PRASAD PADMANABAN, CHIEF EXECUTIVE OFFICER AT THE ASIAN INSTITUTE OF CHARTERED BANKERS** SHARES INSIGHTS INTO THE EFFECT OF PROFESSIONALISING BANKERS IN THE MALAYSIAN BANKING INDUSTRY.

Q You have nearly two decades of experience in the banking and financial services industry, with an exposure to multiple economies across the world. Could you please give us a brief overview of your career?

I began my career at CIMB in Corporate Finance over 20 years ago then moved to Singapore with Barclays de Zoete Wedd, now known as the Barclays Investment Bank. Following that, I moved to London to work with Société Générale and later with J. P. Morgan for nearly 12 years, starting in London and then Hong Kong. I later joined MUFJ, the securities arm of what is now MUFG – the Japanese bank, in Hong Kong for over four years. I was the Executive Director at MUFJ and J. P. Morgan, working in various markets capacities covering all manner of Asia-ex and Japan securities from fixed income to equity derivatives.

Interestingly, I began my career overseas at the beginning of the Asian Financial Crisis in 1997 and have survived the SARS epidemic in Hong Kong as well as

Banking in the Digital Age

DISRUPTION. REINVENTION. REVOLUTION.

Defining a future blueprint for **empowering businesses to be ready for a digitally invasive world,** where the touch points and interactions are different from traditional models.

Mohammad Aamer, a young Malaysian professional, sat pondering over investment ideas for his recently received bonus payout. He was inclined to put his money in a fixed deposit, a relatively risk-free option. During his lunch break, he Googled the interest rates offered by various banks. When he returned home later that evening and logged on to Facebook, he noticed several 'sponsored' bank adverts. These were advertisements on their fixed deposit interest rates and other secured products. Over the next few days, he noticed that such advertisements kept appearing on most of the websites and webpages he visited, gently reminding him of his idle funds.

The following Sunday, while sipping on his *teh tarik* at home, he zeroed in on a particular bank that offered the most attractive rates. Perusing their website, he noticed that the bank had a good home loan proposition and their credit card offer seemed attractive too. He applied for a credit card along with the fixed deposit. He was impressed with

THE OPEN BANKING BATTLE FOR

Hearts and Minds

DISRUPTION FOR BANKS ISN'T JUST COMING FROM TECHNOLOGY. **IT'S COMING FROM LEGISLATORS AND POLICYMAKERS TOO.** THE EU COMMISSION'S TASK FORCE ON FINANCIAL TECHNOLOGY (TFFT) AND THE OPEN BANKING INITIATIVE DON'T SOUND OMINOUS, BUT THEIR DIGITAL PROPOSALS HAVE PROFOUND IMPLICATIONS FOR BANKING.

Bankers should mark the year 2021 in their diaries. It's the year the industry could be summarily disrupted. By then, customers will be in full control of their data and the banking experience will be frictionless, full of new digital offerings, while the big incumbent banks could be transformed from one-stop shops to open platforms hosting a range of financial services providers.

That's if you believe the media buzz, the tech evangelists and the change-makers. "Listening to the tech hype three years ago, you would have sold all your bank shares," says Mark Curran, Director of Open Banking Strategy at CYBG, owner of Clydesdale and Yorkshire Banks. "Come 2018, the market hasn't been turned on its head. But, yes, there is more willingness now to team up with other players."

The fact is policymakers in London and Brussels want more competition. "Increasingly, regulators and consumers are demanding greater transparency and control over how data is collected and used," says Sam Pfeifle, Content Director at the International Association of Privacy Professionals.

BY CHOW SANG HOE

CATCHING UP WITH THE PLATFORM ECONOMY

A NEW ECOSYSTEM OF PLATFORMS

PLATFORM-BASED ACTIVITIES ARE CHANGING AND DISRUPTING THE TRADITIONAL STRUCTURE; HOW CAN BANKS ENTER THIS ARENA?

Enterprises (banks included) are now at the cusp of something new, something different. With the onset of the 'digital platform' economy, a new wave of platform-based activities is changing and disrupting the traditional structure of industries, and significantly impacting our socio-economic behaviours – it is changing how we live, how we generate income and how we interact with each other, and it will spur both opportunities and challenges for banks.

The rise of platforms has transformed competition – the new competition is more complex and superfluid. Acknowledging this new wave, a number of Malaysian banks have embarked on strategic partnerships and acquisitions with fintechs to foster a collaborative ecosystem of platforms.

A SUPERFLUID PLATFORM THAT LEVERAGES ON COMMUNITY INTERACTIONS

So, what exactly is a platform? And what are the new strategies for banks and enterprises to consider?

A platform provides the infrastructure and rules for a marketplace – bringing together producers and consumers. It allows multiple participants, including producers, users/consumers, providers and owners to connect to it, interact with each other and create and exchange value.

The ecosystem's players fulfil four main roles (Refer **Chart 1**). Whilst owners control intellectual property and governance, providers facilitate the interface platforms, producers supply goods and services, and users consume the goods and services. Roles between players are interchangeable and fluid, e.g. players can swap roles – users can ride with Grab and drive for it as well. This shape-shifting platform can abruptly transform an incumbent's set of competitors.

The exchange of huge amounts of data between providers and users provides valuable datasets for consumer analysis and setting market strategies. More importantly, as producers and consumers

Lean, Mean Retail Machine

What it takes to create the **mobile-centric, digitally-anchored** branch of the future.

For the first time since 'financial technology' (fintech) entered the mainstream banking lexicon, 2016 global investments in the sector plunged to USD25 billion from its prior-year peak of USD47 billion.

Far from pessimistic though, the Basel Committee on Banking Supervision (BCBS) reasoned: "Fintech, in general, may well be hyped and some innovations may already be entering the 'trough of disillusionment', but, as history shows, this does not necessarily mean that fintech will have no lasting effect on the banking sector."

The global regulator's findings in its February 2018 report, 'Sound Practices: Implications of fintech developments for banks and bank supervisors', is its most comprehensive (and perhaps, most frank) paper on fintech to date.

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Merging historical research, current media, fintech products and scenario analyses, a member survey and 10 recommendations for financial institutions, the BCBS states: "While some market observers estimate that a significant portion of banks' revenues, especially in retail banking, is at risk over the next 10 years, others claim that banks will be able to absorb or out-compete the new competitors, while improving their own efficiency and capabilities."

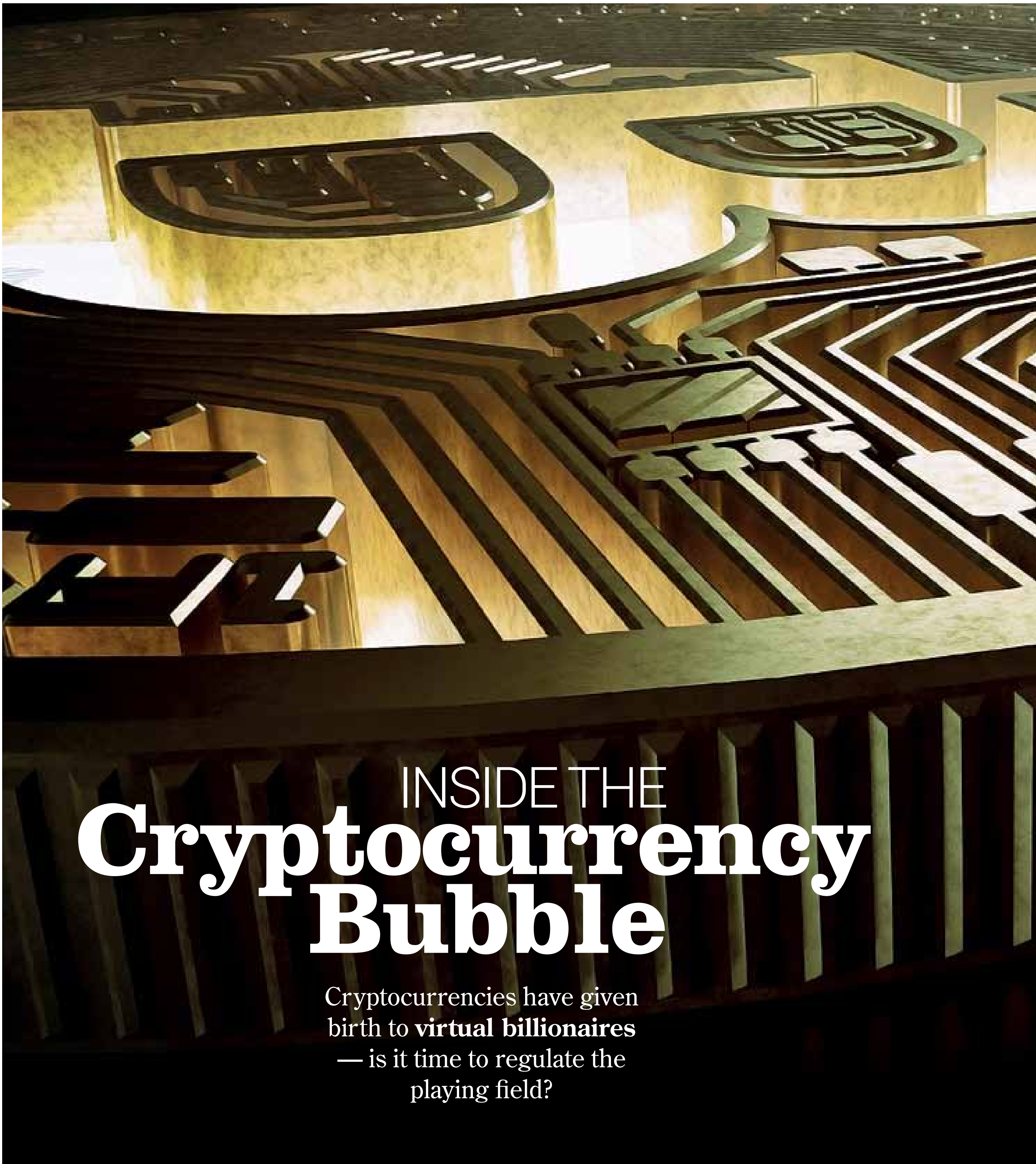
In this context, the report simulates five possible end-game scenarios in the incumbent-challenger face off. Though the jury is still out, many are betting their dollars on the emergence of Retail 2.0 — a lean-cost and more powerful version of its predecessor, one that is mobile-centric and digitally-anchored.

BIONIC TRANSFORMATION

Branch operations are a bank's most expensive yet essential capital expenditure. Some experts estimate that branch networks account for roughly 30% of a financial institution's total operating costs and 45% of all banking revenue.

In Asia, the cost is likely higher. Bain & Company's Financial Services Brief flagged it as an "acute problem in some Asian countries such as China, India and Thailand" as

BY STEPHANIE FRANCESCA PEREIRA



INSIDE THE Cryptocurrency Bubble

Cryptocurrencies have given birth to **virtual billionaires** — is it time to regulate the playing field?

 | BY ROBERT SOUSTER

the 'absolutely' generation

While banks are judged on the basis of what is **'right' and 'wrong'** with nothing in between, there remains a grey area which cannot be ignored.

We live in a world that is becoming increasingly polarised. In the US, there are those who believe President Trump to be the best thing to happen to the country while others loathe him. In the UK, those who voted to stay in the European Union (so-called 'remainers') accuse those who voted to leave of being 'stupid', which those who are in favour of leaving accuse remainers of being equally stupid. The chances are that with a voting outcome of 51: 49 in percentage terms, some voters from each side will be stupid but the vast majority will not. It is small wonder that the word 'absolutely' has become such a common response in television and radio interviews. It seems that for so many national and world issues, opinions polarise in black and white, with few shades of grey.

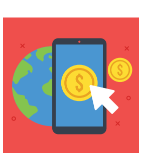
Individuals have a right to voice strong opinions, and this has important implications for how business is conducted. In 2014, American Express carried out a survey of customers of banks, and one conclusion was that the majority of customers believed that the maximum waiting time when placed on hold by a call centre was 13 minutes. Yet, only three years later, a survey by Arise concluded that nearly two-thirds were prepared to wait for two minutes or less, while 13% stated that their expectation was not to wait at all. In the same survey, just over 14% said that they never contact a call centre as they anticipate an unreasonable waiting time. These findings demonstrate that customers do have expectations, but over time those expectations shift. Given that the old branch banking model is no longer financially sustainable, the increasingly demanding standards expected by customers present a challenge. Banks are not suddenly going to reopen branches that have been closed, just as criticisms of future branch closures will be just as vociferous as those of the past.

It is plain to see that banks are in the public spotlight, and what banks do (or do not do) will often be judged in terms of right and wrong, with nothing in between. When we consider this in ethical terms, academics use the phrase 'ethical absolutism'. Behind this term is an interesting history.

It is plain to see that banks are in the public spotlight, and what banks do (or do not do) will often be judged in terms of right and wrong, with nothing in between. When we consider this in ethical terms, academics use the phrase 'ethical absolutism'.

THE CHANGING FACE OF THE MOBILE PAYMENT INDUSTRY

THE UPWARD TRAJECTORY OF THE **MOBILE PAYMENT INDUSTRY MUST BE MATCHED WITH ROBUST REGULATORY** MEASURES TO MITIGATE THE RISK OF FRAUD.



+ As the mobile payment industry grows by leaps and bounds across the globe, concerns about safety and security will arise, hence the importance of ensuring that regulations keep pace with the rapid changes in technology and security risks.

In the move towards becoming a cashless society, economies around the world have been driving the growth of the electronic payments industry. Estimates show that 62.9% of the world's population now possess mobile phones, and the number of mobile users is expected to cross the 5-billion mark by 2020.

As newer and better technology continues to surface, people are increasingly warming up to electronic modes of payment. In Malaysia alone, the percentage of mobile banking subscribers to the total number of people who have a mobile connection has increased from 0.7% in 2005 to 27.1% in 2017, while the volume of cheque issuances has decreased by almost 42% since 2011. These figures will only continue to rise in the coming years. Globally, banks have realised that mobile payment is an effective way to reach out to unbanked or underbanked communities and thus, are moving towards a completely inclusive economy.

As the saying goes, "With great power comes great responsibility". As the mobile payment industry grows by leaps and bounds across the globe, concerns about safety and security will arise, hence the importance of ensuring that regulations keep pace with the rapid changes in technology and security risks. With unscrupulous individuals and hackers lurking in the online and mobile space, the number of scams and fraud cases are on the rise.

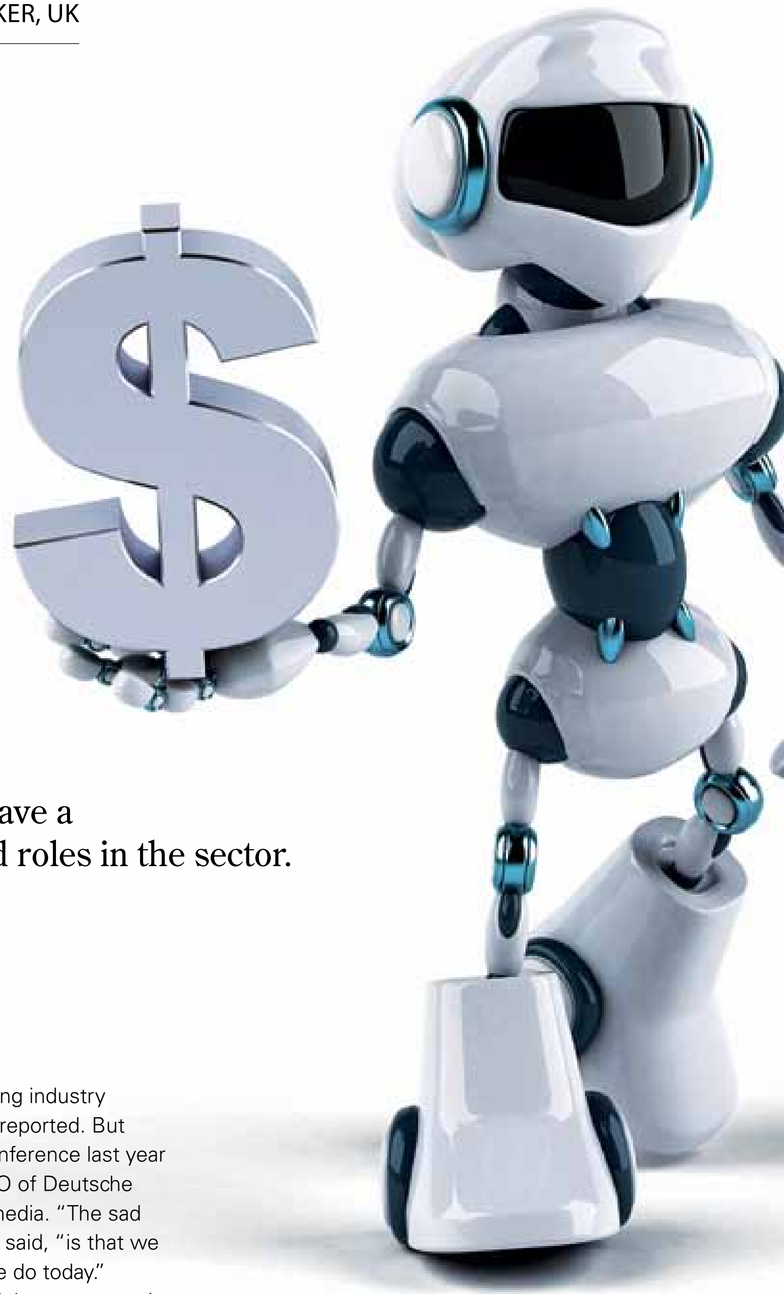
THE EUROPEAN UNION

The EU was among the first to introduce stringent regulations for the payments industry back in 2007, through the Payment Services Directive (PSD 1).

With technology having changed completely since then, and the industry facing a rising number of fraud cases, the EU felt the need to revisit the regulations. Accordingly, the revamped Payment Services Directive (PSD 2) was introduced in October 2015.

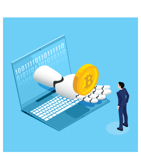
PSD 2 brings several important changes to payment regulations and aims to:

- Reduce the cost of transactions. This includes a ban on additional



I, Robot – you, banker?

As NatWest tests artificial intelligence with a bot called Cora, promising lifelike customer experiences, there's a growing realisation that high-tech has an important role to play in banking services. This will have a significant impact on human jobs, skills and roles in the sector.



+ Today, many tasks previously too complex for automation can be done quickly without human intervention, driven by massive yet affordable processing power, endless cloud storage and strong encryption.

Profound comments by banking industry luminaries tend to be under-reported. But those by John Cryan at a conference last year in Frankfurt when he was still CEO of Deutsche Bank were jumped upon by the media. "The sad truth for the banking industry," he said, "is that we won't need as many people as we do today."

He was predicting a bonfire of jobs as automation tightens its grip. "In our bank we have people doing work like robots. Tomorrow we will have robots behaving like people," he explained. "It doesn't matter if we as a bank participate in these changes or not – it's still going to happen."

Banking used to be driven by the real-life judgement of a local bank manager. These face-to-face conversations were replaced in the 1990s by scripted call-centre interactions. Today, many tasks previously too complex for automation can be done quickly without human intervention, driven by massive yet affordable processing power, endless cloud storage and strong encryption. According to research from Fujitsu's Technology in a Transforming Britain report, two-fifths of the British public believe bank tellers will disappear within ten years.

"How we are using call centres is also changing due to new technology. There is a lot more options around self-service and chat bot technology which are starting to reduce the need for human-to-human call centre conversations," says Mark Curran, Director of Open Banking Strategy at CYBG, which owns Clydesdale and Yorkshire Banks. "AI is getting better. It's not tinkering at the edges. It is happening at the core."

BY DR. THUN THAMRONGNAWASAWAT

HOW TO WORK WITH AN AUTOCRATIC LEADER

AUTOCRATIC LEADERS MAKE CHANGES HAPPEN, BUT HOW CAN SUBORDINATES NAVIGATE THIS LEADERSHIP STYLE?

Data IN THE Dark

WHEN ASKED WHAT THEY UNDERSTOOD ABOUT THE NEW OPEN BANKING REGIME, MANY RETAIL BANKING CUSTOMERS DREW A BLANK. WHAT DOES THIS LACK OF AWARENESS MEAN FOR THE BANKING SECTOR? AND HOW ARE THE CHANGES OPENING THE DOOR FOR A NEW ERA OF PERSONAL FINANCE TOOLS?

It's a topic garnering much coverage in the trade press, but given that recent figures put the proportion of the public unaware of Open Banking at 60%, much of it makes for uneasy reading. As part of the EU's PSD2 directive, banking across the European community has seen top-level intervention to try to stimulate competition among payment account providers. By providing the legal framework within which third-party access to account data is enabled, PSD2 has paved the way for Open Banking.

This allows retail customers to safely share their bank details with other providers through APIs. It is hoped that the extended connectivity will give customers greater banking freedom and choice, heralding new services such as aggregated price-comparison websites.

CUSTOMERS 'NOT EXCITED'

On the domestic front, the Competition and Markets Authority (CMA) announced its proposals for the new competitive landscape back in 2016. It included a requirement for the nine largest current account providers in the UK – eight banks and one building society – to collaboratively implement an open API standard by January 2018.

While there has been compliance, figures from a YouGov survey of almost 4,500 retail banking customers suggests that little will change, for now at least. With more than 75% of respondents saying they are 'unlikely' to use Open Banking services, and 81% 'not excited' about the scheme, banks clearly have more work to do.

With relatively high levels of consumer anxiety around security (cited by 31%) and privacy issues (19%), a strong focus on education is s likely to be necessary. Individual banks will each need their own action plan, but the greatest benefit will come from a co-ordinated, sector-wide approach.

MAKING MAGIC

For Jonathan Williams, financial services consultant and member of the Advisory Board for MLROs (the leading industryled forum for financial crime), the challenges of Open Banking for service providers are complex.

"One of the main challenges is that Open Banking hasn't been created as a brand that has built customer trust over the years through advertising, like the Current Account Switch Service," he says. "It's claimed that many consumers don't know what Open Banking is. But if they trust the way it works, they don't necessarily need to know what

LEVERAGING AI TO
Combat Fraud

AI AND MACHINE LEARNING CAN ARM BANKS EFFECTIVELY AGAINST THE **RISING TIDE OF RISK** IN THE DIGITAL AGE.

The rise of digital banking is fuelling an escalating arms race. The challenge for banks is to keep up with the exponential explosion of fraud risk.

The answer to staying ahead of rising digital fraud risk lies in fighting smarter — tapping the fast-growing artificial intelligence (AI) space for solutions. Here's why.

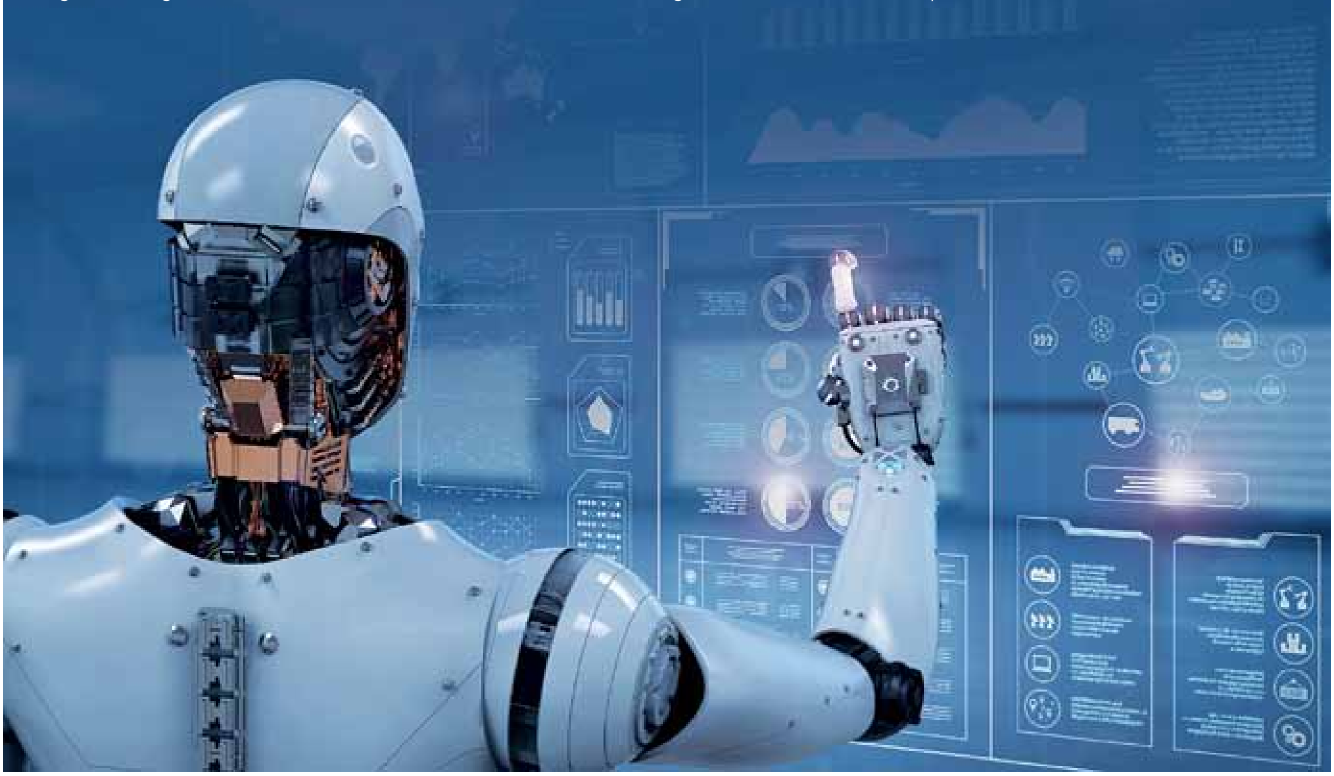
A report by digital market research specialist Juniper Research titled 'Retail Banking: Digital Transformation — Disruptor Opportunities 2018–2022' states that by 2021, there will be three billion digital banking users worldwide.

That comes to approximately one in every two adults accessing financial services via a smartphone, tablet, personal computer or even a smartwatch.

Digital banking — which equates to faster and easier transactions — will mean consumers transact more and generate significant volume growth. The money will flow faster than ever before. The precedent is there when Internet banking first came into the picture — the next digital leap will likely see volumes skyrocket further.

But this also means that two significant risks for banks would grow faster than ever before. Firstly, can banks retain consumer trust in an age where a single incident could be broadcast widely almost instantaneously, eroding trust faster than it can be regained? And secondly, how do banks safeguard against the looming surge in fraud cases that is statistically speaking, inevitable as transaction volumes increase?

"With the digitisation of banking products has come a surge in fraud, whether in e-payments or online applications. Obviously, as attacks on our digital channels increase, we need an improved detection rate," said Nadeem



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