

Sustainable Finance Must Be the Basis of Malaysia's Post-Covid Future

Failure to do so will undermine long-term profitability and economic prosperity

BANKING INSIGHT

IDEAS FOR LEADERS | JULY/AUGUST 2020

PP 17327/05/2013(032407)

STEADY HANDS TO HOLD A FULL CUP

'NEVER LET A GOOD
CRISIS GO TO WASTE'



Corporate Social
Performance &
Credit Risk

**PROLIFERATION
FINANCE: STILL
OUT OF SIGHT,
OUT OF MIND?**

**WHERE
NEXT FOR
MONETARY
POLICY?**

A PUBLICATION OF



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Failure to do so will undermine long-term profitability and economic prosperity [pg44]



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PROSPECTS



INDIVIDUALS
AGED 55+



CUSTOMERS
EARNING
RM10K+

are twice as likely to be interested in a virtual bank due to a bad experience with their current bank. ~ PwC Malaysia during the AICB Empowering Bankers Webinar.

On Winning The Digital-Banking Race

Committed to the continuous professionalisation of the Malaysian banking industry, the Asian Institute of Chartered Bankers (AICB) launched its Empowering Bankers Webinar in March this year and recently kicked off a joint Digital Banking Series with PwC on 20 May 2020.

Moderated by AICB CEO Prasad Padmanaban, close to 300 members attended the inaugural digital series titled 'Digital Banks – Why Will They Matter?', with speakers Marcus von Engel and Ching Chuan Ong, Financial Services Consulting Leaders at PwC Malaysia.

The interactive discussion mapped the dynamics of the global banking landscape, the strategies and technologies deployed by digital banks, and the potential of digitalisation to open up new

markets, in particular the underbanked and micro-SME segments, which are ripe for the picking.

Highlights include an overview of Bank Negara Malaysia's digital banking licence plan vide the *Licensing Framework for Digital Banks – Exposure Draft* and tips

(reproduced below) on wresting the opportunities ahead:

- Build and nurture trust with your customers in data privacy, security, and brand reputation;
- Capitalise on Malaysians' openness to new things by bringing world-class experience to an emerging market;
- Empower customers to better manage their finances with innovative access to personalised information and services; and
- Introduce distinctive digital and lifestyle services, which in Malaysia is not always easily available.



▶ NO LONGER CRYPTIC OVER CRYPTO?

On the digital currency front, the possibilities of centrally backed digital assets have captured the imagination.

In January, the European Central Bank (ECB) released one of the most comprehensive working papers on integration of cryptocurrencies into the



financial system, titled *Tiered CBDC (Central Bank Digital Currencies) and the Financial System*. This comes after the idea was floated last year about

an ECB-backed digital currency, primarily to counter the disruptive effects of Facebook's own cryptocurrency, Libra.

The US Senate has also introduced legislation, the Banking for All Act, proposing that the Federal Reserve create fiat-backed digital dollars in order for the government to disburse its US\$2.2 trillion (RM9.6 trillion) stimulus package to average Americans.

It's estimated that one out of every 14 households have no bank account or address for the government to disburse its US\$1,200 coronavirus aid cheques.

China announced in late April the launch of a national blockchain platform, believed by many to be the precursor to a central-bank backed cryptocurrency termed DCEP.*



STEADY HANDS TO HOLD A FULL CUP

'NEVER LET A GOOD CRISIS GO TO WASTE.'

CORPORATE SOCIAL PERFORMANCE & CREDIT RISK

NEW RESEARCH ELUCIDATES HOW COUNTRY SUSTAINABILITY CAN MODERATE FINANCIAL RISK



WHERE NEXT FOR MONETARY POLICY?

Central banks are increasingly choosing the road less travelled in their approach to monetary policy.

Over the past 10 years, central banks have increasingly turned to unconventional means to steer the economies of individual countries in the right direction. From quantitative easing (QE) and forward guidance to negative interest rates, central banks are now prepared to intervene in new ways. Is this unconventional monetary policy becoming the new normal, and, if so, what are the implications of this? For example, is there a danger of untested policies fixing existing problems – while creating new ones?

“I would argue that unconventional monetary policy (UMP) already is the new normal,” says James Athey, Senior Investment Manager at global asset manager Aberdeen Standard Investments. “My biggest concern is not only that it’s ineffective but it’s self-defeating.

“For example, basic economic theory says that if you raise interest rates, people will borrow less and save more – and this will slow economic activity. If you lower interest rates, the theory is that people will borrow, spend and invest more, and save less, and this will increase economic activity.

PROLIFERATION FINANCE

STILL OUT OF SIGHT, OUT OF MIND?

Defence expert with world's oldest international security think tank weighs in.

As director of the Centre for Financial Crime and Security Studies at the Royal United Services Institute (RUSI), Tom Keatinge is at the forefront of advocating for banking's greater role in disrupting the flow of money towards the illicit arms trade.

Proliferation finance — funds or financial services used in activities to procure weapons of mass destruction — is a growing global concern. Tools have been designed to disrupt the underlying financial network that enables proliferators and their facilitators to procure, ship, and receive illicit goods, however its effectiveness hinges on close cooperation between the government and private sector.

The road is long. In 2016, Keatinge co-authored RUSI's first research paper on the subject titled, *Out of Sight, Out of Mind? A Review of Efforts to Counter Proliferation Finance*. But for the majority of financial sector stakeholders, the light bulbs have yet to come on.

In Kuala Lumpur last November and on panel for the 2019 edition of the AICB's International Conference on Financial Crime and Terrorism Financing (IFCTF), Keatinge's insight into proliferation financing was shared with over a thousand delegates in a plenary moderated by Bank



Tom Keatinge

Negara Malaysia.

In this exclusive interview, we revisit themes from his talk and research.

Q First off, are bankers liable if they are found to have inadvertently financed arms to sanctioned countries, i.e. Iran or North Korea?

Yes, you are absolutely liable. You're never going to have a perfectly secure system, but if your systems and procedures don't even recognise the risk of North Korean financing, then your systems and procedures are negligent, aren't they?

SUSTAINABLE FINANCE MUST BE THE BASIS OF MALAYSIA'S POST-COVID FUTURE

*Failure to do so will undermine
long-term profitability and
economic prosperity*

As we write this article, the Covid-19 crisis is in full swing and affecting every country. Malaysia is no exception. With four phases of lockdown, the economy essentially has been put on hold. The response by the Malaysian government, Bank Negara Malaysia (BNM), Securities Commission, and Bursa Malaysia have been swift and commensurate to the scale of the crisis. Multiple stimulus packages and interventions have provided much-needed relief for affected households, businesses, and economic sectors.

With the Malaysian government seeking to gradually reopen the country, the economy will hopefully start its recovery. Now is an opportune time to talk about the need to ensure a long-term sustainable recovery, the importance of the banking sector, and sustainable finance to achieve this.



GRIT: THE FORMULA FOR SUCCESS THAT CAN BE LEARNED

What experts say about cultivating excellence.

While writing this article, most of the countries I deal with are in some form of lockdown. People who worked in offices are now working at home. Classes, meetings, strategy sessions that were face-to-face are now Zoom meetings. This impact has been massive – commercially, socially, and mentally. In these adverse times, some people are thriving and others are faltering. Some businesses are pivoting, adapting, and others are frozen, waiting for a green light to move forward.

What makes the difference? I believe it is grit. This combination of passion and perseverance is the distinguishing feature and interestingly, it can be developed within all of us and our organisations. Grit allows us to deal with setbacks and keep moving forward. Developing grit allows all of us to achieve excellence regardless of time.

One of the leading experts in grit and this line of thought is Angela Duckworth. She is a professor of educational psychology at the University of Pennsylvania and a 2013 MacArthur Fellow (also known as the 'Genius Award'). She has done fantastic research in the area of grit. Her passion is to study grit and the attributes that contribute to success in life. Her research into grit is both thought- and

