

BANKER'S JOURNAL

MALAYSIA

KDN PP 3781/05/2013 (032406) No. 139-2012

Asian-Pacific Association of Banking Institutes (APABI)
Regional Conference on Global Challenges, Local Opportunities

CEO Challenges 2012:
Business Perspectives from THE CONFERENCE BOARD CEO Challenge Survey Executive Roundtable



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Published twice yearly by:
Institut Bank-Bank Malaysia
(35880-P)
Wisma IBI, 5 Jalan Semantan
Damansara Heights
50490 Kuala Lumpur
Malaysia
Tel: (603) 2095 6833
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Website: www.ibbm.org.my
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Printed by:
Graphic lyckas Sdn. Bhd.
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To be a professional and effective training adviser and provider in developing practitioners of the banking and financial services industry to enable them to function effectively in an evolving financial services environment

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Editor's Note

This issue contains the proceedings of two confabs, the CEO Challenges 2012 Executive Roundtable held at the Sasana Kijang, Bank Negara Malaysia (BNM), Kuala Lumpur on 15 March 2012, and the Asian-Pacific Association of Banking Institutes (APABI) Regional Conference on "Global Challenges, Local Opportunities" held at the Shangri-La Hotel, Kuala Lumpur on 8 and 9 May 2012. While different in format, participation and thematic focus, these gatherings share several commonalities. First, they both take first a global perspective before zooming in on regional and local issues. Thus, the CEO Challenge dealt with innovation and talent in a rapidly changing world before deliberating on how to set an agenda for growth for Asian financial institutions. The APABI conference takes as its setting global challenges but also surveys opportunities at the local level. Second, they recognise that the global setting has a major impact on developments at the regional and local levels.

The first session of the CEO Challenge 2012 dealt with challenges that contributed to what was labeled "risky business": innovation, human capital, the global political economy risk, and government regulation. These risks are juxtaposed with an outlook that is anything but certain – likely slowdown in the global economy with varying regional vulnerabilities. There is going to be an environment where that growth will gradually mature and slow down but it will still be a solid growth, at a growth rate of around 3% which is what is in store over a long period of time. Local perspectives were presented through the CEO Challenge survey results, which confirm the significance of the above challenges, although there are regional/country-specific variations.

The second session discussed the growth agenda also in the context of the global slowdown, and the many challenges – greater competition, new technologies, etc. that Asian financial institutions must face. Managing cost was stated to be the key to confronting these challenges and doing business efficiently. To the extent that technology is important for containing cost, the discussion recalls the deliberations in the earlier session. The growth agenda was rounded off by customer focus and the nurturing of a risk-aware culture, illustrated by the areas of retail banking and trade finance.

Echoing the sentiments of the CEO Challenge Roundtable, the APABI conference also dwelled extensively on the global uncertainties faced by the global financial industry. This context was examined from different perspectives – the regulators (Bank Negara Malaysia), as well as various stakeholders "from the ground". One panel focused on the role of leadership in these times – what is needed and in which areas of finance.

On the conference theme itself, the discussion took the form of both firm-level strategies as well as broader overviews using examples from all over Asia. Developing strategies was complicated by the great diversity of Asian countries. Of course, any discussion of the theme cannot escape the issue of corporate governance, which was given extensive attention in the conference. Attention to the future saw discussion of developing a future banking model, how to produce and/or manage disruptive innovations, and adoption of new technology. Talent development and the changing role of banking institutes, especially in promoting best practices in banking education, rounded off the conference.

Although there were considerable overlaps, especially on the coverage of the global environment, a wealth of insights had been offered up from both an institutional and personal perspective. Would some of the recommendations be adopted and would they matter? Only time will tell whether, in the words of Ken Rogoff, "this time is different" when the next crisis arrives.

Asian-Pacific Association of Banking Institutes (APABI) Regional Conference on Global Challenges, Local Opportunities

The APABI Regional Conference on the theme “Global Challenges, Local Opportunities” was held at the Shangri-La Hotel, Kuala Lumpur on 8 and 9 May 2012. Organised by the Institut Bank-Bank Malaysia (IBBM) with the support of Asian Institute of Finance (AIF), Islamic Banking and Finance Institute Malaysia (IBFIM), Securities Industry Development Corporation (SIDC) and Malaysian Insurance Institute (MII) as well as Oxford Business Group, the media partner, the APABI Regional Conference brought together over 20 expert speakers to address the key challenges and issues on how Financial Institutions (FIs) can remain successful in turbulent times as well as maintain a competitive edge in foreign markets.

Welcome address by Tan Sri Azman Hashim, Chairman of IBBM

First of all, Tan Sri Azman welcomed and thanked Yang Berbahagia Tan Sri Dr Zeti Akhtar Aziz, Governor, Bank Negara Malaysia (BNM), fellow IBBM council members, the Chief Executive Officer (CEO) of IBBM, delegates, speakers, members of the media and distinguished guests to the APABI Regional Conference 2012.

The APABI was formed in 1986 with the objectives of promoting greater rapport and understanding amongst its members as well as increasing cooperation in the areas of banking education and training. These objectives have certainly been met by the members of the APABI as they have continued to meet every two years since inception to share knowledge, experiences and challenges faced by each other’s banking institutions, as well as to explore possible collaborations to elevate the standards of banking education in the region. The IBBM is of course familiar with the challenges and changes that the banking industry has faced and wholeheartedly supports the endeavours of the APABI.

As one of the founding members, the IBBM has been actively involved in its activities to form strong bonds and working relationships over the years with fellow APABI members, which have now grown to consist of 20 countries. On behalf of the IBBM, Tan Sri Azman expressed the institute’s hopes that more countries from the Asian Pacific region will join the APABI to further widen its reach in the sharing of banking education best practices.

The conference was held in conjunction with the 14th APABI Biennial Meeting, and was organised not just among the APABI members, but also among industry practitioners and educators both within and outside of the APABI’s sphere of influence.

This open platform for an exchange of knowledge not only benefits the APABI members but also the Malaysian financial sector in general. Tan Sri Azman was pleased to know that many guests in the audience were from institutions of higher learning, which is encouraging for the industry since universities play a big role in shaping the future of Malaysian banking. He said that it was also fortunate to have so many experts and industry veterans from all over the Region coming together to share their knowledge and experience. With the sharing of global challenges, it is the institute’s hope that everyone present would find the way towards creating local opportunities.

The IBBM has seen many changes in the Malaysian banking landscape and is taking major steps to make a difference and be even more effective in elevating the standards of professional banking education. Many of the APABI members and its institutional supporters are already working with the IBBM to help achieve the institution’s goals through partnerships, collaborations and information sharing, and there is confidence of much success in the future.

Officiating address by Yang Berbahagia Tan Sri Dr Zeti Akhtar Aziz, Governor of BNM

Yang Berbahagia Tan Sri Dr Zeti expressed that it was an honour to officiate at the APABI Conference. The APABI's role is to bring together financial industry training institutes that share a common goal to equip FIs with the capacity to deal with the transformational developments that are shaping the financial sector, by supporting the continuous renewal of human capital.

The global financial industry is experiencing a period of profound change. In the advanced economies, decades of exceptional growth are giving way to contracting financial and economic conditions, greater regulation and significant government intervention, while in the emerging world, however, financial and economic growth have continued. In addition, the intensification of policies and reforms to address structural issues in several major advanced economies will also have a significant bearing on the future growth prospects for many FIs and businesses. This is reinforced by the implementation of new prudential standards, both at the national and global levels, which are also set to substantially redefine the expected norms and the boundaries of modern finance.

As an emerging Asia aspires towards achieving higher levels of income and living standards, a different path from that which led the way for many advanced economies will need to be considered. The Global Financial Crisis (GFC) and the Asian Financial Crisis (AFC) have provided us with many important lessons that should form the underpinnings for the development of a sound economic and financial policy framework. Such a framework must effectively combine strong regulation and market discipline to reinforce financial stability. The recent crisis has shown that markets cannot be exclusively relied on to rein in excesses. A broader perspective of regulation that looks beyond individual institutions is also essential to identify the build-up of system-wide risks. Equally, FIs need to consider how to meaningfully include such system-wide perspectives in their approach to managing risks in their respective institutions.

Public policy also has a crucial role in promoting economic development that benefits society at large, and that addresses the disproportionate social welfare effects of a financial crisis on the most vulnerable groups of society, including low-income households, retail consumers and small businesses.

Specifically, policies that protect the core savings of these groups promote financial inclusion and contain excessive leverage. They also form an integral component of the resolution and reform agenda. Given the high costs of financial crises there is now a better appreciation of the need for such policies to co-exist with free markets, working to efficiently allocate economic capital to achieve more sustainable outcomes.

While significant challenges continue to confront several advanced economies as they seek to address the structural problems that remain unresolved, Asia must chart its own path in formulating strategies to develop our economies and financial systems. Following the AFC, most emerging economies in Asia have strengthened their economic and financial fundamentals, improved their fiscal and external debt positions, and reformed their banking sectors. This has supported Asian economies through the recent global financial turmoil. With a significantly stronger foundation, Asia has now every potential to meet its growth and development goals in a manner that avoids the pitfalls that will undermine the future prospects. Tan Sri Dr Zeti focussed on five factors that she believed will serve to anchor sustainable growth and stability in Asia going forward.

1. *Supporting sustainable growth and stability in Asia*

The growth of the financial sector in Asia remains largely anchored in productive, real economic activity. In contrast to developments in recent years, financial innovation in Asia has mostly served to support the legitimate financing, investment and risk management needs of businesses and households. The growth of the financial sector has not significantly outstripped economic growth and new innovations in financial products and services have not taken on the degree of complexity and high leverage observed in the economies that were affected by the crisis. FIs in Asia also had limited exposure to highly leveraged activities, such as complex derivatives and structured credit instruments. Consistent with the more traditional banking models in Asia, there are now calls for a return to basic banking and its clear separation from higher risk-taking activities. The growth of Islamic finance, with its emphasis on the close link between financial transactions and real

economic activity and which embraces universal values such as transparency and fairness, further supports this trend.

The emphasis on productive financial innovation has also been reinforced by a long standing focus in Asia on promoting effective consumer protection arrangements. In the recent period, this has received renewed attention by authorities given the experience of the recent crisis which has underscored how market conduct failures that led to widespread mis-selling and predatory lending, were not only detrimental to consumers, but also a source of systemic risk. An emphasis on product transparency and disclosure, responsible sales and marketing practices as well as investment in financial education have served to better align the interests of financial institutions and consumers, thus reducing the potential for harmful practices. Asian economies have also taken steps to strengthen the financial safety net, including deposit insurance, while putting in place institutional arrangements for debt counselling and restructuring. These measures can contribute towards pre-empting widespread defaults particularly during periods of stress.

2. ***Continued commitment and sustained progress in the development of strong regulatory and supervisory systems for the financial sector***

Significant progress has been achieved in Asia in this recent decade to strengthen the institutional arrangements and the capacity to safeguard financial stability. This includes putting in place more comprehensive regulatory frameworks, improving supervisory approaches and having clear mandates for central banks and supervisory authorities to deal with system-wide risks. While these measures have yielded tremendous pay offs, efforts have continued to be made to strengthen further the resilience of the financial system. New initiatives are being pursued to enhance surveillance and crisis management tools to enable swift responses to emerging risks and vulnerabilities in the financial system, including those within the traditionally unregulated segments of the financial

system. Authorities in Asia are also continuing to refine and sharpen the efficiency of “macro-prudential” instruments to manage excesses and imbalances. Asia already has considerable experience with these instruments during periods of escalating asset prices and excessive financial market volatility. They therefore already represent an important part of the broader toolkit for managing risks to financial stability.

The effort to implement global regulatory reforms is also now underway in Asia, with many jurisdictions making significant progress in detailing out rules to implement the Basel III standards. The international reform package aims to significantly raise the resilience of the global banking system and to promote sound risk-taking. The standards will see banks holding larger amounts of capital, including buffers which can be drawn down as losses occur, thus ensuring their continued ability to support lending to the economy even during times of crisis. At the same time, the standards will also require banks to significantly strengthen their liquidity and funding positions in order to support orderly credit intermediation processes. Concerns have, however, been raised about the unintended consequences that may arise from the implementation of these standards - including potential ramifications on the real economy - and therefore the need for the reforms to be implemented cautiously. This underscores the importance of conducting impact and behavioural studies during the transition period, and the need to consider how the national implementation of the global standards should reflect domestic experiences and circumstances.

3. ***High priority placed on the pursuit of a balanced and equitable growth through the financial inclusion agenda as a key component of Asia’s overall strategy for sustaining medium and long-term economic progress***

At its core, the financial inclusion agenda seeks to empower all individuals, irrespective of income level, economic activity or geography, to have the means and opportunity to undertake financial

transactions, generate income, accumulate assets and to financially protect themselves against unexpected adverse events.

Countries in this region have been active in pioneering sustainable financial inclusion tools and models. Due in large part to a strong public policy focus on promoting an inclusive financial sector, the financial industry in Asia is also more attuned to financial inclusion objectives in their business outlook. This can be seen from recent evidence of financial institutions in the region that have successfully adopted “double bottom line” strategies that combine enhanced financial access goals with profitability, thus enabling the financial inclusion agenda to be achieved in a responsible and sustainable manner. Institutions in several parts of Asia have been effective in utilising innovative means of outreach to overcome geographical and cost barriers in delivering essential financial services such as microcredit, affordable insurance, avenues for savings, and accessible payments and remittance services. Governments in the region continue with measures to bridge the gap with the necessary financial infrastructure, developing rules for orderly and responsible business conduct, and catalysing the volume of financial transactions by channelling social transfers, wages or pensions through the formal financial system.

Such advancements by the region in financial inclusion contribute towards eradicating poverty and uplifting living standards. As growth in the region continues, it will become even more important to ensure that such growth does not further widen the social divide and disenfranchise those who remain excluded from its benefits. An inclusive growth process in the region, which draws marginalised segments into the formal financial system and empowers small businesses and consumers already within the financial system to better utilise financial services, will enhance the contribution of this segment of the population to the economic growth process.

4. ***Greater regional economic and financial integration in Asia which has been***

supported by strengthened institutional frameworks for safeguarding regional financial stability and a deepening of regional cooperation

With greater cross-regional participation in the respective domestic financial systems, efforts have intensified to build a strong foundation that will promote regional stability alongside the measures implemented to strengthen domestic frameworks. These include wide-ranging measures to develop regional financial markets, to improve liquidity management across borders, to strengthen cooperation networks for the supervision of regionally-active FIs and to establish regional infrastructure to enhance the efficiency and lower the risks associated with cross-border payments and settlements.

Regional arrangements between central banks and supervisory authorities have also been significantly strengthened to actively share information on emerging risks to regional stability and where necessary to coordinate regional responses. An important part of this includes the ongoing work to enhance the frameworks for crisis management including the orderly resolution of FIs with significant cross-border operations. Within the ASEAN region, measures are currently being pursued to promote greater consistency in the adoption of regulatory and supervisory standards in anticipation of a larger role for ASEAN banks in driving regional integration as part of the broader agenda to realise an ASEAN Economic Community by 2015. Collectively, these arrangements aim to ensure that the expansion of cross-border financial linkages takes place within a framework and process that adequately mitigates systemic risk across borders.

5. ***Central banks and regulatory authorities in most emerging economies in Asia have the broader mandate that includes a focus on the development of the financial sector as a means not only to enhance the growth and development potential, but also to reinforce a strong foundation for financial stability***

In Malaysia, the development and reformation of the financial sector in the

decade that followed the AFC has not only developed the financial sector to better serve the Malaysian economy; it has also better positioned financial institutions to withstand the destabilising episodes emanating from external shocks. This has included strengthening financial intermediaries, not only in terms of scale but also in their financial positions, risk management and governance practices. This has contributed to more efficient financial intermediation while improving access to financing, particularly for small and medium scale businesses. Efforts to develop a vibrant capital market have meanwhile opened up alternative channels for financing, while mitigating concentration risk in the financial system and enhancing its ability to absorb large and volatile cross-border capital flows.

These factors will place Asia on a firm foundation to achieve its growth and development goals. While public policy clearly has an important role, it is also vital for the financial industry to align itself with the desired outcomes of sustainable growth within a longer term horizon. This will involve a number of important considerations for FIs, including the rethinking of business models in the light of a re-assessment of risk and return expectations, a reflection on fundamental value systems that ultimately shape individual actions, with greater premium placed on responsible and ethical behaviour, and the regulatory changes taking place.

Having the required talent will be a key pillar in managing the challenges confronting the Asian financial sector moving forward. The increased demand and competition for highly-skilled financial professionals in the financial sector continues to be fierce. In Malaysia, demand is expected to be particularly pronounced for specialised skills in risk management and high growth and niche areas.

At the same time, the new financial landscape also raises critical leadership and organisational challenges, particularly as banks in Asia become larger and more complex with increasingly diverse geographical and product markets. This underscores the need for FIs to be helmed by world-class leaders, with critical strategic and leadership capabilities to build institutions that are dynamic, resilient and agile in the face of a more challenging operating

environment. In line with the increasing regional character of the financial sector, there will also be a greater emphasis on talent that better appreciates national and cultural differences. Meanwhile, boards of directors are also expected to have a more effective role in providing independent oversight and strategic guidance that promotes the long-term resilience and continued viability of FIs.

These imperatives translate into significant demands on human capital development. New talent development strategies are needed, as well as a critical re-assessment of the existing content and approach to training for the financial industry workforce to ensure their continued relevance, within a broader regional context. This represents a significant challenge and an important priority for Asia. In order to bring talent development to the next level, there is scope to pursue meaningful strategic partnerships in financial sector education and training. With growing cross-border linkages of the region's financial systems, there are significant benefits to be gained from improving the quality and consistency of standards in financial sector training in the region.

This conference represents a unique collaborative opportunity to discuss current issues and trends in human capital development in the banking sector across different financial systems within the Asia-Pacific region. The efforts of the APABI in providing this platform should therefore be well leveraged by its member institutes. Given the varying levels of financial sector development across the region, there will be tremendous benefit in the sharing of ideas and methodology on human capital development especially in newly introduced areas in banking and finance.

In Malaysia, our approach to human capital talent development is also founded on the collaborative approach. With the establishment of the Asian Institute of Finance (AIF) in 2009, talent development in the financial sector is given a strategic priority and is coordinated in a holistic manner, across the spectrum of the financial services industry. This is important as many of the initiatives supporting these human capital development strategies are multi-disciplinary and multi-layered. Under this arrangement individual training institutes comprising banking, insurance, Islamic finance and the capital markets sector have now converged onto a single platform to formulate a unified approach in strategic direction. The ultimate goal is to develop financial sector talent with world class capabilities to drive sustainable growth and development within the financial sector.

Notwithstanding a more challenging period ahead, the financial industry in Asia is well-positioned to benefit from continued favourable growth prospects, supported by strengthened fundamentals that underpin the financial sector. The financial industry has an important role in reinforcing these fundamentals through the business strategies that are pursued, alignment of incentives and developmental priorities, including the development of human capital. Conferences such as this can contribute towards developing a broader understanding of the important issues to the industry, and to direct the focus of cooperative opportunities to build a stronger foundation for sustainable growth. Upon that note, Tan Sri Zeti wished the participants a productive and engaging conference.

Keynote address: Opportunities In An Uncertain, Unpredictable And Unimaginable Era by Graeme Maxton, Thought leader, Writer and Economist

Mr Maxton began by asking whether the situation we are in is one where we are experiencing a global recovery, prolonged global slump or global chaos. He said it was too early to say goodbye to the recession in 2008 as the economic model is still sinking. In Malaysia, however, the economy is still growing and the unemployment rate remains low.

Economic progress is being constrained mainly by three factors, viz., the remaining debt burden, resources and changes in China's momentum. These are explained in further detail below.

A: Remaining debt burden

During the great crash in 1929, the United States (US) economy took about three years to reach the bottom, i.e. 1932.

Comparing the stock markets, the Dow Jones Industrial Average (DJIA) from 1920 to 1929 and the Nikkei Index from 1980 to 1989 showed similar patterns during the nine-year periods reviewed. The Japan market was not able to recover from the 1989 crisis and the US economy experienced another hit (the Internet bubble crisis) in 1999.

While the US government was helping to boost the economy by cutting taxes, encouraging spending, etc., it experienced the 9/11 incident after 18 months of recovering. Surprisingly, the DJIA did not fall immediately. It climbed for another six years after the 9/11 incident.

Mr Maxton next displayed a chart comparing the stock market Indices of two economies, US (1990 to 1999) and Japan (1980 to 1989) as well as the DJIA from 1920 to 1929. The chart has four points:

- a) Year 2000, point A – The economies were at their peaks
- b) Year 2002, point B – The economies experienced a downturn
- c) Year 2007, point C – The economies peaked again
- d) Year 2011, point D – The economies experienced another downturn

A question was then raised – Will there be another crash? Based on recent publications, it seems there has been a recovery in the world economy, and this is due to a number of factors, viz., massive government injections of cash, e.g., in China, plenty of free money, huge bank bailouts, subsidies galore, e.g., incentives to purchase cars in China and the US, and the fact that stock markets are booming.

However, support from various parties is needed in order to achieve a sustainable economic growth.

According to Mr Maxton's analysis, the current economy is still stuck in the mud where consumer debt is still too high, banks are still in trouble, governments have too much debt, there is still too much capacity and the bill has yet to be paid.

Bear markets usually last for years. The economy will take at least another six years to return to boom markets.

B: Resources

Mr Maxton started off this topic by saying that the world is too crowded. Every year, there are an additional 95 million people who are polluters, users of land, medicine, water and energy. The population stood at 1 billion in 1804 and it doubled after 123 years. Since then, the population has been growing at an ever increasing rate. For instance, there were 3 billion people in 1960, 6 billion in 1999 and 7 billion in 2011. As a result, pressures have been put on the world's resources, in particular, water which is a necessity, and oil which is used for vehicles and the production of food.

C: Changes in China's momentum

The world's growth rate was driven mainly by China's economy through outsourcing and China's cost advantage. China also had the advantage of a "flat" world and the WTO. There

advantage of a “flat” world and the WTO. There was rising spending in the West driven by borrowing and rising assets prices.

China’s advantage, however, has faded in recent years. It now faces a situation where food, water, oil, steel, and coal costs are rising, amidst increased pressure on subsidies. In addition, wages and inflation are rising, trade sanctions are a possibility and there is less scope for further cost reductions. It also has to tackle lower wages, higher taxes, falling demand in the West, as well as falling asset prices.

China’s domestic consumption will not be able to save the world as the European Union (EU) and the US contributions to consumption stood at USD10 trillion each whereas China’s consumption contributed only USD1.9 trillion.

Modern economics is to be blamed for the cause of the current market situation because it has made growth a goal and not a consequence. Resources have been mis-priced thereby causing a waste of resources and encouraging choice, throw-away goods as well as overvaluation of investments, companies and assets. Free trade makes it impossible for developing economies to develop as it encourages under-regulation, speculation and monopoly power.

These factors all run counter to the ideas of Adam Smith, who believed that scarcity of goods is needed to produce and create employment; there should be industrial focus; actions should be founded on moral philosophy; there should be a goal to promote welfare; and nation states should be competing.

Unfortunately Smith’s ideas run counter to today’s world which has changed to the extent where goods are aplenty, and demand is being funded through debt; growth is now a goal rather than a consequence; there is scarcity of work and 70% of it is service-based; there has been massive environmental damage and widening inequality; and the nation state is waning in influence.

Mr Maxton further explained that economic growth does not equate to improved human welfare and greater happiness. For example, the US economy rose 251% between 1990 and 2010, but the country also experienced an increase in gross public debt of 419%, a drop in the Gini coefficient from 43 to 47; its ranking in the

world Press Freedom Index dropped from 17 to 47; its prison population more than trebled; it has the highest obesity rate in the world; one in six Americans are living in poverty; and it is near the bottom of Organisation for Economic Co-operation and Development (OECD) education tables.

He then went on to prescribe solutions to the problem. He said that new focuses are needed for the western economies in order to price the world’s resources properly and live within our means, and we should tax resources and not effort. We should also eradicate unearned income, ensure markets use “Goldilocks” regulation, manage expectations and ensure that the law of gravity is strictly enforced.

What all this means economically is that Western economies should continue to retrench which will lead to falling consumption. Also, inflation will increase the cost of goods and services while deflation will affect what we can sell. China’s ascent will get tougher and we need to manage expectations. Politics will become more troublesome.

In conclusion, where there is risk, there is also opportunity.

We should be looking at commodities; strong currencies, e.g., Australian Dollar (AUD), New Zealand Dollar (NZD), etc.; growth sectors in Asia, e.g., elderly care, luxury goods, low cost products, medical tourism, etc.; growth sectors globally, e.g., restructuring; and tracking businesses globally, e.g., food, utilities, textiles, etc.

What does this mean for banks? There are a few lessons learnt so far, but what is certain is that banks are being blamed and finance is certainly in the firing line. There are lots of good and bad legislation to come. There will be pressures for those outside the EU to comply with higher reserves and more restrictions. There will be the question of what role banks should play in the economy.

For individuals, we should be aware that western asset values and stock are not what they appear to be. More volatility can be expected. There will be diversification everywhere, geographically and politically with flexibility being the key. There is a need more than opportunity to radically restructure our economic situation.



SESSION 1: PERSPECTIVES FROM THE GROUND

The speakers were Mr Jan Cherim (Managing Partner, Financial Access Capital Partners), Mr Mark Cranfield (Journalist at DJIFX Trader, the flagship service of Dow Jones/Wall Street Journal), Mr Dane Chamorro (Director of Global Risk Analysis, Asia-Pacific, Control Risk) while Mr Ian C. Buchanan (Senior Executive Adviser, Booz & Company) was the moderator.

Macro Challenges 2012 and Beyond

Dane Chamorro, Director of Global Risk Analysis, Asia-Pacific, Control Risk

Social and political unrest in major developing economies such as China, India and Nigeria are going to result in lower global economic growth in 2012 than in 2011. The World Gross Domestic Product (GDP) is expected to be 30% lower in 2012. Major factors contributing to this low growth are the sovereign debt crisis and austerity in the EU, “jobless” recovery in the US, high government debt in Japan with Japan’s government debt to GDP ratio being double that of Italy’s and self inflicted sub optimal growth in India and Indonesia.

The US economy is now deleveraging from the credit bubble. During the GFC in 2007/2008, Americans were living beyond their means on an individual basis. The GDP was higher in 2011 than in 2007 but with 6 million fewer jobs. In 2012, some major city governments are on the brink of bankruptcy and new taxes are on the way. The US market is expected to remain choppy for a while.

During the GFC in 2011/2012, Europeans were living beyond their means on a collective basis. The Eurozone was gorged on cheap credit with net foreign liabilities heading towards 100% of the GDP. Individuals are aware of the problem but there are no solutions forthcoming. For the EU, politics matter because of worse economic cases in some countries than in others. For instance to what extent should the north subsidise the south? Also, how much austerity can the political systems withstand?

Double-digit net exports for Singapore, Japan and China are a thing of the past. China recorded 7.8% of GDP growth in net exports by end of 2010. Consumption levels and government investments are also important factors that caused the change in the Chinese economy. China is not immune to the economic

laws of “gravity”. However, rising incomes and urbanisation as well as re-balancing of economy will keep it away from the credit bubble.

The Asian bank credit to GDP ratio peaked in 1997 and caused the AFC. Ten years later, the trend was repeated and resulted in the GFC. Since then, leverage level has been on an uptrend. Will Asia experience another crisis?

Most Asian countries have learned from the AFC. The majority of these countries managed to control their credit to GDP ratio well except for China, Hong Kong, Singapore and Sri Lanka.

Mr Chamorro concluded by saying that there will still be opportunities although the economy is in a crisis.

View from the Ground: Submerged Markets

Jan Cherim, Managing Partner, Financial Access Capital Partners

Mr Cherim commenced by highlighting the lessons that we learnt from the financial crisis, which include the fact that banks’ capital management under Basel II was clearly insufficient, given their business profiles; risk was underestimated; models were inadequate or manipulated; rating agencies were insufficiently independent; audit firms focused on compliance rather than substance; incentive schemes were badly flawed; and there were no regulatory liquidity standards for banks.

It is essential that there be a rapid regulatory response toward Basel III. Basel I and II took about one decade to put in place while the implementation of Basel III has improved and taken only two years. Political pressures from the G20 group, the Financial Stability Board (FSB) and popular dissent are among the factors that put Basel III into place within such a short period of time.

The capital requirements for Basel III at 8% are almost double those of Basel II. The intents of Basel III are to encourage changes in behaviour patterns with heightened risk-awareness, rationalise remuneration and incentive schemes, have better-tailored requirements for different banks to cater for various business models, and have phased implementation of a) acceptance and “Playing Field” issues, b) limited macroeconomic shock effects, and c) observation periods to calibrate ratios (leverage and liquidity requirements).

The substance of Basel III is strengthening of capital requirements to ensure more and “better” capital, higher risk weights and additional buffers, enhanced measurement of leverage, better capture of business risks, development of liquidity requirements and extra measures for systemically important banks.

However, the implementation of Basel III will have impacts on the banking models that include higher minimum capital ratios which means that additional capital needs to be built up resulting in capital scarcity for expansion, higher capital charges for complex products which will encourage a “back to basics” approach and slow production innovation in the capital markets and introduction of liquidity requirements, i.e. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to increase the need for “eligible” buffer assets and longer-term funding.

Basel III requirements are intended to encourage new opportunities. The advantages are that better capitalised banks are safer, and can fund more easily, “early birds” can improve their relative market position and there will be a level playing field for internationally-active banks.

The issues of the Euro crisis were then mentioned, including old-fashioned sovereign debt problems, currency concerns, political strains such as in the Netherlands and France, effects on banks in terms of increased capital constraints, uncertainties and caution.

The real effects that led to the Euro crisis are that product development was stifled with no capital market innovations, a back-to-basics drive and “me too” product development, “internationally-active banks” went on the defensive with lessons not transmitted and also market concentration, the deleveraging impact was underestimated and credit policies that were stifling business.

In the Euro area, external financing such as bank loans, overdrafts and trade credit in the Small and Medium Enterprises (SMEs) sector are showing a decreasing trend. For mortgage lending, gross residential loans are down and bank requirements have become dramatically stiffer.

Mr Cherim concluded the session by saying that there are opportunities for Asian banks because European banking service levels are down, willingness to accept risks is also down,

retail and SME sectors are under-served, there is no product innovation, expansion is being rolled-back, capital is constrained, the cost base is too high and technology is weak.

From the Ground

Mark Cranfield, Journalist at DJIFX Trader, the flagship service of Dow Jones/Wall Street Journal

Mr Cranfield began his presentation by talking about the global growth rate. The International Monetary Fund (IMF) announced that the threat of a sharp global slowdown eased with improved activity in the US and better policies in the Euro area. Weak recovery will likely resume in the major advanced economies and activity will remain relatively solid in most emerging and developing economies. The global growth rate is forecast to be 3.5% in 2012 and around 4% in 2013. Following are the country updates from various analysts.

China and other emerging economies

Mark Mobius from Templeton Emerging Markets Group reported that these economies are seen to have a bit more wiggle room for further stimulus as they appear to be equipped to absorb changes potentially without dramatically negative results. China is not expected to have a hard landing.

Japan

Capital Economics reported signs of a recovery in the Japanese economy. Early indicators for March show activity has picked up after a slow start to the year. Confidence is increasing and the eco-car subsidy is providing a strong prop to retail spending. The GDP is set to return to growth in Q1 and monetary policy targeted inflation at 1% in 2012. The economy should continue to expand throughout the year.

Europe/Eurozone

Jim O’Neill from Goldman Sachs Asset Management stated that Europe is the weak link as far as economic recovery is concerned. The Eurozone crisis is multi-dimensional. It is partly a sovereign debt crisis, but far from just this. It is also a “lack of growth” crisis, a crisis about the structure, governance and leadership of the Economic and Monetary Union (EMU).

Christopher Wood from CLSA stated that the Eurozone crisis is not over. The Eurozone establishment has failed to come up with a credible fiscal union which provides a credible long-term foundation for monetary union. At the

same time, it is worrying that the news coming out of Germany is to the effect that the Eurozone crisis has been solved. If indeed such is the view amongst the policy establishment in Berlin, then it is deeply complacent and shows no understanding of market dynamics.

A senior politician is quoted as saying that Europeans know what needs to be done, but they do not know how to get re-elected once they have done it. Several elections are going to be held soon, for example, France presidential elections, Greece national elections, Italy local elections and Germany state elections. As a result of the non-action, it deepens the risk of a contagion effect.

Mark Chandler, the Chief Economist in Brown Brothers Harriman (BBH) commented that France appears to have more in common with the Mediterranean members of the Eurozone than the Northern core. It runs a persistent trade and current account deficit. Its unit labour costs have risen relative to Germany's own. If the older European Exchange Rate Mechanism was still operative, France might be tempted to devalue its currency to restore competitiveness.

Roger Bootle from Capital Economics mentioned that France has made a very large bet on its relationship with Germany and their joint construction of monetary union. The Euro may have been a French diplomatic triumph but in economic terms it has worked in favour of Germany.

Spain will be the next major risk in the financial markets. Barclays Capital reported that Spanish house prices fell sharply in Q1, by 3% on a quarter-on-quarter basis and 7.2% on a year-on-year basis. This downtrend in housing prices is expected to continue. According to Luis de Guindos, Spain Finance Minister, there is no margin for error. From a budget perspective, the government is facing a lose-lose situation. If the adjustments are not enough, markets will penalise it. But if the government goes too far, markets could also penalise it. He mentioned that the unemployment rate in Spain touched 24%, GDP was negative and it has to request for a financial bailout from the IMF.

Gavyn Davies from Fulcrum Asset Management stated that the IMF warns that, in an environment where the Eurozone's policy determination begins to waver, the provision of credit could worsen further, knocking another 1.4% off the GDP growth forecast. This would turn a mild recession into a deep one.

Roger Bootle from Capital Economics mentioned that austerity won't work when countries need growth. Otherwise there could be deep recession for a decade.

Mark Cranfield's session ended with more remarks on the Asian scene. He said that according to the President of the Asian Development Bank, in 40, 50, or 60 years' time there could be a common currency in some parts of east Asia or even broader than that. Both China and Japan are going their own way. For China, the exchange rate of its currency, the Yuan, has reached an appropriate level, and increased two-way fluctuation is likely in the future. As for Japan, according to the Bank of Japan Chief, Mr Shirakawa, the Bank of Japan will pursue monetary easing.

SESSION 2: LEADERSHIP AND GROWTH

Strategic Leadership and Growth

Abdul Farid Alias, Deputy President and Head, Global Wholesale Banking, Maybank

En Abdul Farid began his talk by saying that banks are operating in a tough environment because of global economic uncertainty, increased competition and regulatory scrutiny.

Looking at the global and regional financial landscape, the European sovereign debt crisis and global deleveraging process will continue to soften the recovery of the financial sector. Market volatility is also to be expected. Inflationary pressures are expected to increase globally, including Asia.

Increased competition will also begin to be seen in the banking industry. Leading players will start gaining traction regionally, and this will be coupled with the liberalisation of the banking sector. Price competition will continue to put pressure on net interest margins. There will be competition for cheaper sources of funds regionally. The focus will be on the higher risk SME sector, and this will be followed by enhanced consumer protection rules.

Regulatory scrutiny will be tightened with stricter capital requirements in terms of quality and quantity under the new Basel III regime. Greater regulation of financial services will be enforced in Asia.

Leaders would need to rethink their strategies in order to grow and balance this growth against market volatility by focusing on three

key strategic areas, viz., a) creating sustainable growth, b) embedding the right risk culture, and c) strengthening and building capabilities.

For Maybank, ensuring sustainable growth involved reframing its vision and aspirations. It also involved restructuring its key competencies and strengths while ensuring competitive differentiators.

En Abdul Farid said that risk management is imperative and Maybank is embedding the right risk culture through continuous improvement of the risk management process, stepping up compliance with Basel III and monitoring the Eurozone sovereign debt crisis.

Maybank is building its capabilities by building a high performance staff culture that generates exceptional customer service, strengthening managerial and leadership capabilities across all critical and managerial levels, providing greater employee mobility across the region to spread its core values and enhancing sense of unity, and ensuring continuous recruitment and retention of the right people in terms of talent and value-added capabilities.

He concluded by saying that all the above will be done whilst building the Maybank Brand by refreshing its corporate identity, sharing its mission of humanising financial services across Asia with fellow banks, clients and stakeholders, and ensuring its values are manifested into the brand attributes and translated into every Maybanker's shared personality. As a result of rethinking its strategies, today Maybank is on the path to realise its vision and aspiration to become the regional financial services leader by 2015.

Leadership in the Global Changing Environment

Dr Sumarjo Joyosumarto, President/CEO of the Indonesian Banking Development Institute (LPPI)

Dr Joyosumarto started off by saying that the reaction to the GFC was panic with everyone shaken up or down.

He then went on to elaborate about what we know about the financial crisis by quoting a few experts on the subject.

For example, Nobel Laureate Robert Lucas said that the main reason was that important liquidity-providing functions moved out of the

commercial banks and into other, less regulated FIs. Mr Lucas also said that even with hindsight, it was not easy to see what alternative design would have prevented this. The designers of the new regulatory structure that everyone knows will need a better monetary theory than we have now.

Paul Samuelson, Nobel Laureate in Economics said that what we know about the GFC is that we don't know very much.

Dr Joyosumarto said that the role of financial leadership is to analyse the changes taking place and formulate strategies to produce a "learningorganisation". The formulation of strategies would involve the implementation of good corporate governance and adaptation to changes for survival and growth.

Dr Joyosumarto then elaborated on the changes taking place in the financial world, which are global interdependence, a dual financial system and micro finance. Each of these is expanded below.

Global Interdependence

Businesses are becoming increasingly intertwined with those of distant centres around the world. For the Asia-Pacific region, it has become clear that the crisis in the US and European financial ailments can be highly contagious. FIs are not immune to ill health in the US and European banks. Asia has also not been isolated. Asia and the US are deeply linked in many ways. Even though Asia disclosed relatively low direct exposures, Asian economies appear caught in the second phase of the crisis. ASEAN members will become even more interdependent as a result of the establishment of the ASEAN Economic Community in 2015. It would have a combined population of over 556 million people and a gross domestic product of over USD1.173 trillion. ASEAN members are negotiating intra-regional services, including financial services, and later on, ASEAN will become a single market and production base characterised by a free flow of goods services, and skilled labour.

Dual Finance System

Islamic Finance has seen a dramatic expansion between 2006 and 2010. There was a 19% annual growth rate, bringing business up to a global value of USD1 trillion. Future growth predictions are even more remarkable. Because of the strong growth, European regulators such

as France and UK are increasingly supportive of tax laws and regulations accommodating Islamic Finance. Even the Vatican issued a statement of support in March 2009, commenting that the ethical principles on which Islamic Finance is based on may bring banks closer to their clients and to the true spirit which should underpin every finance service. The world now exercises two models of financial systems, the existing one using the interest rate system, and Islamic Finance using the mode of partnership where speculation is prohibited.

Micro Finance

More than 90% of firms in the Asia-Pacific region are SMEs and they employ between 45% and 92% of the workforces in the region. SMEs are financed through micro FIs and have shown a greater degree of resilience during the financial crisis. The Asian micro finance market structure varies across the countries, depending on the stage of financial development. Studies show that Asian micro finance stands unrivalled in scale, and keeps on growing. Micro finance in Asia plays a critical role in increasing access to finance for underprivileged people, especially those in the rural areas. Other studies noted that the confidence in well established savings and retail banks is high in many Asia-Pacific economies, and has also proven particularly effective in times of crisis.

Following on the above, Dr Joyosumarto went on to elaborate about good corporate governance. There are two areas: risk management and higher regulations. These are further explained below.

Risk Management

The growth opportunity in Asia is among the highest, but uncertainty is also high because of global interdependence. A financial crisis from anywhere in the world may have a big impact on the region. Banking business is the business facing the highest risk, as it is vulnerable to contagion effects due to the failure in managing assets and liabilities. Financial risk management deals with creating economic value by using instruments to manage exposure of risks. It identifies its sources and plans in managing them.

Higher Regulations

The regulation of financial systems is mandatory, due to the fact that vulnerability creates systemic risk, and a breakdown in the financial system severely hampers the economy.

In November 2008, the leaders of the G-20 countries concluded that major changes were needed in the global financial system: major measures were needed to reduce risk, to provide oversight, and to establish an early warning system of an impending financial crisis. The new regulations in the financial system included issues on transparency, disclosure, risk management, creating buffers to make the system more resilient, and dealing with the secondary effects of the crisis.

Finally, Dr Joyosumarto concluded by talking about the roles of the financial leader, which are mentioned above, viz., to analyse the changes, formulate strategies and create a learning organisation.

Analyse the Changes

The collapse in the financial markets in 2008 and the crisis that followed, proves that there is no fixed model in both FIs and regulators that can be sustained for a long time. The downward plunge into the global crisis was triggered by the bursting of the housing bubble in the US, but other conditions have contributed to the severity of the situation: banks, investment houses, and consumers carried large amounts of leveraged debt. A leader should be able to sense what is coming ahead, and the changing environment that will have an impact on his FI, to see both the dangers and opportunities.

Formulate Strategies

The strategies to identify what, how, and when the actions are to be taken to overcome the impact of the changes are needed at all levels of the organisation, from the CEO down, and must be integrated and coordinated to be well-executed. The process of coping with the current financial crisis can involve intervention to contain the contagion and restore confidence in the financial system, coping with the secondary effect of the crisis, particularly the slow down of the economy, and making changes in the regulations to reduce risk and prevent future crises.

Learning Organisation

Technological innovations, changing consumer preferences, and the challenging world financial crisis mean that no business can remain static for very long, and the causes and effects must be learned. There is an increasing demand for the skills and experience of leaders and managers at all levels to make decisions regarding financial risk, and the demand for

investing for growth. In a learning organisation, the FI facilitates learning for all of its members, and continuously transforms itself. It is not simply about training individuals, but also linking individual performance with organisation performance. The role of financial leaders in a learning organisation these days is to balance the implementation of Good Corporate Governance (GCG) with the company's growth.

SESSION 3: GLOBAL STRATEGY, LOCAL OPPORTUNITIES

Global Strategy, Local Opportunities

Andrew Lai, Senior Account Director, Payment Market Infrastructure, SWIFT

Mr Lai's talk was mainly regarding SWIFT, a global financial industry co-operative, and how it is able to level the playing field for all users.

SWIFT began in 1973 in the wholesale cross-border payments market. In 1995, they expanded to wholesale domestic payments. They then entered the retail cross-border payments market in 2003. The year 2005 saw them entering the retail domestic payments market. Finally in 2009 they added workers' remittances to the list. SWIFT today remained a co-operative organisation serving the financial industry and a provider of highly secure financial messaging services, as well as being the financial standardisation body.

SWIFT has 10,059 live users in 212 countries who are of multiple participant types. The average daily activity as of April 2012 Year-to-Date (YTD) was 18.3 million messages, and its network availability was 99.999%. It also services 902 registered corporate entities with the bulk (73%) of its users being in the Europe/Middle East/Asia or EMEA region while the balance comes from the Americas (18%) and the Asia-Pacific region (9%).

SWIFT works on leveling the playing field and adheres to international standards. It has a shared network and operates on shared solutions. There is also business interoperability and cost efficiency (due to economies of scale).

Mr Lai concluded his presentation by showing a chart on SWIFT's solutions overview. The chart showed the various categories of SWIFT's operations and functions from payments, treasury, securities and the corporate supply chain.

KFH Malaysia Experience

Badrulnizam Bahaman, Director, Investment Banking, Kuwait Finance House (KFH) Malaysia

En Badrulnizam started off by presenting a chart showing KFH's area of operations. KFH Malaysia is the regional hub for KFH's operations in the region.

He stated that there are significant revenue opportunities from tapping investment and trade flows between GCC and ASEAN. GCC is now ASEAN's eighth largest trading partner. There is a higher ASEAN appetite for GCC investors because of a rising level of sophistication, demand for Asian technology and knowledge, strategic diversification of assets and closer political and cultural interactions. As a result, KFH Group sees an opportunity to facilitate the requirements of customers in both GCC and ASEAN.

He then went on to describe KFH as a one-stop Islamic financial solutions provider, and stated the various roles that KFH plays. These range from investment banker, investor/equity partner, fund manager, marketer/distributor to Shariah advisor. KFH is the only Islamic financial solutions provider worldwide with an Economics and Research team. The KFH Research coverage includes economic analysis & Islamic capital markets in Emerging Asia & the GCC region.

KFH Malaysia's experience in facing Islamic banking challenges was then elaborated on. There are five main areas and these are expanded on below.

1) *Business Mix*

There is under-penetration in the fast growing SME and retail segment. There is also increasing competition and margin pressure in the wholesale banking business.

2) *Funding*

This is structurally disadvantaged and heavily reliant on high cost corporate term deposits and wholesale funding.

3) *Network and infrastructure*

This lacks scale and there is also the high cost of investment.

4) *Talent*

There is a global shortage of Islamic finance talent.

5) *Differing stance on Shariah issues*

At present there is a divergence of opinions, lack of uniformity and harmonisation and interpretations of Islamic law.

In conclusion, En Badrulnizam discussed the direction of KFH Malaysia moving forward. There are three main strategies, and these are to look at a) product differentiation and target mix, b) network evolution, and c) brand positioning.

A Capability-based Approach to Regional Growth

Ian Buchanan, Senior Executive Adviser, Booz and Company

Mr Buchanan began his presentation by saying that he would provide global and regional examples of capability-based strategies and talk about the lessons learned in providing a capability-based strategy.

He described modern Asia as being a function of history and geopolitical influences. He said that there was no single “Asia” but rather, a complex portfolio of economies, different stages of development, diverse cultures, politics and economic strategies.

Understanding the political, institutional and economic structures of modern “Asia” requires insight into ancient cultures and the geopolitical context Post-World War II. During “Asia’s” Post-World War II growth, the “Miracle” region grew at twice the rate of OECD nations mainly due to global not local factors. Hubris and weak institutions sowed the seeds of the subsequent financial “melt-down”.

The Asian “Crisis” of July 1997 ended 40 years of high growth and exposed structural, institutional and political weaknesses throughout the region. Government responses varied widely. Most countries recovered and learned while others are still struggling with political and institutional reforms.

The size, complexity and diversity of the region means that successful firms start with a) a clear “End Game” based on economic and “cultural” insight, b) a focus on where, when and how they will compete, and c) the ability to build capabilities to compete the “Asian Way” ahead of building assets.

Mr Buchanan then reiterated that Asia is one of the most diverse regions in the world by presenting a chart showing the various

examples of this diversity. For example, China and India make up more than 73% of Asia’s population, but Japan has the highest share of Asia’s GDP which, together with China’s GDP, makes up more than 68% of Asia’s GDP.

Capability-Based Strategies – Global and Regional Examples

Mr Buchanan then presented a chart which showed that companies with coherent capability-based strategies clearly outperformed those with low coherence. The findings of a study showed that distinctive capabilities enabled stability during the GFC, and coherent strategies generate superior shareholder returns. For the latter, there was a Return On Equity (ROE) premium of 3.4% over the benchmark and share prices outperformed the sector.

Post-GFC, competing banks invested in capabilities to create distinctive “ways-to-play”. For example, distribution giants like JP Morgan Chase and Wells Fargo compete by a) having an extensive branch network and broad channel access, b) relying on price and convenience, and c) having the broadest range of products.

Product Innovators like PNC and US Bancorp compete by a) branch density plus other channels, b) focus on product innovation, features and packages, and c) using Mergers and Acquisitions (M&As) to expand their footprint and product abilities.

Community Banks like M&T and BBT compete by having a) a trusted brand in the community, b) a traditional product set, and c) branch-centric, relationship-intensive delivery.

Finally, segment specialists like Northern Trust and United Services Automobile Association (USAA) compete by having a) target-defined segments and/or products, b) deep client, industry and/or product knowledge, and c) specialised product sets and custom solutions.

Mr Buchanan then expanded on his JP Morgan Chase example. Segment-wise, it serves the needs of all customers, prunes the portfolio of risky customers, and leverages its footprint to attract customers. As for products, it offers a broad array of products, displays conservative risk management and product opportunities and uses product innovation as the key to growth. Finally looking at the channels used for the above, it has a dense branch network, and uses branches to cross-sell and it is expanding its non-US presence as well.

He then used BBT as a community bank's example. BBT's high branch density in small communities caters to local clientele and small businesses. Segment-wise, it offers local clients convenience and customer experience. It also focuses on SMEs and "micro" banking. It offers a broad product portfolio and core consumer products augmented by value-added, fee-based services. For the channels used, it has a high density in homogenous markets and is targeting a top five position. It has built density in markets with a few large players. It makes decisions locally with central support.

Looking at Asia next, he said that there were four "Ways to Play" emerging amongst Asian banks, as follows:

- 1) Single country distributor with a local brand offering basic products and services. Examples are Bank Mandiri and Bangkok Bank.
- 2) Regional distributor that leverages its brand and has core values, also offering basic products and services but replicates its footprint. Examples of regional distributors are OCBC Bank and the CIMB group.
- 3) Regional customiser that has focused product development, replicates its brand footprint, focuses on customer service and adapts to the local culture in each region. Examples are Banco do Brasil and Standard Chartered.
- 4) Single country customiser with a local brand and that develops products to suit customer needs while at the same time focusing on customer needs. Examples include Maybank and Public Bank.

Each "Way to Play" requires a distinct and coherent set of capabilities to deliver its value proposition. The capabilities are client experience, client insights and analytics, product development and innovation, distribution management, manufacturing, acquisition and integration, risk management and human capital.

Maybank is seeking to create a target capability system and product mix aligned to its "Way to Play". Its target is to be a regional financial services leader and to humanise financial services from the heart of ASEAN.

Bank Mandiri in Indonesia has generated value through its cohesive play as a single-country customiser. Its target is to be the number one corporation in Indonesia by market capitalisation by 2014.

Developing a Capability-Based Strategy – Lessons Learned

Mr Buchanan said there were eight key lessons to be learned to compete in Asia and these are: 1) Vision and alignment, 2) Where, when and how to compete, 3) Basic understanding of the Asian way, 4) "Know who" and "know how", 5) Alliance management capability, 6) Reputation and image, 7) Empower the people closest to the market, and 8) Governance model.

He then went on to elaborate on each of these. For lesson one, for instance, a bank has to ensure it has a clear vision of the "end-game" endorsed and supported by the executive team. As for lesson eight, he said that due to the complexity of the region, it is essential to create the right governance model early.

To conclude his discussion, he said that successful mergers and alliances require commitment to a "Win-Win" partnership to overcome challenges. He said there were three common challenges which are 1) Vision is not clearly articulated and bought-in to, 2) Architecture is not integrated, and 3) People – there are culture and values gaps which need to be filled.

Global Strategy, Local Opportunities – The Recent Development of the Hong Kong Banking Sector

Peter Chan, Alternate Chief Executive, DBS Bank, Hong Kong

Mr Chan began by looking at Hong Kong's role as an International Financial Centre. He said that there was a significant presence of licensed banks and the number is continuing to grow. There is also a strong savings rate and net external credit. Net external credit represented 300% of Hong Kong's GDP. The Initial Public Offering (IPO) market remains buoyant with the Hong Kong Stock Exchange remaining the world's largest IPO exchange for three years in a row. There was also an increased significance of international listings.

The second point to note is that Hong Kong is most connected with China. There are significant trades with China, with the trades comprising 49.3% of exports and imports. Hong Kong also has the highest share of Foreign Direct Investments (FDIs) in China among Asian countries. Hong Kong's FDIs in China in 2011 were nearly double those of 2008. There was also significant growth in the market capitalisation of China-related stocks, with

market capitalisation in 2011 being 1.8 times of what it was in 2001. In addition, there was growth in lending to China as well, with increasing claims on banks. Besides this, growth in Renminbi (RMB) deposits was 16.6 times in 2012 compared to what they were in 2007.

Mr Chan then touched on the topic of changes in funding and liquidity. There was keen competition on deposits with a rising Loans-to-Deposit Ratio (LDR). There was a surge in activity of alternative funding sources. This led to a steady growth in bonds issuances.

The next topic of discussion was the changing landscape in the Asia Debt Market. The syndicated loan volume in Hong Kong and China remains stable. There was strong growth in regional banks' market share of syndicated loans in Hong Kong while the Hong Kong/Chinese Banks' market share remained stable.

Looking at the profile in terms of assets size, Singapore takes the number one spot while Hong Kong and China come in 6th and 7th position respectively.

Hong Kong and China are well connected across countries with a coherent Hong Kong/China long-term strategy, global account management system, a long-term funding plan and finally a strong regional product platform.

There has been a successful re-orienting of the Hong Kong franchise to anchor greater China. Hong Kong has also been able to build out a niche in Capital Markets capability, while at the same time making progress in Consumer Banks. Income from the latter was 15% up year-on-year. The objectives are to refocus consumer banks on wealth creation and maintain Hong Kong's lead as a top four player in the unsecured loans market.

SESSION 4: CORPORATE GOVERNANCE

Corporate Governance, Risk and Market Discipline

Douglas Jackson, The Boston Consulting Group

Douglas began his talk by asking how societies move from a period of turmoil and transgression to one where incremental but cumulatively substantial progress has been made. He showed a couple of slides, one of which transitioned from a photo of a segregated

America in the 1960s to the election of the country's first African American president in 2008. Another slide transitioned from a photo of an all-white, male class of Westpoint graduates in circa 1951 to the racially and gender diverse class of 2010.

Douglas went on to argue that this change in attitude toward racial equality in America was not simply the result of new legislation, e.g., the Civil Rights Act of 1964. Rather change was nudged along through myriad other forces in society that shape, sometimes subtly, people's attitudes toward a particular issue. These "thousand points of light" include the influence of art, the media and entertainers, educators, leadership in the public and private domains, legislation and even courtship.

Coming back to the central question of how to move the banking system from a period of turmoil with banks collapsing and various other effects of the GFC to a situation where wealth could be increased, the answer is corporate governance and other "points of light" among which are regulations, capital requirements, organisational governance and executive compensation.

He then expanded on risk culture by saying that multiple points of pressure and resistance form and define an organisation's risk culture, viz., intrinsic company values, risk culture and behaviour and contextual factors.

Intrinsic company values reflect people's beliefs, and should be in line with the company's institutional philosophy, for example, stating the view that a particular bank is a prudent bank and does not take risks it doesn't understand.

Risk culture is expressed by the actual individual risk behaviour of the bank's employees, for example, how thorough is the risk assessment that a mortgage advisor makes and do people tend to follow the (internal and external) rules or try to circumvent them?

The contextual factors of individual behaviour stimulate employees to behave in a certain way. Examples of contextual factors are Key Performance Indicators (KPIs), promotional criteria, internal communication, training, etc.

In a strong risk culture, each employee is aware, equipped and motivated to make the optimal risk-return assessment. The aim is to ensure that: a) everyone at the bank is aware of the risks related to his/her activities, b) is equipped with the information and knowledge to weigh

these risks in determining his/her actions and to come up with the right risk-return assessment, and c) is motivated to make the right risk-return assessment.

He said that changing people's behaviour by changing their environment will result in key values being followed automatically. He said there are two approaches that can be used.

The first approach is based on values and beliefs. In this case, it starts with intrinsic company values followed by risk culture and behaviour and ends up with contextual factors. The idea here is that to change what people do, the company has to change the values which govern their behaviours. Values are not a good basis for implementation (but are good to define the target culture and behaviour).

The second approach is based on organisational dynamics. In this case, it starts with contextual factors and ends up with intrinsic company values. In other words, to change behaviours, the company has to change the context to which they adjust. In this case the focus is on behaviour and incentives from the environment.

Mr Jackson said he believed that the second approach is more effective in changing risk behaviour. He said that a large number of contextual factors can be modified to change people's behaviours.

There are two principles involved. The first is to change motivation first. Start this by making people motivated to change their behaviour themselves, by changing KPIs, job profiles, hiring and promotion criteria, etc. Secondly it has to be ensured that the outcome is evaluated. In this case, continuous evaluation has to be made whether changing the contextual factors actually creates the intended effect which is to create an improved risk culture.

He said that the organisational dynamics approach involves a structured approach towards changing individual risk behaviour which is to be implemented through a bank-led organisation-wide programme. The structured approach forms the core towards changing the risk culture. For the implementation, what is required is a bank-led team in charge of an organisation-wide programme with all parts of the organisation being actively involved.

In his concluding remarks, he raised a few points: a) risk culture development is an evolutionary process, b) there are no silver bullets – like squeezing a balloon, c) a thousand points of light are required, d) address the contextual factors that determine a bank's culture, and d) measure outcomes and keep refining.

Corporate Governance: More Important Than Ever

Hansruedi Schütter, Executive Director, Asia & Middle East, RiskBusiness International Ltd.

Mr Schütter began by showing a number of slides which detailed examples of shareholders rejecting payment packages for bank executives, including CEOs.

The shareholder revolt, as he called it, was the result of major dissatisfaction in Europe and the US. The reasons for the anger were manifold. For example, bank scandals have become a daily affair, share prices are down, banks are getting fined left and right, control failures cost billions, staff are being laid off to save cost and executive pay packages are still in the millions.

At the same time, bank employees are starting to flex their muscles and there were slides of newspaper clippings showing examples of employees going on strike to demand better pay. He said that employee protests have been reported globally, including Malaysia. Disparity between staff layoffs and worker compensation has become all too obvious and irate a lot of people, especially after the financial crisis. As a result and with regulatory encouragement, whistle-blowing is on the increase.

He went on to say that there were both political and public interference which made the situation worse and it was largely encouraged by the bailouts which were taking place. Politicians started voicing their dissatisfaction with bank executive pay packages, pricing of mortgages and other bank services pricing. Activists were camping out and protesting or disrupting business; at the same time they were encouraging the clients to move their accounts from "bad banks" to "good banks", while the press and publishers were happily dwelling on topics that sold well.

He then posed the question as to what went wrong. The answer was that corporate governance failed to become firmly rooted in corporate culture. In 2009, the OECD Steering Group on Corporate Governance conducted a survey, concluding that there was no immediate need to revise the OECD Principles already in place but there was a need for a more effective implementation of agreed standards. On the whole, banks struggled with recognising the importance of operational risk. As a consequence, hardly any bank had a true operational risk culture.

In concluding his talk, the way forward, according to Mr Schütter, is to build that operational risk culture.

A bank should review or publish a Code of Conduct that includes what the bank expects from the employee, but also what the employee can expect from the bank.

As for the customer, let the customer see that the bank is making an effort. It should create products for the customer and not for its executives' bonuses. Finally, the bank should quit defending its reputation but rather focus on building up its brand.

Corporate Governance, Risk and Market Discipline

John Zinkin, Managing Director, Corporate Governance of Iclif

Mr Zinkin began by talking about the history of his career, after which he presented the agenda for his talk. He said that the four topics he would discuss were effective corporate governance of FIs, risk governance, the role of market discipline, and the impact of values and culture.

Effective Corporate Governance of FIs

He began by saying there were two types of elements, viz., hard elements such as frameworks, policies, structures and processes which were driven by external and internal factors, and soft elements such as relationships, trust and practices which were driven by culture and behavior.

He then raised the question as to whether there was a need for a different approach. He said that corporate governance should be recognised as an ongoing process and not a fixed set of guidelines and procedures. Boards will need to dig deep selectively, as necessary for understanding. Board independence and challenge should bring a high quality and value-additive contribution to board deliberation and is not evidenced by the number of times a director says no to management. Smaller boards requiring greater time commitment are a far better approach than having larger boards that require only modest time commitment. Balancing risk, return and resilience is difficult. If a risk is too complicated for a well-composed board to understand, it is too complicated to accept. Management's key governance mandate is to give the board the best means of understanding the issues on

which judgment is needed. Although institutional shareholders cannot prevent the next crisis, they can and should engage more productively in governance matters. Values and culture determine behaviour across the organisation and effectiveness of its governance arrangements.

He then went on to define the role of the board of directors. He said that boards of directors play a pivotal role in FI governance through their control of the three factors that ultimately determine the success of the FI: the choice of strategy; the assessment of risk taking; and the assurance that the necessary talent is in place, starting with the CEO, to implement the agreed strategy. Boards that permit their time and attention to be diverted disproportionately into compliance and advisory activities at the expense of strategy, risk and talent issues are making a critical mistake. Above all else, boards must take every step possible to protect against potentially fatal risks.

He said that there were 10 tasks of well functioning boards. These were to: 1) Fashion leadership structure allowing the board to work effectively as a team unified in support of the enterprise, 2) Recruit members with irrefragable independence of thought and action to create board balance of expertise, skills, experience and perspectives, 3) Build nuanced understanding of all matters regarding the organisation's strategy, risk appetite, conduct and risks it faces and its resilience, 4) Appoint a CEO and ensure its top team has the required skills, values, attitudes and energy essential to success, 5) Take a long-term view on strategy and KPIs, focusing on sustainable success, 6) Respect the fact boards are responsible for direction, oversight and control while management run the business, 7) Reach an agreement with management on strategy and champion management once decisions are made, 8) Challenge management vigorously and thoughtfully discuss all strategic proposals, key risk policies and major operational issues, 9) Ensure rigorous and robust processes are in place to monitor compliance with agreed strategy, risk appetite and relevant laws and regulations, and 10) Assess board effectiveness regularly and share the results with the organisation's lead supervisor.

Risk Governance

Those accountable for key risk policies in FIs, on the board and within management, must be sufficiently empowered to put the brakes on the firm's risk-taking, but they also must enable the

firm to conduct well-managed, profitable risk-taking activities that support the firm's long-term sustainable success. Mr Zinkin then went on to outline the eight required actions for this to occur. These were to 1) Establish a board-level risk committee to support the board in approving a FI's risk appetite and to oversee a FI's risk professionals and infrastructure, 2) Ensure there is an independent Chief Risk Officer (CRO) with stature and unfettered access to the board risk committee, with authority to strike the right balance between constraining and supporting risk-taking, 3) Determine a clearly articulated risk appetite properly linked to strategy, embedded across the firm, enabling risk-taking, 4) Actively assess and manage the risk culture so it supports the FI's risk appetite, 5) Ensure directors have access to the right level of risk information so they see and fully understand major risks, 6) Maintain robust risk Information Technology (IT) systems generating timely, comprehensive cross-geography, cross-product information on exposures, 7) Focus on emerging risks by having an aggregated view of all major risks, strategy and product creep, excess complexity and areas of over-performance, and 8) Strengthen a FI's resilience to exogenous shocks while recognising financial stresses cannot be avoided when they come.

Role of Market Discipline

Mr Zinkin said that there was a failure in market discipline that led to the GFC. Boards should seek long-term sustainable profits and goals. What happened was that shareholders sought maximum short-term gains promoting risky behaviour and volatility. There was thus a perverse incentive alignment. Managements were then misled by wrong incentives which led to risky behaviour. Boards also opted for reckless growth without regard to risk.

He said there were some issues to be considered. Firstly what is the role of market discipline for Systematically Important Financial Institutions (SIFIs) that are too big to fail? Are there effective sanctions? Does the implicit bail-out guarantee a lower cost of capital? Does it lead to moral hazards and riskier behaviour? Does the creation of SIFIs penalise responsible banks?

Secondly, does the market set the right KPIs for CEOs, for example, ROE, time horizon, level of remuneration, and an appropriate bonus culture?

Impacts of Values and Culture

Mr Zinkin began this topic by saying that values and culture should be seen as the ultimate software that determines the behaviour of people throughout the FI and the effectiveness of its governance arrangements. The fact that the quality of embedded values and culture cannot readily be measured does not detract in any way from their critical significance. Boards, management, supervisors, and shareholders must be continuously and proactively attentive to the maintenance and reinforcement of values and cultures that lead to safe, sound, innovative, ethical, and high performing FIs.

He concluded his talk by saying he had ten suggestions for an ethical culture. These were to 1) Get board buy-in, 2) Write one code for all, including board members, 3) Base the code on company values, 4) Not allow exceptions and reinforce ethical behaviour through remuneration and reward systems, 5) Implement the culture through constant communication and scenario training, 6) Require employee acknowledgment of the code, reinforced by annual recertification, 7) Provide a help-line for advice and guidance, 8) Provide a secure "whistle-blowing" mechanism, 9) Form an internal "oversight board" reporting to the Audit Committee, and 10) Allow for missed targets as a result of ethical behavior.

A Post-Crisis Model of Bank Corporate Governance

Professor Ted Gardener, Bangor Business School, Bangor University, United Kingdom (UK)

Professor Gardener said that he would focus on risk management and market discipline. His main arguments were that banks are different and the market model alone is not adequate. The financial crisis exposed these problems. There was a proposal of a new approach to enable the market model to work more safely during the modern era of deregulation..

He went on to say that corporate governance has come out of the wings to take centre stage. There was international concern to refine views. He said that even before the crisis there were bank corporate governance concerns. The financial crisis has just served to re-emphasise the role of corporate governance. He questioned whether there were prospects of a really fundamental change. Many studies and

reports have been published on the financial crisis. However there was a cynical view that the international response was 'dreary and predictable' (i.e., more rules and the various solutions proposed just addressed the symptoms and not the underlying problems). The response to the crisis has been to have more rules and regulations like the US Dodd-Frank Act 2010.

He expressed the view that bank corporate governance problems were not the cause of the crisis, but could have prevented some of the worse aspects. Regulators and bankers recognise the importance of corporate governance as it facilitates the prudent operation of FIs and, therefore, should enhance the stability of the financial system. Corporate governance is recognised as the first line of defence in supervision. However, this re-opens the old debate of whether there should be more regulations or do we allow market forces to operate.

He then went on to ask what corporate governance is. He said that there was no generally accepted definition.

Under the free market model, shareholder wealth maximisation is the main objective. There are legal manifestations, however, in that banks have a fiduciary duty to protect shareholders' funds. There is connectivity of the market model to the deregulation model, but the financial crisis requires us to question the efficiency of the market model.

He then raised the question of why we should worry about bank corporate governance. He said that the reason is that corporate governance matters. It is important for economic development and stability. A good corporate governance framework helps banks' performance, efficiency and resiliency. Corporate governance weaknesses were important in the development of the financial crisis with risk management weaknesses being especially important. Risk-taking is the essence of banking and the market model. During the course of the financial crisis, bank regulators and supervisors were also found wanting.

Bank corporate governance is different from that of non-financial firms in that there are multiple stakeholders including society at large. Select features of fractional reserve banking include the importance of maintaining confidence in banks (Professor Gardener referred to the necessary 'confidence trick' that underpins fractional reserve banking), regulatory interventions, "moral hazard" problems, "one way bets", and conflicts between fixed claimants and shareholders, to name a

few. Many of these necessary regulatory interventions (like the central bank 'lender of last resort' function and deposit insurance) produce so-called 'market failures' in applying the free market, shareholder wealth maximisation model to banks. These kinds of 'market failures' mean that the free market model may not work in the way expected and/or can produce unintended actions and consequences.

Where do these differences lead us? There are special features focusing on three key characteristics: a) banks' multiple stakeholders including society at large, b) banks have important market failures, and c) the need for additional corporate governance standards. These underscore the importance of good banking supervision, risk management evaluation, culture and professionalism. To date, the emphasis has been on risk avoidance.

So what is wanted? Professor Gardener listed three basic requirements: 1) recognise the special/unique role of banks, 2) enable the free market model to work better, and 3) recognise the most important market failures in banking. He said that it is going to be a complex task with no easy solution. Are we going to have more problems with ever more rules and regulations?

Professor Gardener then listed three propositions as to where this leads to, viz., banks have a corporate governance duty of care to depositors (as well as shareholders); supervisors become "delegated monitors" of retail depositors for the respective corporate governance duty required of banks; and senior bank supervisors have a corporate governance duty of care to bank customers.

In his concluding remarks Professor Gardener talked about producing a tripartite system of corporate governance:

- 1) Bank directors and senior management team have fiduciary duties to depositors.
- 2) Bank supervisors also have a duty of care (fiduciary duties) to bank customers (depositors and borrowers)
- 3) Bank directors and senior management team are also subject to the shareholder-based model of corporate governance.

He said that 1) and 2) would produce a safer application of 3).

He said that it was not yet practical and not easy, but it does address fundamental problems and underscores the need for professionalism, accountability and managerial quality of key persons.

SESSION 5: SPECIAL LECTURE

Future Banking Model – An Industry's Perspective

John Wong, Managing Director, Global Wholesale Banking, Maybank

Mr Wong stated that his talk would be about four topics, viz., the economic environment, the events in Asia, the banking model in Asia and transaction banking themes.

The Economic Environment

Looking at the global situation, he mentioned that global economic growth accelerated to 4.1% in FY2011 rebounded by 1.9% in F2010 and contracted by 1.9% in FY2009 (2008-2009 GFC). The Eurozone sovereign debt crisis in FY2010 has expanded to France, Italy and Spain from the smaller economies of Greece, Ireland and Portugal. The US is under pressure to reduce the budget deficit and contain the government debt of USD14 trillion, the highest so far. Latin America which has been beset by past debts, currency devaluations and bailouts, is experiencing robust economic growth and marks the strongest performance since the last decade. Some examples of Latin America's performance are: Mexico grew 5% in 2011, Brazil's new largest trading partner is now China, Chile's economy grew by 8% quarter-on-quarter and Columbia and Peru are also showing signs of growth.

Looking at the local region, the Malaysian economy grew 4.7% (FY2010: 5.4%) while Singapore's real GDP growth was 7.9% and Indonesia registered a 6.4% economic expansion after the 5.3% increase in FY2010.

South East Asia (SEA) as a whole is growing faster after the 1997-1998 AFC. The region has a GDP of USD3 trillion. It is the home of 600 million people. It produces 87% of the world's palm oil and 80% of natural rubber and is becoming an economically integrated region.

Globally, the 3rd growth supercycle has already begun and is being driven by industrialisation and urbanisation of emerging markets and global trade. The two previous supercycles were in 1901-1913 and in the 1960s. There has been a tremendous amount of technological innovation. There have been high catch-up rates resulting in the East growing faster than the West. The winners will be countries with cash, commodities and creativity.

What's Happening in Asia

In Asia, palm oil and thermal coal are major commodities amidst increasing global demand. Asia is becoming a low-cost production centre. There has been IT outsourcing in Vietnam and call centres in the Philippines. In Singapore, there are Research and Development (R&D) labs and treasury centres. Operations hubs reside in Malaysia while Thailand has become a manufacturing base. The work bench of the world is in China. Asia has government policies that support the business climate through the removal of trade barriers/tariffs and foreign investment restrictions. The banking system is on solid footing with strong balance sheets in corporations and consumer lending. A McKinsey's report shows that 45% of new growth in global wholesale banking revenues to 2014 will take place in Asia. Asian wholesale banking offers a slate of opportunities. Regional corporations are also moving in Asia.

Mr Wong then proceeded to show some slides on Maybank, indicating how Maybank is structured and also how its global wholesale banking model works.

Banking Model in Asia

Average profit growths for Asian banks in 2011 ranged from 54% (Indonesia), 35% (China) to 27% (Thailand) and 20% (Malaysia). Sustaining these profits requires strategic cost reduction through reduced complexity and removal of inefficient structures, a relationship between cost, return and risk, and more transparency in product profitability.

Governance, risk and compliance are essential in the increasingly sophisticated business landscapes in Asia. Organisational efficiency and technology (channel innovation and product bundling) help improve the decision-making process and address client needs. Now is the time for Asia to be growing organically and through acquisition.

Transaction Banking Themes

Mr Wong talked about some of the banking themes such as: a) leveraging on trade routes in ASEAN and Greater China for documentary trade, open account trade, and International Factoring, b) providing the regional electronic platform across Asia for cash management, trade finance and custodial services, c) providing client-centric solutions through customised supply chain financing and

e-invoicing, and d) working in collaboration with correspondent banks to build the right FIs networks for SWIFT related transactions.

He said that a typical supply chain model covers receivables financing, invoice discounting, buyer financing and factoring. Asia's 2010 factoring volumes grew to USD472.5 billion, 57% year-on-year compared to Europe's 11% and America's 21%. China and Hong Kong grew 113% and 66% respectively.

He concluded by mentioning e-invoicing and electronic billing saying that these are using the best of both worlds by combining SWIFT and existing networks.

Applied Mobility - The Need For Banks To Lead The Adoption Of Disruptive Innovations

Mr Tarik Husain, Senior Sales Director, Sybase 365 Pte Ltd

Mr Husain said that his talk would be about mobile channel trends, bank innovation, and the disrupters.

The Mobile Channel Trends

He said that what can be done with mobile phones is changing tremendously. It is now possible to carry out purchasing, payments and banking as well as download many applications. He said that it isn't just mobile banking that is evolving, but also all other mobile services.

Bank Innovation

He began this by saying that Standard Chartered Bank had a "breeze" application with an innovative "wish list" service which helps customers to fulfil their wishes and share with friends on various social media sites. He also talked about the Commonwealth Bank's "Kaching" service which allows payments to mobiles, emails and Facebook as well as contactless payments.

He then mentioned the emerging markets where the current generation would never step into a bank branch as we know it. He said there were over one billion consumers that have access to a mobile phone, but no access to formal financial services.

In Bangladesh, for example, only 13% of the population has a bank account but 45% possess a mobile phone – mobile banking would thus open up an untapped market. Dutch-Bangla Bank Limited (DBBL) Bangladesh has a

business model that supports the under-served base of the economic pyramid in Bangladesh, where millions have limited access to financial services. DBBL Bangladesh's current status is: it has over 300,000 new customers (seven months), it is currently signing on average of 1,000 customers a day, it has over 300 million Bangladeshi Taka (BDT) in deposits, all the transactions are managed from a single mobile platform and not connected to existing bank systems, and it is planning to have 10 million new accounts by 2013.

The Disrupters

The eco system players are not waiting for the changes to take place but are beginning to offer individual services.

For example, Isis has an application known as the "Wallet" which organises payment cards, offers and loyalty cards in one convenient application.

Other examples were also mentioned, like "Square (USA)", Vimplecom which offers an "Alfabank-beeline" card, and Celcom (Malaysia) which has Aircrash, a mobile commerce suite that allows users to top up their wallet from any bank account.

Mr Husain concluded by talking about revenue opportunities for banks to pursue. He said that it is critical that a bank sees a return on its investment with its mobile commerce solutions. There are several areas that could see it generate revenue based on its footprint of Banks in the Asia region. One such service is remittances. In Malaysia, there are many Indonesian workers who regularly remit funds to their homes in Indonesia. Mr Husain said that a bank could leverage both its operating banks in this country and reach the rural cash-out areas via an Agent network, charging fees for such services. He said that there were several other areas that could be seen as potential revenue generators.

SESSION 6: GETTING RETURNS FROM TECHNOLOGY

Andrew S. Kerr, CRO, AmBank Group

Mr Kerr began his session by saying that the world today is one of increasing bank channels (mobile phones, ATMs, on-line banking, etc.) and increasing sophistication of systems (cash management, equity derivatives, telephone banking, etc.) As a result, there is also an increase in risks.

The topics he would cover are risk culture, governance, project management, subject matter experts and data. He would also touch on the subject of economic capital.

Risk Culture

He said that a strong risk culture is the backbone of a FI. Technology risk is one of the largest risks facing modern day banks – both existing and expanding infrastructure into modern technology offerings. Certain behavioural traits lead to poor decision-making. A desired risk culture incorporates transparency, and the desire and ability to understand, discuss and act on the organisation’s risk. Having the right organisational culture is a key factor in the success of maximising returns from technology (and indeed the overall business performance).

He then talked about the flaws in risk culture. He mentioned four flaws, viz., the denial of risk which was a blinkered, “head in the sand” approach to recognising and surfacing risks, detachment from risk which resulted in a slow, reactive, “laissez-faire” attitude to risk, risk avoidance which resulted in active exploitation of loopholes and/or subversion of risk systems/processes; and ambiguity of risk which resulted from a poor definition, understanding, communication and tracking of risks.

Governance

He stated that strong project governance extends the principle of strong corporate governance. This extends to both the management of individual projects via governance structure and the management of the institution’s overall project portfolio.

Strong project governance provides a mechanism to ensure a) the project is in line with the strategic direction of the company, b) that all projects are appropriately prioritised, approved, managed and monitored appropriately, c) the success of the project is greatly enhanced in terms of correct scope, meeting budget and timelines, d) key risks and issues are promptly surfaced so that they can be appropriately dealt with, e) scope creep and change requests are managed, f) a quality assurance function is incorporated at various stages of the major projects, and g) collaboration and teamwork are enhanced across multiple departments.

Project Management

Project management skills are specialist skills that greatly enhance the success of a project. They help to ensure that the project scope is well understood, appropriate budgeting is in place, project timelines and dependencies are well understood and appropriately built into project plans, there is engagement of the right stakeholders at the right time; and key project protocols such as risk and issues registers (and are appropriately dealt with and closed) and project monitoring/reports are timely, and project steering committees are held regularly be maintained.

Inexperienced project managers are a key root cause of many project failures. Therefore a FI should employ project management specialists.

Subject Matter Experts

Subject matter experts generally know what success looks like and are usually key-end users of outputs of the project. They need to be available at the beginning of the project (scoping stage and to define detailed requirements) and throughout the project as necessary. Their involvement needs to be finely balanced to enable the successful completion of their Business As Usual (BAU) activity and project activity. Good project managers will ensure adequate communication and forward planning of subject matter expert involvement. Subject matter experts will also greatly assist with the management of change requests and design problems that may emerge during the project.

Data

Data needs to be accurate (clean), complete and fit for purpose. One of the root causes of sub-optimal performance of technology projects is dirty data. Do not underestimate the time required to cleanse data (but it must be done!).

Having data in one place (i.e., data warehouse – one repository versus multiple source systems) although initially likely to be more expensive enhances the ability to keep data clean (“enter data once”), enables leveraging (data mining) for multiple purposes, enhances speed to market, and provides more accurate report generation.

Economic Capital

Economic capital is a unique tool that enables the measurement and aggregation of different types of risk across diverse businesses. It is defined as the amount of capital to cover “unexpected losses” to protect against insolvency over a one-year time horizon at a predetermined confidence level – the amount of capital to ensure solvency. Unexpected losses reflect real risks taken by an organisation due to volatility in the value of assets and liabilities within the firm’s portfolio. Expected loss may be viewed as a cost of doing business – this should result in the pricing of products incorporating a margin for expected losses – therefore there is no need to hold capital for expected losses. If unexpected losses are large they may consume profit margin (i.e. exceed the expected loss) and erode capital.

Economic capital provides a common currency of risk that allows all risk types to be expressed and aggregated on a common basis. It can be divided into three fundamental sources of risk, i.e., credit risk, market risk and operating risk, each of which can be broken down further into sub-risk types.

Economic capital also provides management and the Board with an assessment of the likely capital required, based upon the firm’s portfolio of assets and liabilities, to cover worst-case unexpected losses within a given probability/confidence level.

Regulatory capital is based upon supervisory “general estimates” that may not reflect the real economic risks of a particular institution.

Book Capital is Based on Accounting Rules

Mr Kerr concluded by stating the benefits of economic capital which are that it enables more accurate risk recognition and pricing for risk, improved portfolio management, the measurement and aggregation of different types of risk (credit, market, liquidity and operational risk) across diverse businesses, improved risk appetite settings, better capital allocation to business units, better allocation of human resources, better management of concentrations and correlations, and better performance management (by individuals, business units and legal entities).

Maximising Returns From Technology Investments

Azwan Baharuddin, Partner, Ernst & Young Advisory Malaysia

En Azwan’s agenda for his talk consisted of three topics: a) the outlook is challenging, b) leading age or bleeding age, and c) maximising Returns On Technology Investments (ROTI).

The Outlook is Challenging

He said that the outlook for the banking industry remains challenging, irrespective of geographic or product focus. Business and consumer confidence has not yet been fully restored. Banks may continue to underperform broader market indices. Market volatility and uncertainty will continue to act as brakes on major investment decisions.

Leading Age or Bleeding Age?

Banks should capitalise on shrinking technology costs to address business growth and sustained advantage over competition. Technology will continue its role as a key enabler and differentiator. Instead of a cost to be managed down, technology will be seen as an investment to support growth and new business.

Rapid technology innovation is creating a smarter more mobile world – what has been termed the 3rd platform. Key focus areas for the 3rd platform will be cloud computing, business analytics, smart mobility, and social media. The biggest change that banks will see is that customers will have access to products, services and information anytime and anywhere.

Global mobile device use has been growing exponentially and transforming the way consumers and businesses operate.

The social media has become a game changer for modern banking. Presence on the social media is no longer an option but an imperative. Banks have to take into account the changing demographics and the importance of the impact of Generation Y which spends 55 minutes a day on Facebook, over 15 hours a week on the internet and the fact that 80% of users believe in peer recommendations.

Maximising Returns on Technology Investments

Despite the benefits of technology, organisations are challenged to realise the full value of their investments. Technology is not the

reason for the failure most of the time. In fact, failure is a norm and not an exception.

Technology initiatives should be treated as a business transformation and not just a technical implementation. There are three areas to look at, viz., a) the business case must be structured and documented. It should justify the initiation of a programme and it should clearly state the benefits to be delivered, b) the programme management framework should be one which shows a consistent and disciplined approach, and c) change is delivered through people, process and technology. The most important area is people. People are the resource for success and any project should involve the right people from all areas of the business. BAU resources should be separate.

In conclusion, there are three key takeaways in that the outlook for the banking industry remains particularly challenging. It must leverage technology to address business growth, cost and risks. Secondly, leading edge or bleeding edge? The 3rd platform has emerged, which comprises cloud computing, analytics, mobile, and the social media. Finally, treat technology initiatives as business transformation. For example, a business case must exist, discipline and structure are critical and the most important element in change is PEOPLE.

SESSION 7: THE CHANGING ROLE OF BANKING INSTITUTES

Ian Wilson, Vice-President, Chartered Banker Institute

Mr Wilson began by saying that in the UK only 25% of the public trust banks and bankers. In order to rebuild the industry there was a need to rebuild capital, reform regulation, restructure banks, reduce risk and rebuild confidence and trust in individuals.

He said that to build the banking profession, one has to build human capital through professional standards and education. There is also the need to build confidence in the competence of bankers. For this reason, the Chartered Banker Professional Standards Board was launched in October 2011. Its objectives were to enhance and sustain

professionalism for 350,000 colleagues in the UK. Bankers had to undergo training and examinations to obtain professional qualifications like Professional Banker, Chartered Banker and Chartered Banker MBA.

The role of banking institutes is to ensure that they adhere to professional standards and to obtain professional accreditation and awards. They have to offer their employees the chance for professional development and professional memberships of the Board.

He concluded by saying that ethical professionalism builds trust in individuals. Trust in individuals in turn builds trust in institutions. Finally trust in institutions builds trust in the banking industry.

e-Learning Experiences In Korea

Dr Younghoon Kim, Head of Research & Development Team, Planning & Coordination Development, Korea Banking Institute

Dr Kim started off by talking about the information and technology infrastructure of Korea. He said that the Korean government has pursued policies to capitalise on Information and Communication Technology (ICT) as a motor of economic growth and social transformation since 1990. It has done this through the establishment of the Ministry of Information and Communication in 1994, the development of Cyber Korea 21 in 1998, the development of the e-Korea vision 2002, and the development of u-Korea Basic plan in 2006, to name a few initiatives.

In the area of IT governance, it has developed a national broadband infrastructure. The government has also ventured into capital funds and loan programmes as well as providing technical assistance for Small and Medium-sized Enterprises (SMEs) for IT planning and deployment.

He described the IT infrastructure of Korea as being world-class and quoted some statistics. For example, internet usage rate and the number of users were 78% and 37 million respectively in 2010. Broadband internet subscribers totalled 17 million in 2010. The wireless Internet usage rate stood at 59.3% in 2010. Lastly, 100% of all schools are connected to the Internet.

Dr Kim then moved on to the policies and legal foundations of Korea e-Learning. He said that the Ministry of Employment and Labour has specified e-learning in the "Act of Promotion of

Job Training for Workers” (1999). It also provides financial support as a reimbursement of employment insurance. In addition to this, the Ministry of Knowledge Economy passed the e-Learning Industry Development Law (2004) while the Ministry of Education, Science and Technology passed the Cyber University-based on Lifelong Education Law (2001). There are now 17 Cyber Universities with 60,000 students registered. There are also University e-Learning Support Centers in 10 regions (as of 2003).

He said that the e-Learning market registered e-Learning sales of USD2.2 billion in 2010 with the participation of 1,549 companies. He went on to provide statistics of corporate e-Learning in Korea.

He then moved on to the subject of Korean Banking Institutions (KBI) e-Learning. He said that as of 2011, there were 384 courses on offer with a total of 199,392 trainees. Categories of e-Learning courses included Corporate Finance and Personal Finance among others.

The e-Learning development process begins with analysis, followed by design moving on to development, implementation and ends with evaluation. The type of KBI e-Learning is a self-paced learning in that learning is directed by the individual in order to meet personal learning objectives. In self-paced learning, the learner controls the pace of the learning process.

Corporate e-Learning has been led by the Korean government. The policies and regulations of the Korean government have boosted the quantitative growth of corporate e-Learning in a short period of time. There has been a rapid growth in corporate e-Learning from 20 thousand in 1999 to over two million in 2010.

The tutorial type of e-Learning dominated corporate e-Learning programmes in Korea with 90% of all corporate e-Learning programmes being tutorials (or self-paced learning programmes) while 10% are simulations. This has led to uniformity in the e-Learning programme and a failure in encouraging the development of diverse e-Learning programmes.

He concluded by talking about the implications and challenges of e-Learning. He said that there was diversity in the type of corporate e-Learning with the development of diverse types of e-Learning programmes for enhancing

problem-solving skills, creative thinking, and self-regulated learning. Also there was the evolution of e-Learning with new technologies – this includes: a) mobile e-learning where it is possible to learn anytime, anywhere through mobile devices such as smart phones and tablet PCs, and b) social learning where it is possible to learn and work together through social media tools (blogging, social networking, communication tools, collaboration tools, etc.). There was also integration of e-Learning into Community of Practice (e-CoP) and Knowledge Management (KM).

SESSION 8: TALENT DEVELOPMENT STRATEGY AND APPLICATIONS

Nick Sutcliffe, Managing Director, Asia-Pacific, The Conference Board

Mr Sutcliffe began by giving a short summary of The Conference Board. He said that The Conference Board is a global independent business membership and research association working in the public interest. Its membership includes over 1,200 companies in both the established and the emerging markets of the world. It is dedicated to helping its members understand and deal with the most challenging issues of our time. Its mission is unique to provide the world’s leading organisations with practical knowledge they need to improve their performance and better serve society.

He then said that he would be talking on four topics, the state of the Universe – The Conference Board CEO Challenge, Talent Development and Strategies from a CEO Perspective and a Human Resource Officer (HRO) Perspective, the New Millennium, and fourthly, the end of the world.

State of The Universe

In the PricewaterhouseCoopers (PwC) latest survey of the view of business leaders worldwide, almost half of the CEOs said that limited availability of key skills is a serious threat to their growth prospects. The talent supply problems are particularly acute in the financial services sector, where around a quarter of the CEOs said they had already had to cancel or delay a key strategic initiative over the previous 12 months because the right people were not available to execute it.

From September 2011 to December 2011, the CEOs were asked to rank in order the top three challenges they anticipated their companies will

face in the coming year. The 776 responses were weighted according to each country's GDP. Regional, industry sector and revenue groups were also weighted based on individual country GDP shares. Each response was assigned a weight according to its relative ranking. A challenge ranked number one, therefore, was assigned greater importance than a challenge ranked number three. To get deeper insights into how CEOs plan to meet their challenges, respondents were also asked to rank order three critical strategies for meeting their top three challenges, which resulted in an "importance-adjusted" score for each strategy.

The results of the survey are interesting. Asian CEOs are the only regional group to rank both innovation and human capital within their top three challenges. Innovation as the number one challenge coincides with an explosion of R&D expenditure in the region. Importance of human capital is not a surprise given the continued war for talent. It is interesting to note global expansion as a key challenge as an indication of the growing global acquisition footprint. Unlike the CEOs in Europe and the US, the CEOs in the region see government regulation as a far less important issue.

Talent Development and Strategies

In April/May 2011 a survey was sent to Asia-Pacific based Human Resource (HR) executives/professionals. They were requested to rank the top human capital challenges among 17 options and then prioritise these in terms of resources, effectiveness of efforts, and the use of analytics. The response rate was 98 respondents which were fairly evenly split between services and industries.

The results were that managing leadership development, i.e., growing talent internally by identifying high-performing future leaders was selected by 96% as their number one approach, and managing talent retention by providing employees with challenging work came in second (89%). Third was managing employee engagement through communicating organisational results and actions from senior leadership (93%). This was followed by managing talent acquisition through recruitment partnerships with education institutions and talent search agencies (88%). Managing performance management by aligning a performance review model with business strategy objectives (88%) was next. Then came managing employee learning and development by linking training to strategic competencies development (83%).

The New Millennium

Generation Y – This is not the future, this is now. The new generation has different aspirations and attitudes, and finite loyalty - it is easily compromised and wants to be heard.

He then touched on workforce readiness in business, schools and the government and the social media, saying it was too late.

The End of The World

An organisational culture that thinks globally, allows failure, encourages risk, welcomes open-source ideas, and has the structure to support effective leadership development will be essential. The CEO's role is to convince all levels of management, from the C-suite onwards, that leadership development is not an event; it is an investment that requires time, commitment, and patience. The return may not be immediate, but it will be worthwhile.

Talent Development: Strategy And Applications

Lt Col (R) Ranjit Singh, Chief Operating Officer, AIF

Mr Ranjit began by outlining the scope of his talk which was: a) Malaysia's finance industry - towards 2020, b) Issues and challenges for talent development, c) talent development landscape, and d) capacity building.

Malaysia's Finance Industry – Towards 2020

Mr Ranjit said that the industry's share of GDP is expected to grow by four to six times of the current share by year 2020. At the same time, the workforce is expected to increase from 144,000 to 200,000. E-payment per capita would increase from 44 transactions to 200 transactions.

He said that the focus would be to promote and develop Islamic finance, enhance corporate governance and risk management, develop financial inclusion and micro-finance, and strengthen international linkages and cross border infrastructure.

The desired outcome is a financial services sector that is more competitive, dynamic, inclusive, diversified and integrated with the ability to offer world-class financial services, with breadth, depth and quality.

Issues and Challenges for Talent Development

He said that there are some issues and challenges to address to achieve the desired outcome. He then went on to explain and outline these.

The first issue was the quality of education. He said that there has been substantial investment in education but there are mixed outcomes.

Secondly there is a shortage of top talents and highly skilled workers. The challenge would be to enhance the employability of graduates. He said that the shift towards higher value-added activities requires a larger pool of highly skilled workforce.

He then said that there is a disconnection between productivity, skills and compensation structures. The current situation is one of inflexible hiring and firing. There is also an insufficiently leveraged pool of latent talent with poor female labour force participation.

Lastly he said that salary growth is not on par with the cost of living. Also there are restrictive entry regulations such as immigration regulations, and laws on governing on professionals to practise in Malaysia.

Talent Development Landscape

Moving on to the talent development landscape, currently as an interim measure, there is a specific programme aimed at producing rounded and industry-ready entry level graduates. He said the objectives for the future are: a) to establish working arrangements between the industry and institutions of higher learning in developing structured programmes for graduates to develop and enhance skills required for employment in the finance industry, b) to upgrade the skills and competencies of the existing workforce to enable them to meet the changing needs of the industry as it undertakes higher value-added services in a more competitive and globalised environment, c) to develop certification of the skills level or competencies required for key functions and positions within the finance industry, d) to introduce training for senior management in strategic and leadership management, and e) to have a Financial Institutions Directors Education (FIDE) Programme.

Capacity Building

Mr Ranjit said that for capacity building it has to be ensured that there is talent competency,

consistency and standardisation. To do this, it is essential that there is continuous assessment of these three areas. There should also be a setting of standards for professional programmes and qualifications. There is a need to have competency/qualification frameworks as well as accreditation of programmes offered by the training institutes. There has to be mutual recognition of programmes globally. In addition, the content of training programmes has to be reviewed to ensure their applicability and these need to be updated. Research in applied finance disciplines is another must, and finally, the infrastructure has to be enhanced.

In conclusion, Mr Ranjit said there is a need to foster greater strategic focus, coordination and collaboration to achieve a comprehensive and holistic approach to talent development. He also said that talent development is a continuous process as the financial industry evolution continues.

Talent Development Strategy And Applications

Mohd Zamree Mohd Ishak, Chief Operations Officer, INCEIF

En Mohd Zamree began by stating his agenda would comprise of the following topics:

An Integrated Talent Development Strategy

He said that today, most organisations have the base talent processes and systems in place, including performance management, development, and replacement planning. However, many fall short of having a holistic and integrated talent management strategy that can effectively deliver the desired business goals where globalisation, a multi-generational workforce, increasing mobility of labour across borders and industries, outsourcing, M&As and emerging markets are common challenges.

Top five Issues in Raising Standards of Human Capital Development

He listed the top five issues as being leadership development, succession planning, strategy alignment and execution, change management and talent management.

Designing a Talent Strategy

He said that to design a talent strategy, five areas have to be looked at and these are: a) business context and strategy – where is the business headed and what are the consequent talents needs, b) talent risk assessment – what

are the talent risks which will be faced, c) strategic priorities, actions and metrics – what will the priorities be, and how will the progress of these be measured, d) architecture, ownership and policy framework – what is needed to execute the strategy and maintain momentum, and e) implementation roadmap – how are banks going to make it happen?

Overview of the Islamic Finance Industry and Its Human Capital Requirements

En Mohd Zamree said that the industry had moved from a niche market to become a mainstream industry.

He said that the Muslim population had grown from 1.6 billion in 2008 to 2 billion in 2012. Assets size had grown from USD1.086 trillion in 2011 to USD1.2 trillion in 2012. He also said that the industry had experienced an annual growth rate of more than 30% since the year 2000. Previously the market focus was only on Islamic countries in the Middle East – North America (MENA) region and SEA, but there is now growing interest in Muslim-minority countries. He then quoted some figures showing that the market share had also grown. The network has grown from 300 Islamic Financial Institutions (IFIs) in 50 countries to over 1,000 IFIs in about 75 countries. Innovative products and structures are now being offered whereas previously there was just a retail industry offering plain vanilla products. Where previously the industry made do with reliance on domestic conventional regulations, there is now a development of International Standards and increasing support from governments and regulators. He said that there is potential demand for an estimated 300 IFIs across the MENA by 2020.

Talent Retention and Circle of Influence

He said that to get the talent needed, a bank has to focus on what the talent needs. Training current talent (at various levels) to be competent, sponsoring/motivating talent to undertake professional qualifications, and initiating and getting involved in applied research with academia for industry development would result in creating the environment in which talent finds the necessary opportunities. A FI would have to institute a clear talent retention programme. He concluded this topic by showing a chart explaining the circle of influence and said that there was a need to address a wide array of issues in managing talent. This wide array includes things like quality of life, business

environment, education, immigration, infrastructure and facilities and talent related bureaucracies.

Malaysia's Role in Serving the Global Talent Development Agenda

Malaysia's involvement in serving the global development agenda includes the establishment of various bodies to assist in talent development. He then presented a slide showing the established institutions for talent development within the financial sector. There are different development platforms at different stages of talent development. For example, at the entry level there is the Financial Sector Talent Enrichment Programme which provides training for top graduates to create the foundation for the financial services industry. In between, there are institutes like the AIF which enhances human capital development in the financial sector, the IBBM which is a training provider for banking institutions, the IBFIM which is a one-stop Islamic finance reference centre for the industry and academia and the International Centre for Education in Islamic Finance which builds talents and skills for Islamic finance for practitioners and graduate programmes, to name a few. Leadership is provided by the ICLIF Leadership and Governance Centre which provides training for senior management in strategic and leadership management as well as the FIDE.

En Mohd Zamree concluded by saying that talent management has gained prominence and is extremely vital in the financial industry as it competes with other industries for highly skilled workers. A talent development strategy must be comprehensive and holistic, taking into account ongoing and future trends. The fast pace of innovation in the global financial industry will demand a rapid and continuous infusion and upgrading of skills. Various institutions in Malaysia have been established to serve the global talent development agenda.

SESSION 9: BEST PRACTICES AND FUTURE OF BANKING EDUCATION

Carrie Leung, CEO, The Hong Kong Institute of Bankers (HKIB)

Ms Leung began her talk by providing a background of the HKIB. She said that the HKIB is the only professional banking association offering professional banking qualifications in Hong Kong. It has been serving the industry for 49 years and has a presence in

both Hong Kong and Mainland China with global perspective and regional practices. It also has support from industry leaders and regulators.

She said that the mission of the HKIB was to strive for excellence and to provide quality education for professional practice in response to the needs of the banking and financial industries.

The next point of her talk was the current landscape of the Hong Kong banking industry. She said that total loans grew by 20.2% in 2011, residential mortgage loans by 8%, non-bank China exposures by 34.7% (in the first three quarters, while total deposits grew by 10.6%. The Loan-To-Deposit (LTD) ratio was 66.9% and the HKD LTD ration was 84.5%. The implications to education are that the business outlook is promising with high demand for talent and there are expanding business opportunities in China.

Moving on to the future of banking education, firstly there is a need to look at the needs/expectations placed on banking education. The aftermath of the financial tsunami means that customers would like to see practitioners who are competent and practical. As for practitioners, they would have a need for life-long training to remain competitive, with the younger generation focusing more on career advancement. Training institutions like banking associations, universities and training consultants would need to provide proper education due to the increased complexity and specialisation in banking. Learners would come from diversified backgrounds. Regulators need to keep pace by providing updated regulations and ensure that there is compliance with these. The lessons learnt from the financial tsunami means that the regulators need assurances of bankers' competence. As for banks, the industry has become a globalised one with bankers having to look at things from an international perspective. Bankers would also have to face a "war" on talents and need to retain key talents.

Given the above, the trends in future banking are that there will be ethics education, mechanisms to test competence and practitioners will be offered clear career paths. Looking at the international perspective, there will be greater global mobility and increased collaboration.

Practices to match the needs have two approaches, viz., the out-bound approach and the in-bound approach.

The out-bound approach looks at the development of industry standards. The purposes would begin by looking at the strategic direction of the banking industry and this would be followed by defining critical functions and tasks. This would be followed by the development of competency standards which would then be validated through mass consultation with all the stakeholders.

The in-bound approach looks at the development of global standards. There is what is called the collaboration model where there would be mutual recognition of standards from an international perspective. Regional practices would adopt these standards. The benefits of having global standards are that they enhance the standing of regional/national competency frameworks, gain international recognition and also promote mobility.

In conclusion, some questions arise on the development of global standards in future banking education. For instance, can the development of global standards for banking institutes help develop talents for the banking industry? For regulators, can it assure the competence of practitioners? And for banks, can it help expand the pool of talents? Also will the initiative increase the cost of training for banks and will it help retain talents? For practitioners, can obtaining qualifications benchmarked with global standards help their career? How are they different from other international qualifications? All these are questions that need to be addressed.

Best Practices In Banking Education

Dr R Bhaskaran, CEO, Indian Institute of Banking and Finance

Dr Bhaskaran began by saying that best practices are about being relevant, viable, visible, efficient and up-to-date.

He then went on to compare the face of banking previously and what it is like now. For instance, where beforehand the branch was the only channel, there are now many different channels, all technology driven. We now have near uniform accounting standards internationally where previously these standards differed from country to country. Risks were not factored whereas now risk is one of the major drivers of business. Mild regulation has been replaced by heavy, local and global regulation. Passive central banks are now more active and intrusive. Where banking was for the few, currently banking is for all. In the past, customers had many different Identification

(ID) numbers. Currently, each customer generally has a single ID. The customer for the branch has been replaced by a customer for the bank, which means a customer can go to any branch of the bank and get the same service. Finally, manual systems are being replaced by IT-driven systems.

The banking landscape has changed tremendously. Traditional banking was all about branch banking, operations, profitability and other services. Modern banking is all about information technology, risk management, outsourcing, profit stability, regulation compliance, branches, other delivery channels and other financial products.

What is unique about banking education is that it is generally “on the job” training and/or taken up after joining a bank. Banks have their own training institutes. They also outsource training. Bank institutes supplement these efforts. Bank institutes offer common denominator knowledge. Banking schools have entered the field recently. There is, as yet no generic banking qualification offered by Universities. In most countries the institutes’ qualifications are recognised by the banking system. Bank institutes work in the area of professionalisation. Almost every country has a banking institute, the only differences being the size and shape.

The focus of banking function is on the bank management (core functions) and business management (general functions). Examples of core functions are banking operations, credit management, risk management, treasury management, financial advising, compliance and forex trading. General skills (tuned to industry needs) are human resource related, technology application, vendor management, and generic banking knowledge of applicable local and international regulation.

Banking institutes offer professional qualifications via distance education or class room mode or a mix of both. They also offer training (off the shelf and/or customised) on various skills and issues by holding workshops, conferences, training and lectures. In addition, they take up research and consultancy in the fields of banking and finance.

Institutes, on a stand-alone basis, offer unique banking qualifications. These are recognised by banking institutions. They also offer professional qualifications and customised banking qualifications and link them to B-Schools and Universities. They adopt

technology to deliver education. So what they have are e-learning, web classes, web seminars, etc.

There are two types of institutes, i.e. a) certification institutes which are chartered institutes that include training cum certifications, and b) training institutes.

He concluded by saying that issues that need focus in future are: a) risk management where institutes need to move beyond compliance to a higher orbit (move into the management aspect), b) compliance and regulation (cross-border regulation becomes critical), c) leadership across the geographies, d) financial literacy, e) financial inclusion, and f) customer service.

Best Practices And The Future Of Banking Education

Tay Kay Luan, CEO, IBBM

Mr Tay began by asking if the world is heading for a disruptive society, with an increase in affordability and accessibility, and is informative and inclusive.

He talked about technology being an enabler of change with architectures built around self management, empowerment and customer choices. Technology will also be used to assist in data usage, analytics and interpretation.

He then spoke about the shift in education supply.

In the past and present, education has focused on the curriculum being locally focused, individual competencies, basing information in silos, managing information, problem solving and delivering, and product-based marketing.

In future, education will be multi-dimensional, and about universal competencies, honing integration skills, integration, interpreting data, thinking critically and communicating clearly, industry focus and specialisation.

He then moved on to the topic of delivery and applications and presented a slide showing the way the world has changed. Education would be technologically driven and be based on e-Learning and mobile learning. Industry standards would be looked at from a global viewpoint.

He concluded his talk by saying that we should include ethics in any education system.

CEO Challenges 2012: Business Perspectives from THE CONFERENCE BOARD CEO Challenge Survey Executive Roundtable

The Chief Executive Officer (CEO) Challenges 2012 Executive Roundtable was held at the Sasana Kijang, Bank Negara Malaysia (BNM), Kuala Lumpur on 15 March 2012. Organised by the Institut Bank-Bank Malaysia (IBBM) together with The Conference Board, the CEO Challenges Executive Roundtable brought together two expert speakers to address today's CEO challenges and their impacts on strategic decision making, as well as the challenges faced by the Financial Services Industry (FSI) in the new economic landscape.

This paper is made up of two sections. The first section looks at Risky Business – Focus on Innovation and Talent in a Volatile World. The second section speaks about the Setting the Growth Agenda for Financial Institutions in Asia.

Welcome address by Mr Tay Kay Luan, CEO, IBBM

First of all, Mr Tay welcomed and thanked all the delegates and guest speakers – Dr Bart van Ark, Executive Vice President (EVP) and Chief Economist of The Conference Board and Mr Stuart Houston, Vice President of Oracle Financial Services Industry Business Unit to the Executive Roundtable on CEO Challenges 2012. He conveyed special thanks to the event co organiser – The Conference Board, and strategic partner – Oracle and Oxford Business Group, IBBM's media partner.

Today's world has become even more unpredictable. Not only are the economies potentially disruptive to everyone, whether as entrepreneurs, planners, managers or regulators, people now have to be more alert to the rapid changes taking place in the market place.

The last five years have witnessed a global financial meltdown. Indeed given that some of the environmental calamities, galloping inflation and changing political landscapes across the globe are unprecedented, the people need to watch out for a number of uncertainties.

On the upside, however, rising wealth has been witnessed in the developing economies of Brazil, Russia, India and China (BRIC) resulting in a new set of consumers with rising purchasing power and sophistication of lifestyles, causing many to rethink their business regional strategies in investment and development.

Despite the dark clouds, in the last few years companies such as Apple, Volkswagen and Samsung and a lot of regional banks continued to report record profits particularly in the Asia-Pacific region – and the shelf-lives of products, including financial products have been observed to be getting very short, so the need to be more competitive and smart has become inevitable.

Many are naturally pessimistic over the short-term outlook given the uncertainties in the Euro zone as well as Greece. However, governments are cautious, multi nationals are cutting costs and local Government-Linked Companies (GLCs) are also becoming more cautious in their planning and their investments.

An important element in these developments is greater emphasis on risk management and discovering new opportunities.

Banks and Financial Institutions (FIs) are no different. They face more regulatory demands, and balancing between capital adequacy and liquidity to lend, what then are the challenges to these industry leaders who are expected to meet the high appetite of their investors and consumers.

Questions for today are where are the opportunities? Where are people heading and what are the implications? Will there be differences from change of leadership in the United States (US) elections for example? Is Asia any different? Are people entering a low growth era? Are climate change issues going to produce an impact, and interlocking of the various economies?

He said it was an honour to have the guest speakers and advised attendees to be prepared to challenge and debate, which would give an interesting essence to this roundtable.

Before he handed over to the speakers, he concluded by bidding welcome once more on behalf of IBBM and saying that it was a pleasure to see so many attendees.

SESSION 1

Risky Business – Focus on Innovation and Talent in a Volatile World

Dr Bart Van Ark, Executive Vice President and Chief Economist, The Conference Board

Dr Van Ark then started his presentation by mentioning the title of his topic and asking what is risky here, what is volatile and why are human capital and innovation so important for this.

The following are his discussion points:

The four most important challenges that come up are:

1. Innovation;
2. Human capital;
3. Global political economy risk; and
4. Government regulation.

Globally, CEOs now see innovation and human capital (items 1 and 2) as the biggest challenges going forward and this is terrific news because it suggests that CEOs are now thinking of their company as something that they can drive forward by investing in the innovation capability as well as talent of their firm.

However global political economy risk and government regulation (items 3 and 4) are challenges and constraints that CEOs do worry about. Is the environment in which they are working the right environment in which their investments in innovation and human capital can be realised and can have the return that they are hoping for?

Differences were found in different parts of the world. CEOs in Europe and the US are much more worried about these risks than CEOs in this part of the world. The growth performance in this part of the world is still so much better than it is in the advanced and mature markets as we call them.

The risks in this part of the region are also increasing when talking about a slowdown in China and the possible impact that this may have on other economies in the region and whether this is going to be a soft landing or a hard landing. Is this a concern that the CEOs in this region care about? That is why certain questions are being asked. For instance, how can we be sure that the investments that companies are making in talent and in innovation are going to deliver the returns in this very risky and volatile world?

Dr Van Ark then began to discuss the global outlook for 2012. The global economy in 2012 is likely to lose some steam and global performance ability compared to what we have seen in 2011. Economists are roughly thinking of a slowdown of about 3.9% in 2011 to about 3.5% in 2012. But some shifts are taking place, there is actually some firming up in the performance of the US.

Dr Van Ark thinks that the global or economic and financial crisis that the US faces is a structural crisis much more than a cyclical downturn and that the US has to work itself through some of the structural adjustments. He thinks about two to three years after the recession, they are beginning to work themselves through these adjustments.

There are beginning to be changes in the housing market, and housing demand in the US is beginning to go up. The problem is that there is still a huge supply in the housing market which is an overhang of the foreclosures that need to be taken up. But there are incentives for the mortgage providers and the real estate agents to pick up all the demands to get the overhang out of the way.

It can be seen through the consumer confidence index that there is also an improvement in the confidence of the consumers. Finally consumers are becoming more optimistic about the performance of the US economy.

There is also an improvement in the labour markets and every month, more and more jobs are being added. If the trend is going to be

continued, it may be possible to gradually bring down what still is a very high unemployment rate in the US.

Having said all that, it is a slow process as the US has a huge sovereign debt issue, a high deficit it needs to deal with, it has an election coming up, and it is unclear what the political setting will be after that.

Having said all that, it is a slow process as the US has a huge sovereign debt issue, a high deficit it needs to deal with, it has an election coming up, and it is unclear what the political setting will be after that.

But Dr Van Ark thinks overall there will be a gradual improvement in growth in the US from about 2% today to perhaps around 2.3% to 2.5% later in the year. The US is still the largest economy in the world, it is a very important market for Asia-Pacific economies, and it is of course a key player in the global financial market.

Europe has been a major concern, and this is very much reflected in the CEO Challenges. Particularly, the CEOs in Europe are concerned about the global risk that they are facing. But again, some containment of the financial crisis can be seen. The European Central Bank has made very clear choices here, it has decided to basically ring fence Greece by putting up very strong conditions about how to work themselves through an austerity programme. Whether that will work or not is very debatable. So the scenario is that the ring fence still has some leaks and there is risk for contagion towards Portugal, and the risk for contagion towards Italy. This is particularly so in Italy because even though it is taking the right measures, politically the government cannot count on continued political support because of the system here. Spain is taking the right measures. Ring fencing Greece has been a very smart move by the European policy makers.

Secondly the choice has been made to shore up the private banks. Some may have heard this call for Europe needing to take out the Bazooka, which is a very American way of thinking and America has done that in terms of buying up massive amounts of treasuries by the Federal Reserve.

Europe cannot do that. The European Central Bank does not have that mandate, and it will not do it. But it has chosen to alternatively provide EUR1 trillion in terms of liquidity to the banks to shore up their balance sheets and that has been very effective. The banks are now in a

much better shape and are even beginning to buy some of the sovereign debts in the most affected economies. The question is, is this three years which is what people are hoping for or will it be less. That depends on all the policy measures and all the strategic measures that European policy makers still need to mend and for the time being people will therefore continue to look at what is called a Muddle-Through Scenario. A Muddle-Through Scenario is a new terminology used by economists and basically it means we do little and the question is whether it's enough.

But so far so good, people expect that even though the Europe area will perform very very weakly during this year, it may not show the dramatic recession or contraction that people are worried about.

It is likely to be a short and relatively shallow recession and it is even questionable when it comes to Germany whether it will actually see a recession because technically a recession means two quarters of negative growth or contraction and that has not yet been seen in Germany. Germany may just be able to pass itself through that.

Then going to the emerging economies, there is some good and some bad news. First of all, the manufacturing cycle which saw a weakening of manufacturing activities at the end of last year seems to have reached the bottom.

In the last few months, an uptake in manufacturing activities has been seen and that is good news. But on the other hand, of course people do see the emerging economies are beginning to gradually show slower growth.

Some of this is good news because many of the larger emerging economies in this region were growing above trend, which means that the economy was growing faster than the amount of labour and capital and technology available. As a result, inflation is experienced, and that is definitely what has been seen, particularly in the case of China. The Chinese government has started to fight this and as a result there has been a slow down.

The question is, is it too big of a slowdown? Could a global economic crisis lead to a kind of contraction that people saw back in 2009? There is of course the risk of uncertainty out there, but for now, these are the kinds of developments that are needed and may actually lead to a more sustainable growth path. Going forward, some sort of slower growth in the economy is going to be seen.

Overall, the global economy in the near future is likely to gradually slowdown, but is not going to go back to the growth rates of 2000 with this very rapid cash up type of growth in the emerging markets. There is going to be an environment where that growth will gradually mature and slowdown but it will still be a solid growth, at a growth rate of around 3% which is what is in store over a long period of time. The risks need to be assessed in order to continue to make the growth sustainable. Sustainability is more important in order to begin to fight volatility than the actual growth rate and the level of the growth rate. Dr Van Ark said he would be comfortable with a 3% global growth rate that is more sustainable than a 4% growth rate for a global economy.

In summary, that is the outlook for 2012.

Dr Van Ark then proceeded to show a set of leading economic indicators where he explained it will be a strengthening of the business cycle if the line goes up and a weakening of the business cycle if the line goes down. If it falls below zero, then the economy is in the recession part of the cycle.

Looking at the US for example, the US line has come down in the middle of 2011, where there was a debate about the debt ceiling and debt issue in the US. The one thing this has done is that it has affected the confidence of consumers and businesses. According to the recession probability analysis, the US economy was very close to recession in September 2011 with a probability of recession at around 17%. The US had a pretty good final quarter of 2011 and recession probability is now down to probably about 10%.

He then showed a slide of the US Leading Economic Index which consists of two components. One is the financial component, i.e. stock markets and credit conditions and the line shows that there has been some kind of weakening. But the real economic indexes such as unemployment rates and housing starts have been strengthening over the past few months.

This is really important because it means that the economy is not driven by financial market performance or strong profits and all those kind of things. It is now driven by improvements in the labour market. So it is slow, but substantive enough to become slightly more positive about the US economy.

The Euro area that has the line cutting into negative territory shows that Europe is very close to recession, if not already in recession.

But again, in the last few months it seems to be improving. Again in terms of the real economy indicators, Germany in particular is stronger. It has a strong domestic sector and consumer confidence is relatively high. Importantly, it has moved some of its exports composition away from exporting to the rest of the Europe towards exporting to the emerging economies and is continuing to benefit from that.

The increase that is being seen despite the financial crisis and major recessions in some of the most troubled economies is a sign that perhaps the slowdown is short and if there is a recession in the Euro area, it is likely to be fairly shallow.

In China, it is very much in positive territory and has stabilised over the past few months. This is very much in line with the gradual slowdown of the growth rates, of Gross Domestic Product (GDP), in the Chinese economy. It has picked up over the last month, but this is due to the Chinese New Year and the behaviour is a little volatile over these periods. However, it is expected there will be gradual stabilising and the slowing trend will continue during the rest of the year in line with the predictions of the government.

There are two elements to consumer confidence:

- A) Expectations of the consumer – It is important to see how those have picked up after the big decline in 2011. Indeed, consumers in the US are now becoming more positive about business conditions, employment and very importantly about income. However, there is one concern where even though there is job creation, productivity has not grown very rapidly. Even though jobs are being created, they are in service sectors and other sectors where productivity is not growing. This is an important challenge for US producers as well as European producers. It is not a matter of adding new jobs but also to invest in companies to increase productivity. That is why innovation and human capital are so important factors in going forward.
- B) Assessment of the present situation – Inflation is another concern because of the increases in oil prices. It appears the rise in energy prices is isolated and taking place in relation to some of the political tensions in the Middle East as well as some domestic and regionalised issues like a contraction in supply capacity in the case of the US.

Overall, commodity prices are not rising very rapidly. Dr Van Ark does not expect the rise in energy prices to spill over into core inflation and therefore a weakening of economic growth and a need for monetary authorities to intervene in terms of rising interest rates.

When it comes to Europe there are four hands because of the number of countries in the Euro area. It is difficult to see what the outcome is going to be.

- A) There has already been discussion of the Bazooka scenario which is an almost impossible scenario to take place.
- B) We are now in the muddle through environment. Within the muddle through environment we are now in the 'just escape' scenario where we have just taken enough measures to keep the financial markets okay while the rest of the world economy is helping a little.
- C) The risk is that the market will interpret every step that is taken as being 'too little too late' because Europeans are now not taking the next step of more integration of the markets in Europe, particularly the services market which is still very fragmented, no coordination of fiscal policy in Europe, and no political integration which has to be part of a workable European union. If there is not much progress in these areas, it would be easy to fall into the too little too late scenario.
- D) Of course there is still a risk that the whole thing will blow up. There is still a risk that the banking crisis or default of Italy will lead to the Euro area falling apart. This is a very unlikely scenario but there is a probability as well and the impact will be huge. Companies are preparing contingency plans to prevent this from happening. It is a very small probability that this will happen but nevertheless, it has to be prepared for.

Looking at the emerging economies, slower growth can be seen across the board for 2012. In the case of China, it is still 8% growth for 2012. Other developing countries are not showing any acceleration of growth. The exception is Africa which is going to show an acceleration of growth in 2012 due to rising commodity prices and a big reliance on resources.

As far as the outlooks for individual countries are concerned, in most cases there is slower

growth. There are some exceptions with the Philippines and Pakistan showing accelerated growth. For Malaysia, it is in the range of a projected growth rate of 5%. Overall the sentiment is that the growth in 2012 is going to be slightly slower in 2012 than for 2011.

More interesting is what is going to happen going forth. The projection is thus not only for the next year but also for a period to 2016 and then further out to 2025. It can be seen that the advanced economies are going to improve their growth performance. They are not going to grow as much as the emerging economies but it will be better than what has been seen in past couple of years. The growth rate is possibly going to be in the region of 2% to 2.5% or 2.5% to 3% for many of the advanced economies with the US growing faster than the European Union.

As for the emerging economies, for some of them particularly China, there is going to be a slowdown in growth. Some of this is related to the fact that it is an advancing economy and growth cannot happen on the back of existing technologies and innovations. It has to happen on the activities of the firms themselves to make investments in technologies and in talent. Growth does not just come on the backs of global markets but has to happen on the basis of investments that they (Chinese firms) are making. The soft innovations have to be replaced by broader innovations.

Going beyond 2017, there is a further slowdown and a lot of this is related to demographics. The Chinese economy has passed the growth rates in terms of participation with the number of working age people relative to the total population already beginning to decline. The growth rate decline is therefore going to be quite substantial.

Overall, the effects of this on other parts of the world are less important and the expectation is that the growth rate of the world economy is still going to be 3%. Overall this is a cautiously optimistic outlook. The downside risks are significantly higher than the upside potential but the upside potential has to come from the investments that we need to make in innovations and human capital in order to have faster growth for quality products and services.

After taking some questions, Dr Van Ark then moved on to talk about the 2012 CEO Challenge Survey.

This is the 11th year that the survey has been carried out by The Conference Board. It usually

puts out a survey at the end of the year during the September to December time frame to CEOs. The nice thing about this survey is that it is a real global survey. For 2012 there were 776 responses with one third from the US and one third from Asia, with quite a few from China and India, and about 20% from Europe as well as 14% from the rest of the world. The responses usually come from larger companies, and those that have businesses in more than one country and have global operations.

It is a very simple online survey. 10 major challenges are given to the CEOs and they are asked to pick the three most important ones and rank them accordingly. And once they have ranked them, they get a list of associated strategies and tactics in order to meet those challenges. Again they are asked to pick the three most important ones and are asked to rank them. It takes about five minutes to complete the survey.

The results show that the most important challenge was innovation, with human capital following very closely. It is important to see that the two are connected rather than to see them as being ranked first and second. This is important because when it comes to the strategies, CEOs are thinking of innovations in terms of human capital and talent. They do not only think of innovations as investing in Research and Development (R&D) and in hard technology. They think in terms of investing in people and investing in the organisation.

Global political and economical risk comes third, followed by government regulation and a lot of this is related to what has been discussed earlier.

Global expansion is up on the list and cost optimisation is down and this is reflective of the fact that the world is getting further away from the global recession in 2008 and 2009. Cost optimisation was very high on the list for many companies then and so they were squeezing in and trying to contract and survive rather than making investments for the future.

Overall this survey is characteristic of the more optimistic outlook of CEOs although the downside risks are dominating and still very much on their minds.

The most interesting part of the CEO Challenge Survey is the regional distribution. Globally, innovation and human capital top the list and looking at Asia, these are the top two challenges as well. As for the US, these challenges are

overtaken by the concerns of government regulation and global political/economic risk, and in the case of Europe global political/economic risk tops the list.

In the case of the US the regulatory environment is changing very rapidly. Based on interviews with a number of CEOs, the issue is not so much that there is regulation but the uncertainty of how the regulation is going to play out. This issue affects the financial sector quite significantly. It is therefore in the financial sector where there are major concerns.

The survey shows that government regulation and global political/economic risk rank much higher in the mature economies than in the emerging economies.

Interesting also is the fact that global expansion ranks third in the Asian region and this is characteristic not only of the expansionary characteristics within the region but also of an increased challenge for CEOs in this region to expand their activities globally in the rest of the world. This is becoming an initiative more on the minds of the CEOs in this part of the world than was the case previously.

Sustainability is also pretty high on the list for Asia and this sustainability is related to environmental issues and climate issues and so on. Particularly in the case of China, this is very high on the list.

As for the industry view, in the manufacturing and service sectors, innovation and human capital are still topping the list. For the financial sector, government regulation and global political/economic risk are ranked highest as mentioned above in the US case.

The larger firms are more concerned with global risks and regulations while smaller firms are more concerned with organic growth.

Looking at the distinction between China and India, for both countries, interestingly enough, human capital tops the list, not innovation. Innovation comes second for China. The issues about talent and leadership and how to develop their people and drive the business forward are top in the minds of CEOs both in India and China. The link between innovation and human capital are stronger in China but that is probably because the manufacturing firms are more dominant in China and the link is easier to make. In India, it is the services sector where the talent is perhaps not directly linked to innovation.

Sustainability comes third in the case of China and this is reflective of the concerns that the government has about sustainability, ranking very high in the five year plan that the government is putting out. The CEOs are reacting to this and see that they need to do something about this. It is not easy to change processes and parts and services to respond to those sorts of requirements.

Corporate brand and reputation also rank very highly in China. What is interesting is that it can be seen from the strategies that Chinese companies do not just want to strengthen their brands from the marketing point of view, they also want to strengthen their brands and reputations from the human capital point of view. Workers want to work for companies with strong brands and reputations. Companies know that is one way to retain the talent that they have. So there are two sides as to why strong brands and talents are important for Chinese companies.

As for strategies, starting with government regulation and global political/economic risk, the strategies are very much focused on the bigger risks. It is not about managing day to day business risks or about change rate management or security. It is about bigger things, it is about the newer area of major natural disasters. How to react to this – are there contingency plans in place or crisis management teams? There is also the question as to how to basically reduce the exposure to this kind of risk.

Also it is important to realise that the risk environment has changed fairly substantially in recent years. Post September 2011, the focus was very political and was on the risk of security and terrorism. Economic risk was not seen as a big issue. It was covered by businesses themselves. Since 2008/09, economic risk has become political risk. The Global Financial Crisis (GFC) issue is now the biggest risk. It is more important than security, etc. Political and economic risks are more overlapping these days than was the case in the past.

Looking at the chart from other research groups in the US and Asia, what they are doing is asking businesses what they see as the most risky environments to work in. The chart shows that the mature environments are the less risky ones whereas the emerging environments, including Russia, are seen as more risky. Dr Van Ark thinks that this view is going to shift. Given that economic risk is now the more important kind of risk, he thinks that economists will start

to re-think their risk assessments and whether their risk assessment is as bad in this part of the world as it is in the advanced economies. It is interesting to see how investment risks are perceived in this part of the world given that economic risk is now becoming so important.

The top strategies to meet innovation and human capital challenges were then discussed.

The most important strategy to meet innovation is to apply technologies. That is still the way companies are perceiving innovation. The second strategy to meet the innovation challenge is to create a culture of innovation by promoting and rewarding entrepreneurship and risk taking. It is also about finding, engaging and incentivising key talent.

Looking at the human capital challenge, the strategy is to grow talent internally. It is about leadership programmes, and about developing the employees in order to operate much better in an innovative firm.

The connection between innovation and human capital in a broad sense of innovation can thus be seen again here. It is encouraging to see CEOs begin to think about the broader strategies that they need to apply.

The Conference Board then looked at what innovation is really about. Softer innovation is about investments in intangible assets. In the early stages of growth, the investment is in machinery, buildings and infrastructure. When the development begins to mature, the investments will be in people, organisation, brands and reputation. That is a much broader kind of category of expenditures.

Looking at national statistics on expenditures for advanced economies, taking the US today as an example, the US economy is already spending 11% of GDP on broad investments in intangibles. For comparison, the investment in tangibles (buildings, machinery, etc. is only about 9% to 10%. So they are already spending more on intangibles than on tangible assets.

When this study is done for more countries, it is seen that the level of investments is also related to the level of development. The more advanced a country is in terms of development, the more it is investing in intangibles. China seems to buck this trend. However, it must be realised that China is a special case. It has a strong manufacturing base and spends a lot on software. Overall, the trend still shows that the more developed a country is, the more it spends on intangibles.

Summarising what the important strategies are going forward, risk and contingency plans are important, and the regulatory environment is providing a major threat that needs to be turned into an opportunity. Ultimately, it is the laser-like focus on innovation and talent that is driving the economies of the companies and therefore countries in going forward.

Dr Van Ark sees this as a very encouraging message coming out of the CEO Challenge 2012 survey even though it is happening in a world of high economic risk and volatility.

SESSION 2

Setting the Growth Agenda for Financial Institutions in Asia

Stuart Houston, Vice President, Oracle Financial Services Industry Business Unit

Mr Houston began by introducing himself, his background and experience.

He then mentioned that the theme of his presentation was innovation. He said that his presentation was going to be a traditional Oracle product presentation. What he wanted to share was the themes that can be seen in the macro environment in the Asia-Pacific region and to a lesser degree globally, and then some of the technologies available to meet the challenges that many businesses will face about innovation and how they are going to compete in the new world.

The new world is very different from the pre-2008 days. The growth rate is slower in many places and what is being seen is a large amount of activity around financial services institutions thinking about how they are going to face the challenges today from a technologies perspective, people perspective and a process perspective. How they are going to set themselves up for the coming onslaught is also going to be looked at.

For example, financial services institutions are being challenged in many different ways. Not only are they competing against the traditional financial services providers in Malaysia and some of the regional banks who are investing more here, they are also competing against some innovative new technology companies that are introducing payment systems, like iTunes and Paypal. These companies are having a huge impact on the way people are spending and managing their money on a day to day

basis and also strategically. Also there are peer to peer lending companies that are springing up. They are not making a significant impact yet. However certainly there is a clear trend that more and more people are looking at different options for financing and managing their money, whether it is at a retail level or corporate level or to a lesser degree, institutions. So institutions have their own challenges on risk management. Fundamentally there are lots of different scenarios happening there.

Also there are regulations, which will be discussed later on, from the perspective that all the regulators in all the regions in Asia, Europe and North America are starting to lay down some very onerous expectations about how they expect FIs to operate. And as some of the FIs in Malaysia have expanded regionally, they are going to have to think about how they are going to meet the Malaysian requirements, the Singaporean requirements and the Hong Kong Monetary Authority, for example. All of them have different requirements on how they are going to capture information and how they are going to report and so on.

Then there is the question of how they are going to build their reputation or trust. There are regular protests in Hong Kong, for example, against the bigger FIs and these sorts of situations are occurring daily. So there are clearly some challenges that FIs are going to have to face from a regulatory basis, a reputational perspective and a competitive perspective.

However, the news is not all bad. There is a very clear observation of the changing macro environment in terms of profitability of financial services globally. Mr Houston then showed a graph prepared by the McKenzie Global Institute. Looking at the graph, it can be noticed that even though the majority of profits still come from the developed economies, with 60% of profits coming from developed economies and 40% from developing economies, the trend is changing. The graph shows that there is a lot of growth happening in Asia compared to the rest of the world. From a technology perspective, Oracle has noticed that a lot of transformational activities are kicking off or have kicked off in a number of institutions across the region. It is not a mainstream trend yet but a changing trend is being seen in the macro environment and larger and larger proportions of organisations' profits are being made in this part of the world and the consequential investments are growing accordingly. This is a very encouraging sign as

it shows that as people start to think about how to protect this growth and continue to improve it, they need to think about the innovation question in particular. For example, how are they going to manage the competitive environment, the regulatory environment, and so on?

Another observation in Asia in particular, is that in many cases the organisations' infrastructure (systems and processes, etc. were built and deployed for a very different world from the world today. It was a lot less complex with a lot less cross-border issues and trade flow issues. As globalisation occurs with global corporations coming into this part of the world and local and regional institutions expanding out a lot more, they are finding that the existing platform is not able to support their growth ambitions.

Another interesting observation is that as the Europeans and North Americans deal with their own challenges and crises, a lot of their assets are being off loaded to this part of the world. This has happened and is happening more and more. In many cases, these are new products from organisations with different cultures. They have to look at how to absorb these cultures into the acquiring companies' organisations. They also have to look at how to lay in place a set of processes to allow them to continue to make good profits from these businesses going forward.

Mr Houston then mentioned that there are six trends being seen across financial services, some more so in Asia than other regions and proceeded to discuss how technology is being seen as an enabler to deal with some of these trends.

A) Risk or regulatory reform – Up to a couple of years ago, risk was something that was done for compliance purposes. There was a good understanding of the risk position and regulatory reports could be easily produced. This is something that was accepted as one of the big trigger points for the GFC when it occurred. The people who were writing the businesses were dealing with people who were only managing and not dealing with the risk perspective. One of the things now being concentrated on is how to change the organisation to become a more risk aware organisation where the risk culture is embedded into everything that the organisation does. It could be pricing or incentivising people so that when business is being written at the frontline whether it is at the corporate level or institutional level,

the people involved fully understand the impact on profitability and the balance sheet for that particular business that is being written.

B) Trust – This triggers a lot of activity, particularly in some of the back office processing and management of a bank's infrastructure. It goes right to the reputational risks that banks need to think about. It is not important in this part of the world – there is no bad publicity like workers not being paid their salaries, etc. It is bad from an operational perspective but is really bad from a reputational perspective if this occurs. Trust is an important idea and the idea with trust is that it is not earned but granted by stakeholders, regulators and so on. It comes from every interaction with every stakeholder of the organisation. That is a major mindset change for many organisations where previously they could operate with a risk department, and a payments department and so on. They operated in a disconnected manner with the different departments dealing with customers in different ways, but now they are asking the question of how to handle the issue in a more holistic and enterprise wide manner.

C) Customers – The issue with customers is that organisations have always aspired to be customer centric. However, the infrastructure in a financial services institution is not set up well to be customer centric. There are many different product, risk and channel systems. Simple tasks are therefore unnecessarily made more complex and time consuming. From a trend perspective, increasing activity is being seen in these two areas. How does one manage the strategy of a bank to deliver all the growth promises that it has? Mr Houston then presented an example of the National Australia Bank (NAB) which set up a new online bank and how it solved the problem of this separate bank to make it more customer centric.

D) State of the banking market in Asia – Looking at Key Performance Indicators (KPIs) and using Malaysia as an example, some of the KPIs are average when compared to other countries, but some are worryingly high.

The cost to income ratio for best practice in business and retail banking is somewhere between 30% and 40%. Malaysia's is 49%. The

solution is to reduce costs or increase the income of the bank. What this is driving is a desire for organisations to embark on not incremental changes, but transformational changes where they understand that there are significant project budgets to be approved. What is now being seen are institutions facing all sorts of costing pressures, signing off on multi-million dollar financial transformations or analytics transformations or banking transformations because they understand that they have to do something fundamentally different rather than carrying out incremental changes.

Looking at Non Performing Loans (NPLs), the level of NPLs in Malaysia is especially of concern. It goes to the heart of how well the banks understand the businesses they are writing and how well they are making the information available to all the processes and to the people who are involved in the decision to advance the credit and continue to extend credit on an ongoing basis. In this area, an increasing amount of activity is being seen, not so much in Malaysia yet, but is top of the mind in Singaporean banks. These banks are in various stages of a Risk Adjusted Performance Management project or a Integrated Risk and Finance project. Basically it is about how they get much better granularity of all of their data and make that available to operational processes, whether it is pricing, incentivising or customer facing staff. That goes to the heart of understanding the business being written and the need to have visibility first and foremost at a regular level in a way that makes sense from a timing perspective.

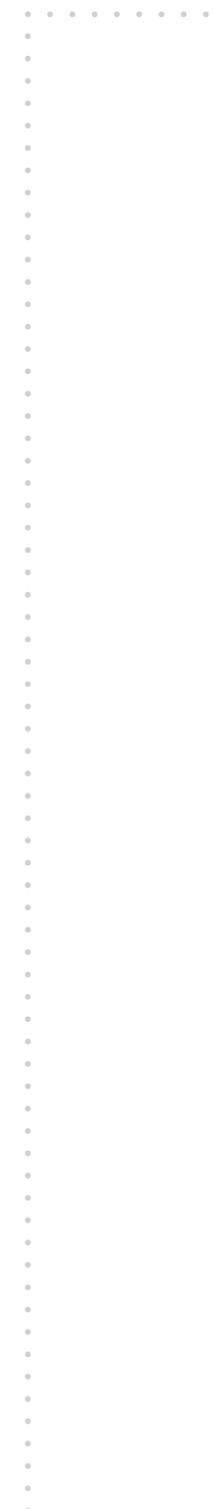
Trust was discussed earlier and what Mr Houston wanted to talk about on trust was how to deliver the promises made to stakeholders, whether they are customers, regulators or counter parties. Fundamentally this is about the idea of transparency and visibility of data that can be used to make tactical decisions and strategic decisions. If there has been a promise to deliver something within two days, for example, it has to be delivered within two days and it has to be made sure the bank has the processes in place to do this. As that trust is breached, it is not lost in one incident, but is lost after a series of events which can turn what could be resolved easily into an issue that causes the customer to move away from the bank. Security, fraud and a consistency of channels are a part of this. As new channels are

being invested in, for instance a mobile channel, it must be remembered that the customers do not care about this. They expect the same level of service, response and information as they interact with current channels or new channels.

The next thing Mr Houston discussed was risk. He presented a slide showing work done by International Data Corporation (IDC) where some of the activity is happening in Asia across different categories of risk management. This is important because in one of those areas from a funding perspective institutions do not have a choice. This is one of those areas where regulators are laying down the rules and those regulations need to be adhered to. In many cases those are significant budgets. There have been cases where the budgets have reached above USD100 million in some of the larger global banks for just one category of risk. This requires a redeployment of funds and looking at how to better manage their risk position knowing that a lot of money has already been spent depending where the banks operate and under the different regimes in Europe and America and so on. Historically each of these has been thought of completely separately. Under the idea of enterprise risk management, the banks have to connect all the dots together so that when they conduct a Stress test, they are not just running a test for liquidity gaps. The test will involve things like market risk position, etc. so that they can do a true stress test of the bank's position taking into account all aspects of risk management.

Mr Houston then showed a slide on a study Oracle did with KPMG specifically in Asia asking the question on what FIs thought regulatory changes would mean to their business. It was a case of asking whether it was a cost or is it a potential source of adding value and so on. Half the banks expected their business models would have to change as a consequence of regulatory reforms. This has been seen in practice with banks in other parts of the world shutting down business units and selling them off to meet regulatory requirements. The idea is that people are expecting change. They are also expecting to be able to leverage these changes for the purposes of affecting the bottom lines of the banks. Business models will definitely change as funding becomes more of a challenge in the various geographies as a better understanding of risk occurs.

The next focus was on customers. This shows an interesting trend because there are two sides of the fence. From the banks' and FIs' point of



view, there are various strategies like how to put in place a retention strategy, how to grow etc. From the customers' perspective it is completely the opposite. Customers want to become more disconnected. They are very happy to get their credit cards from one institution, their deposits in another institution and their loans from yet another institution. So from the customers' perspective, they are quite happy to split up their portfolios. So the challenge for institutions is how to respond to that, given that customers are expecting contextual and personalised one-on-one interactions. Eventually it comes down to pricing and product availability. In the new world, especially for the younger customers from a retail perspective, the idea of a social world is becoming more and more important. There is a study being conducted on how the customers perceive the various institutions. So the institutions have to make changes to include this issue in their decision making processes.

The next item discussed was confronting the new economics of doing business. This is about the cost side of the cost to income ratio. As is true in Malaysia and other parts of Asia, cost has increasingly become the focus for banks. This is in terms of how can banks lower the costs of doing business and how to become increasingly more efficient, more automated and so on. The reality today is that it is a low bar to begin with because of all of the systems and silos that exist in institutions. Some of the larger banks can have 6,000 to 7,000 systems in their banks. Comparing this to a similar sized institution in a manufacturing industry, there may be a couple of dozen systems in a bank. A couple of dozen from 7,000 makes a significant impact on costs. So fundamentally the idea is to simplify the systems environment to make the business more agile and responsive to change.

The last theme Mr Houston touched on was the type of questions being asked at the executive level. His contacts are mainly with Chief Financial Officers (CFOs) and Chief Risk Officers (CROs) and he discussed the questions that they are asking. They understand where they are today and where they need to be. The question was how do they get there, how do they manage the strategy of getting from the legacy world to the world today. The days of running projects for two, three or four years and delivering the results at the end are long gone. Things have to be delivered much more incrementally and be much more focused on the specific business objectives that must be delivered this year, next year and the year after. Those are the sorts of challenges that are being seen.

The next topic discussed was technology as an enabler of the growth objective. There are five themes that have to be looked at.

The first of these is big data. Up until very recently most organisations, certainly financial services, but this is true of all industries, stored all of their corporate memory in relational data based systems. They are all about what has happened in the past. The idea of big data is essentially saying that corporate memory is one of a number of important sources, but other sources of data are also very important. Examples are things like social interactions, the non financial interactions when a customer makes an enquiry. Some of this is structured and some of it is unstructured. How do the organisations bring all this information into one place and use it to predict what is going to happen in the future? That is the fundamental promise of big data – basically to turn an organisation from backward looking to forward looking, taking into account many more sources of data to turn into useful information to run the business. The fundamental take away from all this is that big data has an impact on all the six themes discussed above, whether it is risk, reputation, or customer interactions. People are okay to be marketed to through different channels as long as the offer is relevant and contextual to them. Up to now, many of the marketing capabilities and many of the customer interaction capabilities have been very channel focused, product focused and they are not connecting all the dots on how the customer lives their life and wants to do business.

Business is directly impacted by data analytics agility. If you could have real time visibility on profitability and risk, would the business be written if an individual or corporate customer came in through the front door? If a bank knew that that particular business would impact the balance sheet in a much larger manner than desired, would it accept that business? This is about what sort of business a bank is writing and understanding what opportunities might exist from the growth perspective.

Data is growing enormously. In a particular study that was carried out last year it was found that in FIs in particular, volume of data being tracked and stored within a bank is growing at 40% per year. Projecting this out to five or ten years, this means massive increases in volumes of data that is stored, managed and then be turned into useful information. That is where the challenge of big data lies.

Looking at a number of statistics, the following example goes towards the business case of investing in newer technologies to manage data much better. Computing power needs in the top 10 banks have doubled in the last five years while their business has only grown by 20%. This is because people are looking for innovative and interesting ways to manage their customer relationships, risk positions, etc. Storage capacity in the top 10 banks is growing at 45% per year. That is really important from a cost perspective because every time storage requirements are doubled, so are the costs of storage. So better managing of storage aspects of the information has to be looked at.

The second major technology is this idea of the cloud. The cloud means many different things to many different people. To define the cloud, it is any private or public infrastructure that is shareable and that will allow banks to get a much better return on investment. It could be at the infrastructure level or the applications level or a combination of both. The whole idea is to reduce the cost of design, the cost to build, deployment and maintenance. It is not about having an incremental impact but a fundamentally positive impact on customer service. Customers could be the regular customers, stakeholders, regulators etc.

Mr Houston then proceeded to give a few examples of how this technology has benefited a number of organisations. One customer had its warehouse storage requirements reduced from 23 terabytes to 10 terabytes. This meant much lower costs because each terabyte has a cost associated with it. Similarly there was a much better performance on maintenance activities. Queries were running at 16 or 17 times faster. This opens up interesting new business possibilities on how to use that information to advantage. To get back to the business of where the real value is, the lower Operating Expenditure (OPEX) aspect is very important. Also there is much higher agility, much higher business user satisfaction because things run much quicker and in a much shorter timeframe. This has become very useful to the business units in this particular firm that are responsible for managing the intra-day risk position of the bank or capital markets firm.

The third theme is it is all about the customer'. Specifically in the area of customers, whether it is retail, corporate or institutional, the demands are increasing at an increasing rate. There is a lot more expectations. It is expected that business will have a mobile presence, and that the mobile presence will be tailor built for those

mobile devices. The objective has not changed. People have been talking about customer centricity and customer relationship management for many years. What has changed is the focus on the experience as opposed to the inward looking perspective. Previously it was all about a bank's processes, for example marketing, sales and service processes. The emphasis is now all about customer processes and experience.

Fourthly Mr Houston discussed about embedding a risk-aware culture. This goes to the heart of the financial crisis and how to prevent what happened then from happening again in a different form in the future. Therefore there have been significant investments in enterprise risk management or integrated risk and finance performance to get much better information being made available to all parts of the business. Businesses have not got to the desired level yet but are making progress. The desired level is, when writing a business in real time, to understand what the performance of that business, the risk profile of that business and capital impact of that business is to the bank. Whether it is compliance from a regulatory perspective, the idea irrespective of the product, is to bring together all the transactions and positions in the one place to understand what is happening from a risk and capital perspective and then the information has to be made available in real time operational processes. The situation now is that a lot of institutions get this information only once a quarter. Regulators however are soon going to be requiring the information on a daily basis and even on an intra-day basis. Today's infrastructure is not going to be able to deliver that type of information just yet either for management purposes or to the regulators. Those are the challenges being faced today. However, that is the type of capability that institutions are working towards.

The final theme for technology was process standardisation. Every time there is movement of data from one system to another system, there need to be reconciliations and controls. So this fifth technology enabler idea is basically about simplification. What is being observed in most other industries but not yet in the FSI is to simplify down to a much smaller number of strategic technology enablers. The idea is to spend less money overall, but of that money being spent, to spend more of it strategically rather than all of it going to reconciliations and controls. So if data is moved three times to produce reports instead of seven or eight times as it is now, it is going to have an impact on cost,

performance, risk and so on. This idea of simplification is therefore a key one.

Mr Houston then put up a slide on a study of why manufacturing firms saw the need for Enterprise Resource Planning (ERP). The following four major drivers below are exactly the same as what is being seen for FIs:

- 1) Increase cost/margin pressure;
- 2) Globalisation;
- 3) Adaptive supply chains; and
- 4) Manufacturing and administration speed.

What is being seen is a willingness for organisations, for banks in particular, to look at this idea of a smaller number of more strategic platforms as opposed to going for 10 different risk engines and 20 different channels and 30 different products and trying to connect them all together.

Then there is the idea of operational excellence. How do banks get to operational excellence? There is no one panacea that is going to address this. It is a top down driven desire to significantly improve the flexibility and agility of the technology infrastructure to support the bank's strategic objectives. In all cases that Mr Houston came across, the idea has been driven by the CEOs. They are filtered down the organisation to make sure everyone is aware that the world has to change and they have to change.

The final topic of the presentation was innovation. Innovation is to take two or three existing ideas and to combine them into something new to do something different. From a technology perspective and a process perspective, the idea of innovation is at the top of the mind in strategic discussions in institutions across the region. It is fundamentally about how to take combinations of the various components introduced above and create a compelling business case to do something more cheaply or quicker or at lower risk. Many analysts have pointed out innovation as the number one focus borne out of their study that was seen in The Conference Board as well. The idea of innovation is becoming more and more important and relevant as people struggle with the competitive pressures and regulatory pressures.

Looking at a few years in the future, 2015 was picked as an example. Oracle does not have any idea whether the world is at a cusp of a new growth cycle, or whether there will be a second financial crisis. What is known, however, is that the future is unknown, so banks should be

thinking of all the major macro scenarios and planning accordingly. What will the competitive landscape look like for payments at a retail level in a year or two given how much individuals now spend on technology? The level of expenditure today compared to five years ago is a factor of ten times. As a consequence, technology companies are spending significant amounts of money on creating new and innovative ways of handling payments. This is something that banks need to think about as it is not going to change or go away.

Can the current platforms support the agenda? What new capabilities might be required? An increasing one that is being seen at the corporate level is risk based pricing. Can true risk-based pricing be done today where the bank has an individual customer's payment profile and risk profile and all the information of all the subsidiaries and make an accurate decision in real time today so that it can decide what margin to charge that customer? Many big institutions are starting to think about this.

The next issue was the retail banking scenario in 2015. The idea of all the different things happening with the customer being at the heart of everything that is happening as opposed to a product being at the heart of everything that is happening is a fundamental shift that is being seen. Not a lot is happening at present, but looking at the trend it is becoming increasingly important. Things like being socially aware, proactive connections to devices from the financial services institutions about things that are happening or not happening and how to deal with it are part of this shift. A lot more innovative use of mobile technology in particular is being used to put the customer at the heart of everything. Also to ensure that irrespective of where the customer interacts they are getting exactly the same offer, position, point of view or response. This goes to how a bank provides a superior customer service so that the customer will increasingly tend to use the bank as a point of aggregation.

Mr Houston then showed a slide where data from four or five FIs was aggregated into one place. He said that is what customers want to see. They do not want to go to one place for their credit cards and another place for their loans and a different place for their deposits. They want to be able to source those products from different places but they want to be able to bring everything together in one place. A bank uses analytics to write its business. Customers want to be able to see similar sorts of analytics. Customers want to understand how the

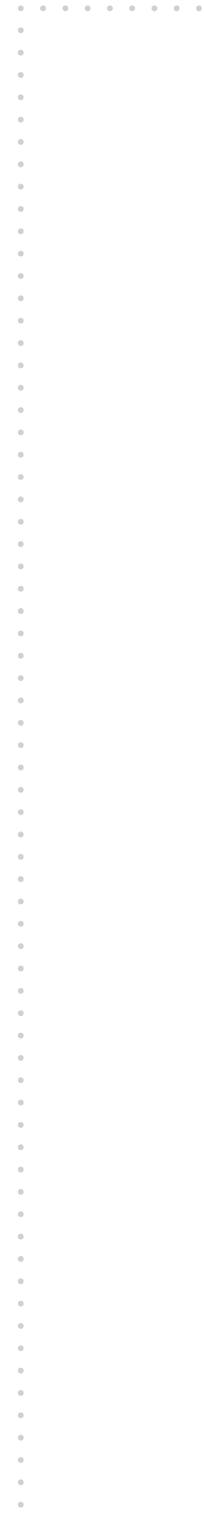
business is written. An example of innovation is making these analytics capabilities available to customers. He then touched on loyalty. How do banks understand the value of loyalty and embed that in everything they do to retain the customer? How do they predict what they should offer the customer next and know the data is accurate?

Capital markets in 2015 were the next issue discussed. Capital markets are a goal that has not been delivered up to now. Just in the last year or two, technology has advanced where the following sorts of things can be done. For a global capital markets firm, it has to think about things like the larger banks have to, where there are hedges done in parts in different countries. How does the firm bring all the parts together to get a true view of the risk profile of that particular trade, that particular debt, that particular geography or a combination of the above? So the message here is that today the technology finally exists to do these sorts of things. There are huge investments being made in capital markets in particular to enable these sorts of technologies today. Fundamentally it is

about having an instantaneous view on what the risk position is for an individual transaction irrespective of where in the world the various links in the transactions are coming from.

The final issue discussed was trade finance. This is a very topical one in all parts of Asia. It is a question of how to lay in place a process that is much more customer friendly and that is much more transparent. Most importantly it gives the bank an opportunity to be able to up-sell and cross-sell financial services products to a basic trade flow transaction. It is about providing access to complementary products and services that will go towards helping the customers' working capital management requirements. A lot of innovations are starting to happen there but not as much as will happen going forward in the next year or two. Relating to that is managing the complexities of the world as it is today.

Mr Houston concluded by saying that these are just examples of where innovation is being seen in various parts of financial services today.



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