IDEAS FOR LEADERS | JUNE 2019

banking insight

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EXCLUSIVE INTERVIEW WITH DATO' ONG ENG BIN, CHIEF EXECUTIVE OFFICER OF OCBC BANK (M) BERHAD
NAVIGATING NEW WATERS

A.I. & Financial Crime: More Hype Than Happening

BUILT TO LAST OR BUILT FOR CHANGE?

BON VOYAGE TO THE 'MURDER ON THE ORIENT EXPRESS' DEFENCE

Bankers can no longer say 'it wasn't me'.

THE TRUTH ABOUT TRUST

A PUBLICATION OF
AICB
ASIAN INSTITUTE OF CHARTERED BANKERS

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Editor's Note

DRIVING BETTER GOVERNANCE

CORE TO THE DNA of the Asian Institute of Chartered Bankers (AICB) is our commitment to enhancing governance in the financial ecosystem - by advocating for professional education and culture change, backed by our sound code of conduct and unyielding integrity.

Fittingly, this issue delves deep into new and upcoming developments that are reshaping the global and local governance landscape, as regulators and stakeholders strive to avoid a repeat of the 1998 Global Financial Crisis triggered by unethical behaviour and untrammelled greed.

Our cover story focuses on efforts to increase the accountability of those in power at the very top of financial institutions, in order to pre-empt future misconduct that damages entire financial ecosystems. We assess the impacts and challenges of the UK Financial Conduct Authority (FCA)'s Senior Managers Regime (SMR), a shift in regulatory approach that holds top bosses personally accountable for wrongdoing first announced in March 2015. The SMR was devised as part of a broader suite of regulations under the Bank of England's Senior Managers and Certification Regime (SMCR) to manage conduct risk in financial services, and is having a global ripple effect across jurisdictions. In Malaysia, the Central Bank is devising a comprehensive Responsibility Map that seeks to map a clear proposal of the prescribed roles under the regime and aims for full implementation by 2019. AICB stands committed to supporting this shift through our advocacy for banking practices and roles infused with ethics and integrity.

In our special profile this issue, the spotlight is also firmly on governance as well as leadership. Dato' Ong Eng Bin, Chief Executive Officer of OCBC Bank (M) Berhad and the Asian Institute of Chartered Bankers Council Member, offers insights into his brand of leadership and how banks are rising to meet challenges on the horizon. Reinforcing the message that good tone starts at the top, Dato' Ong talks about initiatives such as the recently established OCBC group level Ethics and Conduct Board Committee, which sets the direction for all employees while defining and rigorously embedding a culture of responsible banking.

Pivotal to good governance in the financial sector is to address and manage risks. One key risk is the issue of non-performing loans (NPLs) in the banking sector, which was especially severe post the global financial crisis. Professor Owain ap Gwilym, Deputy Head of Bangor Business School and module director for the Chartered Banker MBA programme discusses the opportunities and ramifications emerging from the European Union (EU)'s December 2018 agreement on new rules aimed at avoiding a future build-up of bad loans. Subject to ratification at the national level, the rules will determine the provisions that EU banks will be required to set aside against potential losses.

SME finance is a challenging area that poses multiple risks for many financial institutions in Malaysia, and affects the national development agenda. This issue offers insights into the regulator's stance on promoting continued access to finance for the critical small and medium enterprise (SME) segment. Analysing the findings of Bank Negara Malaysia's 2018 demand-side SME Finance Survey can enable a better understanding of the financing needs and behaviour of SMEs, underlying challenges faced by SMEs and policy implications moving forward.

Also under the lens are security and cyber risks, an emerging governance minefield in the digital era. This issue looks into a gamut of developments in this space, including payment scams, initiatives by governments to collaborate and share threat intelligence, the modernisation of IT legacy systems in financial incumbents, and the burgeoning role of artificial intelligence in regulatory technology e.g. cognitive and machine learning in financial crime programmes to arrest misconduct.

The caveat is that legislation and technology, no matter how sophisticated and all-encompassing, is purely an enabler and a tool for risk management and good governance. It is imperative to fortify the weakest links in the chains of governance – people, behaviour and culture – through advocacy, education and professionalisation that is embedded with values and integrity. This is the mindset change that AICB champions, and we trust that our thought leadership and content can be eye-openers for financial practitioners operating in the financial sector. ✱

Hope you have a fruitful read.

The Editor

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AICB

bankinginsight

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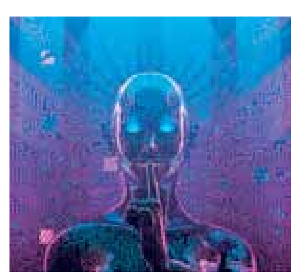


NEOBANKS LIGHT UP ASIAN LANDSCAPE

2019 is turning out to be the year of the mobile-first bank and incumbents are getting in on the action.

In January, Malaysia's CIMB Bank announced its formal expansion into the Philippines with an all-digital, mobile-first bank; UOB's TMRW was launched in Thailand this February; and in March, the Hong Kong Monetary Authority awarded its first three virtual banking licences.

The region is preparing for more. In April, Bank Negara Malaysia Governor Datuk Nor Shamsiah Mohd Yunus said the country will be releasing its virtual bank licence requirements by year-end.

A cornerstone for greater financial inclusion, the burgeoning landscape of neobanks capitalises on its lower cost base and cutting-edge tech stack. These virtual banks are overall subject to the same strict regulations as their incumbent counterparts with, at times, stricter IT security structures due to their cloud-based business models. ✱

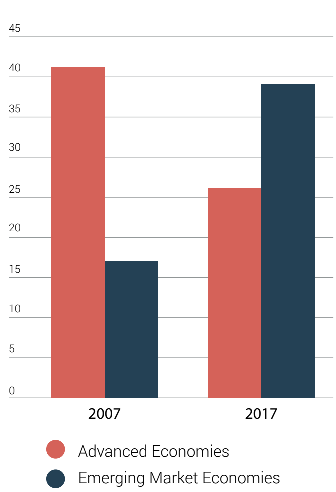
FOREWARNED IS FOREARMED

The International Monetary Fund (IMF) launched its newest tool, House Prices at Risk (HaR), designed to flag the probabilities of a future housing downturn at least a year before the market turns. HaR feeds in to the IMF's growth-at-risk model and links financial conditions to the dangers of an economic downturn. The April edition of its biannual *Global Financial Stability Report* draws some significant conclusions from the 32-country study:

Risk Reversal

In most advanced economies, weighted by GDP, the risk of a big drop in house prices declined from 2007 to 2017. In most emerging markets, risk increased over that period.

(share of economies with high house price risk)



~ In the short term, easy credit supports home prices although in the longer term, it could fuel overborrowing, making a bust more likely.

~ Large declines in home prices are associated with economic contractions and risks to financial stability, e.g. a –12 reading on the IMF gauge indicates a 31% probability of a financial crisis two years later in advanced economies and a 10% probability in emerging markets.

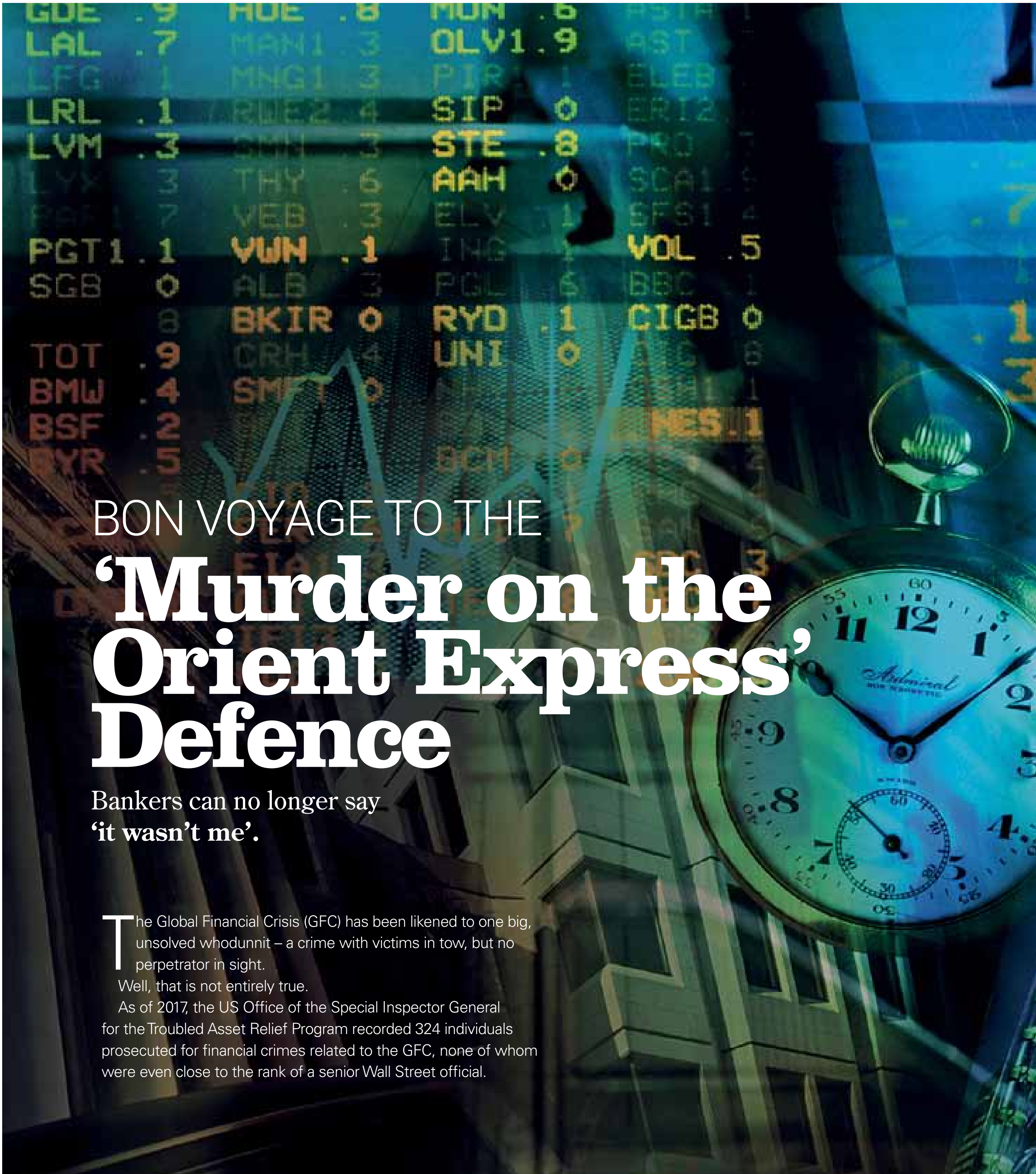
~ House prices in global major cities move in tandem; a shock in one country will likely affect housing markets elsewhere.

~ In most advanced economies, the odds of a big drop in inflation-adjusted house prices were lower at the end of 2017 than 10 years earlier but remained above the historical average. In emerging markets, by contrast, riskiness was higher in 2017 than on the eve of the global financial crisis. ✱

NOTE Shares of 22 advanced and 10 emerging market economies, weighted by GDP, where the three-year-ahead HaR exceeds –10% on an annual basis.
SOURCE IMF staff calculations.

Only **36% OF EUROPEANS TRUST BANKS**, compared to 54% in emerging Asia-Pacific economies.
~ EY, How to Maintain Trust in Global Banking's Digital Ecosystem.

Adjusting to the changing nature of work also requires rethinking the social contract… four out of five people in developing countries have **NEVER KNOWN WHAT IT MEANS TO LIVE WITH SOCIAL PROTECTION.**
~ Jim Yong Kim, President, World Bank Group, World Development Report 2019: The Changing Nature of Work.



BON VOYAGE TO THE

'Murder on the Orient Express' Defence

Bankers can no longer say 'it wasn't me'.

The Global Financial Crisis (GFC) has been likened to one big, unsolved whodunnit – a crime with victims in tow, but no perpetrator in sight.

Well, that is not entirely true.

As of 2017, the US Office of the Special Inspector General for the Troubled Asset Relief Program recorded 324 individuals prosecuted for financial crimes related to the GFC, none of whom were even close to the rank of a senior Wall Street official.

 BY KARUNAJOTHI KANDASAMY, SAMUEL LEE & NG SHYUE JER

UNDERSTANDING FINANCING THROUGH THE LENS OF SMALL & MEDIUM ENTERPRISES

Highlights from the Central Bank of Malaysia's Survey on SME Finance.

+ The positive linkage between entrepreneurship and growth is well established, but a growing body of research focusing on the importance of finance in supporting SME development shows that firms with access to loans grow at a faster rate than those without such access.

Small and medium enterprises (SMEs) play a critical role in generating income, employment, innovation, and facilitating social cohesion. With about one million establishments in the country, SMEs contribute 37.1% of the Malaysian GDP, 66% of employment and 17.3% of exports. The positive linkage between entrepreneurship and growth is well established, but a growing body of research focusing on the importance of finance in supporting SME development shows that firms with access to loans grow at a faster rate than those without such access.

As part of Bank Negara Malaysia's (the Bank's) function to promote a sound, progressive and inclusive financial sector, efforts have been directed towards developing a holistic SME financing ecosystem. This includes addressing information asymmetry and market imperfections, which are key barriers to finance. There have been significant strides made in the areas of credit information, credit guarantees, specialised funds, advisory services, redress and debt resolution arrangements. Financing to SMEs now constitute 48.7% of total financing outstanding by

WE THE PEOPLE: ARCHITECTING DIVERSITY IN FINANCIAL INSTITUTIONS

Counterculture and how it is shaking up the sector.

Say 'diversity' and the associative word today is most likely 'women'. However, diversity and inclusivity (D&I) is far more than that.

It covers the spectrum of fair and equitable representation, including:

+ **Gender.** With more women than ever in the workforce, many issues such as the 30% quota of women have been debated for decades and are only now centre stage in mainstream thinking.

A McKinsey & Co report, *Closing the Gap: Leadership Perspectives on Promoting Women in Financial Services,* found that over 90% of US financial services companies asserted a commitment to gender diversity, yet women remain significantly underrepresented in the upper levels of financial services firms. Women and men in financial services begin their careers at parity, making up roughly equal portions of entry-level staff, but higher up the ladder, women account for only 19% of C-suite positions, lower than the 22% average for US women overall.

The consulting firm states that although the data are based on North American research, the insights and implications are globally relevant.

There are also more wide-ranging issues: protections against sexual harassment, limited career advancement, policies and practices that are far from accommodating to working mothers and, consequently, high attrition rates. Especially in science, technology, engineering and mathematics-related fields, technical expertise is often skewed towards men, giving rise to unconscious bias.

However, things are improving at the

BY PROFESSOR OWAIN ap GWILYM

Non-Performing Loans

AN INTERNATIONAL CONCERN

Bad loans and what further **measures are needed to build** on recent positive progress.

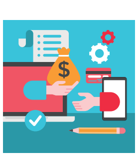
Events during the global financial crisis of 2008 triggered increased attention on the issue of non-performing loans (NPLs) in the banking sector.

Problems in addressing NPLs were especially severe in some Eurozone countries including Cyprus, Greece, Italy and Portugal.

In December 2018, European Union (EU) governments reached an agreement on new rules aimed at avoiding a future build-up of bad loans.

Subject to ratification at the national level, the rules will determine the provisions that EU banks will be required to set aside against potential losses from bad loans. Higher collateral requirements and levels of provisions are necessary steps to address one of the most challenging issues in the Euro area banking system.

Nevertheless, any uncertainty or discrepancies in the proposed rules might undermine their effectiveness in addressing the problem, while increasing pressure on lenders.



+ Nevertheless, any uncertainty or discrepancies in the proposed rules might undermine their effectiveness in addressing the problem, while increasing pressure on lenders.

the truth about trust

Embrace the pursuit of **self-interest and ambition** as normal.

Selflessness. Servant Leadership. Putting others' interests ahead of one's own.

In addition to things like competence, honesty, and reliability, the above-mentioned attributes are usually the ones people mention when asked to describe a leader whom they could trust. I've asked thousands across the globe, and these come up all the time. But many of the same people fall deathly silent when asked to honestly answer if they are truly selfless servant leaders who always put others' interests ahead of their own, or if their people fully trust them.

My point is this: Most people reference "self before others" type of attributes as prerequisites to trusting a leader. But if they are totally honest with themselves, they will admit that it is very difficult, if not impossible, to be selfless all the time. The basic human (survival) instinct is to take care of one's own interest first. By expecting leaders to be selfless, are we demanding something that goes against the very grain of human existence? What if we were to accept putting one's own interest before others' as normal? Put another way, can we trust someone who is self-centered and wants the very best for himself first?

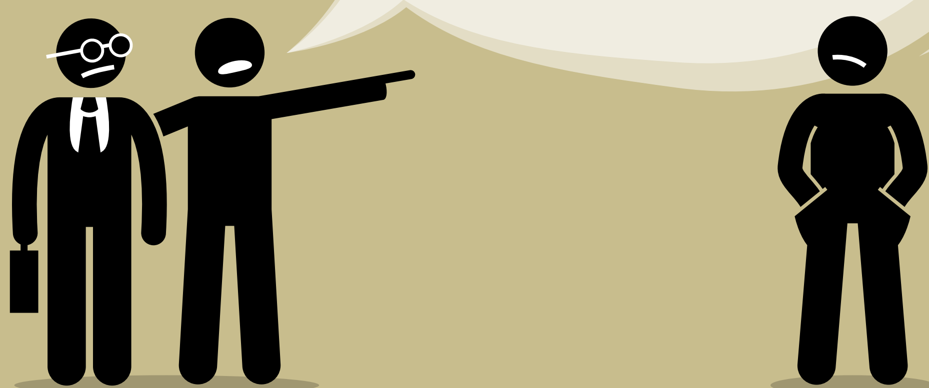
The answer to that question ought to be a big yes, but under one condition; the person also works equally hard to maximise your gain. In my experience, I have found that the best leaders don't pretend to be who they are not. They fully acknowledge their own ambitions for themselves and take care of others' needs equally. They don't believe in zero-sum games; they believe in abundance. They practice what savvy negotiators refer to as win-win outcomes by working extremely hard to maximise their own gain AND working equally hard to maximise others' gain. They understand that one's gain need not be another's loss. Metaphorically, they believe in growing the pie, so that when it is divided everyone gets an equally big slice. They also recognise that to reach a win-win outcome, it is important to fully understand the other sides' concerns, needs, and priorities.

As an example of these principles,

My point is this: Most people reference "self before others" type of attributes as prerequisites to trusting a leader. But if they are totally honest with themselves, they will admit that it is very difficult, if not impossible, to be selfless all the time.

Weighing up the **advantages and disadvantages** of doing what is right.

Can Whistle-Blowing Policies EVER WORK EFFECTIVELY?



The global financial crisis created renewed focus on many fundamental ethical principles, especially transparency, openness, and honesty. That these were ever called into question in the banking industry is a sad commentary on the loss of reputational capital. Yet amidst the crisis, as disaster after disaster unfolded, there were several individuals who decided that enough was enough.

Having observed improper conduct and unethical behaviour, they decided to blow the whistle on their employers. In many of these cases, the firms that were exposed were forced to change their policies and practices, while in some instances, the firms proactively took immediate action. However, for some of the whistle-blowers, their decision to 'do the right thing' rebounded on them badly, and in some cases almost destroyed their careers.

Today, nearly everybody working in the banking industry knows what whistle-blowing is. When an individual observes a colleague behaving illegally or unethically, or failing to act when they should, it is appropriate to blow the whistle, or that is to say, to report the matter to senior management. The term 'whistle-blowing' is analogous to a football referee calling a player to account for unacceptable behaviour.

Whistle-blowing can be internal or external. Internal whistle-blowing is generally considered as acceptable, as the individual reports the matter through formal channels. Many banking organisations have put whistle-blowing procedures in place, nominating a senior person such as a senior non-executive director as the person to whom the matter should be reported in confidence, as well as guaranteeing that the employee will be protected from repercussions, such as a halt to career progression or even dismissal. By contrast, external whistle-blowing arises when the individual releases information to an outsider, such as the regulator, the media or even the police.

Some countries have enacted legislation to protect whistle-blowers, providing them with statutory protection

BUILT TO LAST OR BUILT FOR CHANGE?

There's more to modernising **legacy data systems** than just 'rip-and-replace'.

They want to make better use of technologies like artificial intelligence, but if their data platforms are not robust enough, they will end up in a bottleneck.

Arvind Swami
Director of FSI Solutions for Asia Pacific

The drive for financial institutions (FIs) to modernise IT platforms is essential for two reasons: competitive differentiation and regulatory compliance.

Although the limelight has been on fintech, there is that other infrastructure that has been the backbone of modern banking in the past decades, i.e. legacy IT systems.

PwC's *Global Banking Outlook 2018* reports that banks spend 75% of their IT budgets on maintaining legacy architecture, often on tactical patches that may embed poor processes. This presents a challenge for digitalisation efforts, especially in Asia where FIs typically spend more than their European and US counterparts on IT.

Panellists at a recent Asia Securities Industry & Financial Markets Association conference in Hong Kong in April 2019 unanimously agreed that traditional banks have had difficulties dealing with legacy

A.I. & Financial Crime

MORE HYPE THAN HAPPENING

Learning machines to investigate white collar crime? **Don't take your hands off the wheel just yet.**

From chatbots to algorithmic trading, artificial intelligence (AI) has captured the banking community's imagination.

But where are we really on the innovation curve when it comes to AI in banking? Has the technology advanced to a stage where it is tangibly beneficial? Or are we still experimenting to find the AI 'sweet spot'?

As far back as February 2018, the Basel Committee on Banking Supervision vide its research paper, *Sound Practices: Implications of Fintech Developments for Banks and Bank Supervisors,* cautioned market participants of the hype surrounding fintech.

Only now are rumbles (and grumbles) on the Street echoing this sentiment, proof that the market does, at times, trail regulatory prudence.

Whilst companies like PayPal deployed AI-based monitoring systems and cut the rate of false fraud alerts – known as 'false positives' – by 50%, the jury is still out when it comes to more sophisticated AI regulatory technology (RegTech).

At the cutting edge of AI deployment is cognitive and machine learning in financial crime programmes.

Through fintech partnerships as well as in-house development of RegTech, banks have poured billions into research in a bid to develop AI intelligent enough

Regulator Targets Payment Scams

Payment service providers have their say on a **new code designed to make it harder** for criminals to commit bank transfer fraud.

Consumers lost GBP92.9 million in the first half of 2018 through authorised push payment scams – where people are tricked into sending money to a fraudster.

The effect on victims can be devastating and in volume and value, it is the second-largest type of payment fraud, behind card fraud, reported by industry body, UK Finance.

A new voluntary code is being introduced this year to better protect consumers from this type of theft, also known as bank transfer fraud. It follows a consultation by the Authorised Push Payments (APP) Scams Steering Group, which was set up in February 2018 by the Payment Systems Regulator, the controlling body for the UK's GBP75 trillion payment systems industry.

Ruth Evans, Independent Chair, APP Scams Steering Group, said: "Authorised push payment fraud is a crime that can have a devastating impact on victims and this voluntary code is a major milestone in protecting customers.

"With payment service providers and consumer groups working together to create a lasting and fair solution for all, the code will also help to stop these scams occurring in the first place."

For the first time, APP scam victims who have acted appropriately will be fully reimbursed – if their provider is a signatory to the code but did not meet the standards expected of them under it.

The aim is to reduce the occurrence of APP scams and the harm caused to targeted account holders, setting out how consumers can take reasonable steps to protect themselves, while giving them greater levels of protection and support from their banks.

GOVERNMENTS ARE SHARING THREAT INTELLIGENCE & YOU SHOULD TOO

THE HERE AND NOW OF COLLABORATIVE CYBERSECURITY.

Not too long ago, one would have been hard-pressed to find firms, both public and private, sharing cybersecurity intelligence. The cybersecurity landscape of today is markedly different from a decade ago and much progress has been made.

Over the past few years, one key fact has become abundantly clear; the traditional independent approach to cybersecurity has not been working and as the threats posed by cyberattacks rise, so do the stakes.

A recent Frost & Sullivan study anticipates that the Asia-Pacific region would incur economic losses of US$1.75 trillion due to cybersecurity threats.

Today, governments across the region are actively collaborating to combat cyberthreats, such as Indonesia, Malaysia, and Singapore, which have cemented cybersecurity agreements with other countries and organisations.

Recently, Indonesia and the US reached an agreement to collaborate on cybersecurity. Similarly, the Monetary Authority of Singapore partnered with the Financial Services Information Sharing and Analysis Center (FS-ISAC) to set up its Asia Pacific Regional Analysis Centre in Singapore to improve threat intelligence sharing.

Governments collaborating on cybersecurity set a strong example for the private sector to follow, especially when one considers just how hard it is to find security talent in the region. A recent report, *Cybersecurity Workforce Study 2018* by the International Information System Security Certification Consortium $(ISC)^2$, revealed that there is a 2.14 million shortfall in cybersecurity talent in the region.

To fill the gap, we must look at embracing diversity in the workforce. According to Frost & Sullivan's *2017 Global Information Security Workforce* study, women are vastly under-represented in the global cybersecurity workforce at a mere 11% compared to their counterparts in the overall global workforce.

In Asia Pacific, women make up only 10% of the cybersecurity workforce. To encourage greater diversity in the sector, FS-ISAC started the Building Cybersecurity Diversity scholarship in the hopes of helping women interested in cybersecurity kick-start their careers. To date, FS-ISAC has secured nearly 60 scholarships and hopes other institutions will consider contributing.

Diversity of thought can go a long way towards helping the global financial services stay ahead of cybercrime.

+ Governments collaborating on cybersecurity set a strong example for the private sector to follow, especially when one considers just how hard it is to find security talent in the region.

THE END OF LIBOR IN 2021

How prepared are you?

BACKGROUND

It was announced in July 2017 that the UK Financial Conduct Authority (FCA) would no longer persuade or compel banks to submit the London Interbank Offered Rate (LIBOR) by 2021, making it clear that reliance on LIBOR could no longer be assured beyond this date. LIBOR is a benchmark that is regulated and administered in the UK, but has been adapted by banks globally. Today, LIBOR is embedded in contracts involving banks, asset managers, insurers and corporates, which are estimated to be at US$350 trillion globally on a gross notional basis. The rate is so embedded in existing banking practices and relied upon by market participants, that the transition away from LIBOR will be one of the most, if not the most, challenging transformation programmes faced by the finance industry today.

2018 has seen regulators turning up the pressure by stating that firms should treat the discontinuation of LIBOR as a certainty and that progress has been relatively slow. In the UK, a joint "Dear CEO" letter from the UK Prudential Regulation Authority (PRA) and the FCA was sent to large banks and insurers in September, requiring Boards to sign off on a comprehensive risk assessment of LIBOR transition in respect of their firms. Swiss regulators have also been proactive in reaching out to firms. Further afield, US regulators are holding bilateral discussions with firms, and the Bank of Canada has called on financial institutions to consider their "readiness" for benchmark reform.

WHY LEAVE LIBOR?

LIBOR is the underlying interest rate used in various financial instruments and millions of contracts around the world. For over three decades, LIBOR has been a reliable source used to determine the cost of financial products, from housing loans to corporate bonds, and even complex derivatives. LIBOR is calculated based on submissions from panel banks (usually the larger banks) at which they estimate the rate to obtain wholesale, unsecured funding for multiple tenures. In essence, it represents the average interest rate at which banks are willing to borrow from one another.

While this may seem like a relatively straightforward process, LIBOR has its limitations and flaws. LIBOR submissions are not based on actual transactions, but rather judgement calls, hence do not provide a strong representation of the actual landscape occurring in the market. This reliance on expert judgement increases susceptibility to manipulation.

The global financial crisis in 2008 was the tipping point for this deep-rooted benchmark in the financial system. When Lehman Brothers failed, banks refused to lend to each other at published LIBOR rates, illustrating just how weak a representation LIBOR was. As a result of the crisis, new requirements on banks' capital were introduced. The larger, systematically important global banks were compelled to hold larger liquidity buffers to cushion losses, altering the way banks fund themselves.

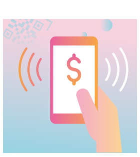
"The discontinuation of LIBOR should not be considered a remote probability 'black swan' event. Firms should treat it is [sic] as something that will happen and which they must be prepared for. Ensuring that the transition from LIBOR to alternative interest rate benchmarks is orderly will contribute to financial stability. Misplaced confidence in LIBOR's survival will do the opposite."

Andrew Bailey, Chief Executive of the FCA

Innovative Onboarding

DOING DIGITAL RIGHT

The low-down on revamping banks' **onboarding architecture** to deepen the banker-customer relationship.



+ Recent studies show that financial institutions (FIs) with robust digital offerings do indeed benefit from lower branch/ operational costs and enhanced efficiencies.

Over the past decade, there has been a concerted push by banks to channel customers into adopting digital banking platforms.

From online opening of retail bank accounts to real-time e-Know Your Client (e-KYC) checks, the push for technology-driven solutions to replace manual processes is, as one CEO said, "a no-brainer". It minimises costs, ups efficiencies and appeals to the next generation of consumers – digital natives comprising Gen-Xers and Millennials.

However, few realise that digital-first strategies are a double-edged sword.

Recent studies show that financial institutions (FIs) with robust digital offerings do indeed benefit from lower branch/operational costs and enhanced efficiencies. But the failure of banks to fully integrate or properly leverage on such technologies result in a backlash – high attrition rates, unprofitable accounts and a lot of dissatisfied customers. Indeed, a fully digital footprint and total elimination of physical branches are far from practical as today's consumers still require varying degrees of hand-holding.

According to global research firm Aite Group, 5%-

CROSS-BORDER B2B PAYMENTS

GETTING IN ON THE ACTION

How banks can remain competitive in the ever-changing payments landscape.

Growth in the payments sector has been focused on the fast-changing landscape of business-to-consumer (B2C), consumer-to-business (C2B), and peer-to-peer (P2P) segments.

With far more consumers than there are businesses in the world, the impetus for innovation in the global payments sphere is skewed towards these segments. Capgemini and BNP Paribas' *World Payments Report 2018* found that 73% of all fintech investment in the Asia-Pacific payment space was in the consumer segment versus 3% in the business-to-business (B2B) sphere.

However, recent research indicates that B2B payments are set to become banking's next big revenue churner with Asia Pacific as a key battleground.

BURGEONING LANDSCAPE

Consulting firm McKinsey & Co's *Global Payments 2018* report estimates that global payments revenues grew 11% to US$1.9 trillion in 2017 with international cross-border payments revenues exceeding US$200 billion.

Asia Pacific, led by China, dominates growth in global payments revenues, accounting for over US$900 billion and is projected to hit a five-year compounded annual growth rate of 11% by 2022.

The growth is led by two factors: Asia's underserved small- and medium-sized enterprise (SME) sector, which accounts for nearly 30% of all cross-border imports globally and is revving its engines for greater volumes in cross-border trade; and the region's demand for payment solutions that prioritise cash flow management.

Despite innovations by correspondent banks such as SWIFT's gpi – its latest offering that promises payments within 30 minutes or a 24-hour time frame – users still deem it inefficient in comparison to cross-border payments clearance by non-bank players such as blockchain-based RippleNet, who perform the same in mere seconds.

It is mission critical that FIs improve these aspects in the B2B payments space if they intend to gain and/or retain a foothold in Asia's payments landscape:

> Long lead time and extraneous steps. According to global credit insurer Atradius' *Payment Practices Barometer Asia Pacific 2018*, the average B2B payments duration in the region is a painstaking 55 days, an increase from 57 days in 2017. The days are calculated from the moment the purchase order is generated and ends upon obtaining proper sign-offs and receipt of the remittance advice, and the most common reason for the long lead time is the amount of manual processing involved in the accounts payable/accounts receivable (AP/AR) workflow. Paper-based processing, approval lag time, potential errors or missing information in manual entries, or even worse, forged documents, are common in manual processes for AP/AR workflows.

> Complex processes for domestic and international payments. In the same survey by Atradius, 40.7% of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