**Faradina Ghouse, CB, Group Chief Compliance Officer at AmBank Group and Chairman of the Institute's Compliance Officers' Networking Group (CONG)**
"Build and Experience Small Successes"


# BANKING INSIGHT

**IDEAS FOR LEADERS | DECEMBER 2023**

PP 17327/05/2013(032407)


# Ready to Face the Wind

**Fortune doesn't always favour the bold.**


A PUBLICATION OF

AICB
ASIAN INSTITUTE OF CHARTERED BANKERS

ISSN 2231-8247


Writing the Rules of the Road for Artificial Intelligence

**PREPARING FOR WHAT'S AROUND THE CORNER**

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Editor's Note

# More Hope, Less Fear

This is what we need.

With prolonged chaos on so many fronts, it's crucial to not lose sight of the bigger picture and keep our eyes trained on the long game.

That's what this issue of *Banking Insight* is about.

*Ready to Face the Wind,* our cover story, captures the essence of how we should prepare to face the headwinds that will invariably come our way. Although Asia's banking sector emerged unscathed from the recent crises in the EU and US, in today's increasingly interconnected world, it is no guarantee that the tables will not turn in the future. Which is why Malaysia's recovery and resolution planning is steadily underway. Preparedness is our only armour for financial resilience. We need professionals who can see the bigger picture and execute this vision within their organisations.

Expanding on this message, our featured Chartered Banker, Faradina Ghouse, CB, Group Chief Compliance Officer at AmBank Group, lends insight into her decades-long career and her thoughts on what lies ahead. As Chairman of the AICB Compliance Officers' Networking Group, Ms Ghouse's tenure is characterised by her dedication towards future-proofing the increasingly complex world of compliance.

Our *Well-being* segment, which was introduced post Covid-19, recognises that supporting our banking professionals includes giving them the requisite tools to meet their emotional and intellectual needs. *Do You Know of the Emotional Bank Account?* is a pivot around the traditional concepts of money, value, accounting and is reminiscent of the German economist E F Schumacher, whose revolutionary philosophy of 'small is beautiful' in the 1970s challenged conventional wisdom in business and finance. This article inspires similar thinking as it redefines how we value and grow our relationships, an intangible but crucial aspect in our line of work.

Although Asia's banking sector emerged unscathed from the recent crises in the EU and US, in today's increasingly interconnected world, it is no guarantee that the tables will not turn in the future. Which is why **MALAYSIA'S RECOVERY AND RESOLUTION PLANNING IS STEADILY UNDERWAY.** Preparedness is our only armour for financial resilience. We need professionals who can see the bigger picture and execute this vision within their organisations.

It has been a memorable year for the Institute. In addition to our flagship annual conference, the International Conference on Financial Crime and Terrorism Financing, I am particularly appreciative of the 600-strong delegate turnout at the Institute's 2nd Malaysian Banking Conference held from 26–27 June 2023 on the theme of *Banking and the ESG Revolution – Going Beyond Aspirations.* With a keynote address by the Minister of Investment, Trade and Industry, Yang Berhormat Senator Tengku Datuk Seri Utama Zafrul Tengku Abdul Aziz and a special ministerial address by the Minister of Natural Resources, Environment and Climate Change, Yang Berhormat Tuan Nik Nazmi Nik Ahmad, the intensity of dialogues throughout the plenary, breakout, and masterclass sessions underscore the growing imperative of economic, social, and governance standards and why sustainable banking is the future of finance. It is proof that the Institute and its members remain excited, engaged, and earnest in being a force for good.

Every moment is the right moment to step up, speak out, and get involved. And if anyone tells you otherwise, keep calm and carry on. ✱

**The Editor**

AICB **BANKING**INSIGHT




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# Trust Reinvented

True to the theme of *Trust Reinvented: Building a Sustainable Culture of Integrity, Transparency and Accountability,* the AICB's 13th International Conference on Financial Crime and Terrorism Financing (IFCTF) held at the Kuala Lumpur Convention Centre from 2 to 4 October 2023 drew close to 1,300 delegates with over 50 speakers representing the diverse perspectives of each continent.

Organised by the Institute and its Compliance Officers' Networking Group, with the support of Bank Negara Malaysia, Securities Commission Malaysia, and Labuan Financial Services Authority, global and regional experts explored the evolutionary nature of trust and how banking must reshape its defences to counter the emergence of new threat actors in the digital space and account for new priorities such as environmental crime.


*BNM Governor Datuk Abdul Rasheed Ghaffour (seated centre) and AICB Chairman Tan Sri Azman Hashim (seated fifth from left) along with the AICB Council, bank CEOs, and key representatives from the Malaysian Communications and Multimedia Commission, National Anti-financial Crime Centre, and Royal Malaysia Police at IFCTF 2023.*

Tan Sri Azman Hashim, FCB, Chairman of AICB, conveyed the essence of the conference in his welcome remarks: "Trust reinvention is the beacon of hope that guides us towards a sustainable, stable and secure nation. In combatting financial crime and terrorism financing, trust is the bedrock upon which our defence relies. By nurturing a culture of integrity, transparency, and accountability, we not only protect our financial systems but also safeguard our nation and its people from threats that seek to undermine its stability and growth."

In his opening address, Datuk Abdul Rasheed Ghaffour, FCB, Governor of BNM, made this clarion call to delegates: "Looking back, though we have covered many miles, many more remain ahead of us. Let us remember that we are running a marathon and not a sprint, and that everything we do is not just for ourselves here today, but also dedicated to the future of Malaysia – a Malaysia renowned for its integrity, seen for its transparency, and committed to accountability."

## CLOSING IN ON CRYPTO DISCLOSURES

On 17 October 2023, the Basel Committee on Banking Supervision (BCBS) issued a consultative document proposing a standardised format and set of templates for banks to disclose their cryptoasset exposures as a further step towards the exercise of "market discipline and contribute to reducing information asymmetry amongst banks and market participants."

With a proposed implementation date of 1 January 2025, the move is an extension of the BCBS' prior paper, *Prudential Treatment of Cryptoasset Exposures,* which outlines the prudential requirements for banks' exposures in this asset class. The template forms part of a new chapter, *DIS55 – Cryptoasset Exposures,* in the Basel Framework, and will be subject to the overarching requirements of *DIS10 – Disclosure Requirements* such as scope of application; reporting location; frequency and timing of disclosure; and assurance of Pillar 3 data.

For more in-depth analysis, read our previous cover story, *Crypto's 'Whoa Nelly!' Moment: Basel is Cracking the Whip with its New Global Standard,* in the January 2023 edition of *Banking Insight.*

## 'THE HIGHEST HIGHS, THE LOWEST LOWS'

Global banking clocks mixed comeback in 2023 with wide swings on cross-sector data:

**USD6.8 trillion**
in record revenue generated in 2022.

**13%** estimated return-on-equity for the entire sector.

**USD1.4 trillion**
in net income, double that of 2017.

**13.8%** highest Tier 1 ratio in a decade.

**7 percentage point**
decline in cost-income ratio.

**~35%** of global payment providers that have an ROE below 8%.

**>40%** of wealth and asset managers who have an ROE below 8%.

**0.9** price-to-book ratio, flat since 2008.

**SOURCE:** 2023 Global Banking Annual Review: The Great Banking Transition, McKinsey, October 2023.

# Project Mandala

## TAKES OFF

On 5 October 2023, Bank Negara Malaysia (BNM) announced a regional proof-of-concept to ease the burdens of policy and regulatory compliance for financial institutions. Called Project Mandala, it is spearheaded by the Bank for International Settlements Innovation Hub Singapore Centre together with central bank partners BNM, Royal Bank of Australia, Bank of Korea, and Monetary Authority of Singapore, with the collaboration of financial institutions.

Dr Norhana Endut, BNM Assistant Governor, said, "BNM is committed to making cross-border payments more efficient. Project Mandala could pave the way for more seamless cross-border transactions in the future while ensuring that regulatory compliance and transaction security are maintained. We welcome its potential, not only for Malaysia but also for the global community."

> **Project Mandala could pave the way for more seamless cross-border transactions in the future while ensuring that regulatory compliance and transaction security are maintained. We welcome its potential, not only for Malaysia but also for the global community."**
>
> **Dr Norhana Endut**, BNM Assistant Governor

The project explores the feasibility of encoding jurisdiction-specific policy and regulatory requirements into a common protocol for cross-border use cases such as foreign direct investment, borrowing and payments. Given the diverse range of policy and regulatory frameworks on cross-border payments between jurisdictions, the chief objective is to reduce turnaround time for cross-border transactions.

This is achieved through the:

- automation of compliance procedures;
- provision of real-time transaction monitoring; and
- increase of transparency and visibility around country-specific policies.

Project Mandala aligns with the Financial Stability Board's 2023 priority actions for achieving the G20 targets for enhancing cross-border payments through a more efficient legal, regulatory, and supervisory environment throughout the payment value chain with no compromise to the safety, security, and integrity of the payments.

The central bank expounded that the envisioned compliance-by-design architecture could enable a more efficient cross-border transfer of any digital assets, including central bank digital currencies and tokenised deposits, serving as the foundational compliance layer for legacy and nascent wholesale or retail payment systems. The measures could include quantifiable and configurable foreign exchange rules, as well as anti-money laundering and countering the financing of terrorism.

# Put a Price to It

In a paper released earlier this year, authors Dr Chris Kenyon, global head of quant innovation at MUFG Securities EMEA plc and honorary associate professor at University College London (UCL); Dr Andrea Macrina, Prof of Mathematics at UCL; and Mourad Berrahoui, head of counterparty credit risk modelling at Lloyds Banking Group, introduced a methodology for banks to put a numerical value to its Scope 3 emissions.

Also known as value chain emissions, Scope 3 is defined by the US Environmental Protection Agency "as indirect emissions that occur in the upstream and downstream activities of an organisation" and is estimated to account for more than 70% of the carbon footprint of a business.

The proposed framework, named CO2-equivalent valuation adjustment or CO2eVA by the authors, is proposed as a way for banks to steer their portfolios towards net zero by costing for Scope 3 emissions.

**Incentives are required for banks to reach carbon net-zero by 2050 on their portfolios. Here we provide an incentive method where trading with a CO2e emitter (sequestrator) incurs a cost-benefit to the trading desk equal to the mitigation cost of the relevant share of the counterparty emissions (sequestration), illustrating the Carbon Equivalence Principle in use.**

The examples show that the CO2eVA incentives are suitable for portfolio steering because they are significant, and precisely aligned with the CO2-equivalent (CO2e) emission (sequestration) that is enabled via the counterparty balance sheet.

Here's how the authors describe the essence of their proposed pricing methodology:

"Incentives are required for banks to reach carbon net-zero by 2050 on their portfolios. Here we provide an incentive method where trading with a CO2e emitter (sequestrator) incurs a cost-benefit to the trading desk equal to the mitigation cost of the relevant share of the counterparty emissions (sequestration), illustrating the Carbon Equivalence Principle in use. The CO2eVA may be used in deal return-on-capital calculations in order to steer the bank portfolio towards carbon net zero.

"The examples show that the CO2eVA incentives are suitable for portfolio steering because they are significant, and precisely aligned with the CO2e emission (sequestration) that is enabled via the counterparty balance sheet."

## 'A WORLD FREE OF POVERTY – ON A LIVEABLE PLANET'

With these words, the World Bank Group's new President, Ajay Banga, unveiled a new vision and roadmap for the organisation on 13 October at the World Bank-IMF Annual Meetings in Marrakech.

Following Banga's unequivocal message that the path to "finance a different world" needs "the scale, resources, and ingenuity of the private sector", the bank's website carried this update to indicate how it should lead through example:

"We must find a way to finance a different world where our climate is protected, pandemics are manageable – if not preventable – food is abundant, and fragility and poverty are defeated.

"This journey began in April, when the World Bank and its team found a way to squeeze USD40 billion over 10 years from our balance sheet by adjusting our loan-to-equity ratio. We've created a portfolio guarantee mechanism. We've launched a hybrid capital instrument. These new tools enable us to take more risks and could help us provide USD157 billion-plus in lending capacity over a decade.

"We need donors, shareholders, and philanthropies to join us and bring their ambition to this fight, otherwise these instruments are just theoretical."

# 'Build and Experience Small Successes'

Reporting by the Banking Insight Editorial Team

**When the road ahead is not for the fainthearted.**

The dynamic landscape of banking has elevated regulatory compliance from back-office function to a potential competitive advantage. Studies prove that when compliance leaders work hand-in-hand with strategy teams, sustainable structural solutions are possible. Banking Insight taps into the expertise of ***FARADINA GHOUSE, CB, GROUP CHIEF COMPLIANCE OFFICER AT AMBANK GROUP AND CHAIRMAN OF THE INSTITUTE'S COMPLIANCE OFFICERS' NETWORKING GROUP (CONG)***, on scaling structural change and rising to meet the demands of the profession.

***Q* As a leading practitioner who has spent decades perfecting her chosen profession, could you take us through your journey and some of the milestones that have shaped your perspective in banking and finance?**

My first job was not in banking but with a stockbroking outfit. Within a year, I moved and joined the custodial services department of a foreign bank. This was the start of my career in banking and the culture there significantly shaped my work ethics and I always considered my joining a foreign bank soon after graduation as an important milestone.

The concepts of empowerment, doing things right the first time in terms of the quality of work, taking responsibility where the 'buck stops here', speaking up, and ethical concepts such as conflicts of interest, separation of duties, were deeply ingrained.

Irrespective of which level one operates at, these are some of the key professional values and ethical standards that we hold and operate by. It also remains the key ethical standards that the banking industry specifically does not compromise on. Some 30 years on, these values are continuously enhanced and emphasised in various forms.

These values are practiced by and form the DNA of leaders who set the example and standards for others to follow and emulate. They set the culture of performance and excellence at their respective banks. Some of the other milestones and experiences which I acquired include navigating financial crises, specifically the 1998 Asian financial crisis, which was triggered by currency devaluations leading to insolvencies and economic downturn; and the 2007-2008 global financial crisis, which led to a severe banking crisis, stock market declines, and global economic downturn.

Playing my own small part in the role that I had during these times provided invaluable training in character building, perseverance, the power of teamwork, and leadership qualities.

The other experiences are involvement in a global systems implementation project, various other technical integration projects, assuming a regional and global role, providing exposure to different people from different cultures but sharing the same mission and objectives. These are just some of the important milestones in my career that shaped my perspectives and influenced the approach I take.

I personally feel that there are **NO QUICK WINS OR IMMEDIATE FIXES IN UPSKILLING STAFF.** This is true especially when new initiatives and areas of focus emerge. The sustainability agenda and Climate Change Principle-based Taxonomy are examples that compliance professionals cannot ignore although this may land specifically within the domains of risk. Training is key and practical training, I believe, is mandatory.

***Q* Recent momentum point toward a 'renaissance' of sorts to revamp the role of the chief compliance officer. Business and compliance teams are increasingly being called upon to find common ground and craft meaningful relationships in order to enhance customer experience, raise productivity, and achieve greater institutional resilience. This is no mean feat. What practical measures can banks take in order to secure 'quick wins' in this endeavour?**

I cannot negate that the fastest route is by recruiting trained professionals. I personally feel that there are no quick wins or immediate fixes in upskilling staff. This is true especially when new initiatives and areas of focus emerge. The sustainability agenda and Climate Change Principle-based Taxonomy are examples that compliance professionals cannot ignore although this may land specifically within the domains of risk. Training is key and practical training, I believe, is mandatory. A suite of programmes and training strategies are deployed to ensure employees have the skills and competency to navigate the labyrinth and intricacies of banking regulations, evolving landscape of digitalisation, demands for personalised services, and operational

efficiency. Webinars and workshops, masterclasses, microlearning modules, mentorship programmes, certification, cross-training programmes, simulations, and case studies are the mainstream approach to upskilling employees and these have worked very well.

**Q** ***The AML/CFT landscape grows in complexity by the minute, especially as threat actors move from the physical to digital realm. As the Chairman of AICB's CONG, could you share some of the network's core programmes geared to equip bankers in this regard?***

I believe most financial institutions have a very focused approach to the AML/CFT training programme. This is to ensure that the various roles within their organisation that are responsible for AML/CFT-related functions have the required competency to adequately carry out their responsibilities in safeguarding the organisation from the threats of money launderers and facets of financial crime.

Generally, the training programmes will be customised to address the training needs of specialised functions. While I cannot speak for the other financial institutions and CONG itself does not drive the AML/CFT training programmes for its members, as a group, we do share and discuss the evolving nature of the compliance function as well as the training needs and required certifications to equip compliance officers, particularly in the AML space.

Some of the key programmes and certifications are those offered by the AICB, International Compliance Association, and Association of Certified Anti-money Laundering Specialists.

The rapid advancement and innovations in technology have introduced more sophisticated analytics in terms of facial/identity recognition, network analysis, and real-time monitoring capabilities, to name a few.

These developments have created a necessity for technical skills in the AML space, for example, in the areas of data science, machine learning, statistical knowledge, data visualisation and management, blockchain understanding, and cloud computing.

The buzzword now is artificial intelligence; a revolution in itself. I suspect that compliance professionals will soon need to venture into this space, not just to understand the deployment for purposes of financial crime detection and counter measures, but to also protect the organisation from threat of abuse of deploying this technology. These are very interesting times and navigating the AML space and innovative technologies are definitely not for the fainthearted!

**Q** ***What challenges should be expected when embarking on any culture-building exercise?***

It is absolutely true that culture cannot be built or changed overnight, but it is important to build and experience small successes. Culture is not just the responsibility of one department; most of the time human resource is expected to and will shoulder this responsibility. It is a collaboration of all stakeholders involved, requiring the right leadership alignment and tone from the top to provide a clear vision of the desired end state.

Identifying and defining core values that will drive behaviours is important. Articulation and communication of these core values and driving mindset and behaviours can be challenging. Established cultures with deep-rooted behaviours will require more time, patience, and persistence in bringing about change. A proactive approach in identifying and addressing resistance through clarifying and resolving misconceptions will be an important feature of the implementation phase. Measuring progress and adjusting to meet the aspired outcomes will be a continuous process. Naturally, these are all easier said than done, but culture is a significant part of branding and all financial institutions will continue to innovate in this space.

**Q** ***As 2023 draws to a close, what's at the top of your wish list for the year ahead?***

First, continue to build on the close collaboration between the banking industry, regulators, and enforcement agencies in thwarting the threat of scams and financial crime. Hopefully with this we can further strengthen controls to protect the public from falling prey to scammers.

Second, peace for the global community so that countries can focus on building their economies. ✱

# READY TO FACE THE WIND

By Angela SP Yap

**Fortune doesn't always favour the bold.**

What is the cost of overconfidence?

Since 2008, economic researchers have sought to understand why some banks suffer more than others during a crisis. Contagion is always a risk when there is a shock to the financial system, however the sensitivity of each financial institution to a crisis seems unpredictable – some banks emerge unscathed, others surface with minor scratches, whilst a few never recover.

A growing body of research point to managerial overconfidence, or more specifically CEO overconfidence bias, as a determining factor in the banking sector.

## CIRCLING HAWKS

Overconfidence bias is the tendency for us to think that we are better than can be objectively proven. For instance, it is likely that we think we are better drivers than we actually are. But when was the last time you got into an accident in your vehicle?

In finance, such cognitive bias manifests as an overestimation of one's financial acumen, excessive risk-taking, a disregard for objective data and advice, imprudent decision-making, and suboptimal performance.

History is littered with costly examples of such hubris, to which finance is no exception.

Nobel Laureate Daniel Kahneman, who has led the cognitive revolution in social psychology over the past 40 years, found that individuals often fall victim to 'positive illusions' – unrealistically positive views of one's abilities and character, the illusion of control, unrealistic optimism – all of which promote hawkish decision-making.

His article with Jonathan Renshon on *Why Hawks Win* explains that decision-makers hold "a bias in favour of hawkish beliefs and preferences [that] is built into the fabric of the human mind."

"Our conclusion is not that hawkish advisors are necessarily wrong, only that they are likely to be more persuasive than they deserve to be."

This explains why humans frequently favour extroverted leaders and bold strategies even when it no longer brings net benefit to society. Whether in political or financial warfare, the science behind social psychology is consistent: Our brain chemistry makes us inclined towards those who exhibit overconfidence, whether or not their track record holds up to scrutiny.

## MANAGERIAL HUBRIS

How does this impact the financial sector?

Research published in the July 2022 edition of the *International Journal of Finance and Economics* adds to our understanding of financial resiliency by directly measuring each banks' contributions to a systemic event.

Whilst previous studies addressed the impact of overconfident CEOs on lending standards and loan-loss provisions, authors Liang Liu of Beijing-based energy and commodity group Mercuria together with the University of Nottingham's Hang Le and Steve Thompson, found that CEO-biased beliefs have ripple effects "well **beyond** the firm's boundary".

Their work, *CEO Overconfidence and Bank Systemic Risk: Evidence from US Bank Holding Companies,* is the first to prove that the overconfidence bias

This explains why humans frequently favour extroverted leaders and bold strategies even when it no longer brings net benefit to society. Whether in political or financial warfare, the science behind social psychology is consistent: **OUR BRAIN CHEMISTRY MAKES US INCLINED TOWARDS THOSE WHO EXHIBIT OVERCONFIDENCE,** whether or not their track record holds up to scrutiny.

amongst the top decision-makers of financial institutions pose a real threat to financial resilience.

"Our empirical analysis of US bank holding companies shows that on average, banks with overconfident CEOs have higher systemic risk, both measured as the *ex ante* average dollar loss in market capitalisation during the worst 5% of market return days and as the *ex post* losses during the 2007–2008 crisis, compared to banks with non-overconfident CEOs. Banks with overconfident CEOs also have higher holding of private mortgage-backed securities and higher leverage.

"In the aftermath of the financial crisis, fewer CEOs are classified as being overconfident but we find no evidence of a structural break in the relationship between CEO overconfidence and bank systemic risk."

"Our results therefore have an important implication: overconfidence bias among banks' top decision-makers may impose costly externalities to the financial sector and the rest of the economy."

This is an important point for us to hold on to, especially as investors pivot towards Asia.

Today, Asia-Pacific banks rank among the world's most resilient. With above-minimum capital adequacy ratios, strong balance sheets, and relative agility, analysts are in consensus that its financial institutions are better positioned to overcome disruptions from tech and comply with more assertive regulation.

However, it's crucial we remember that just months before the global financial crisis erupted, global rating agencies and research houses like Moody's cautioned against the Asian banking sector's "exuberance" as the data pointed to a "certain overconfidence" in the financial sector.

A post mortem by the Peterson Institute for International Economics' on *Why Did Asian Countries Fare Better During the Global Financial Crisis than During the Asian Financial Crisis?* reminds us: "The fact that Asia largely averted financial instability in the face

> "Our empirical analysis of US bank holding companies shows that on average, banks with overconfident CEOs have higher systemic risk, both measured as the *ex ante* average dollar loss in market capitalisation during the worst 5% of market return days and as the *ex post* losses during the 2007–2008 crisis, compared to banks with non-overconfident CEOs. **BANKS WITH OVERCONFIDENT CEOs ALSO HAVE HIGHER HOLDING OF PRIVATE MORTGAGE-BACKED SECURITIES AND HIGHER LEVERAGE.**

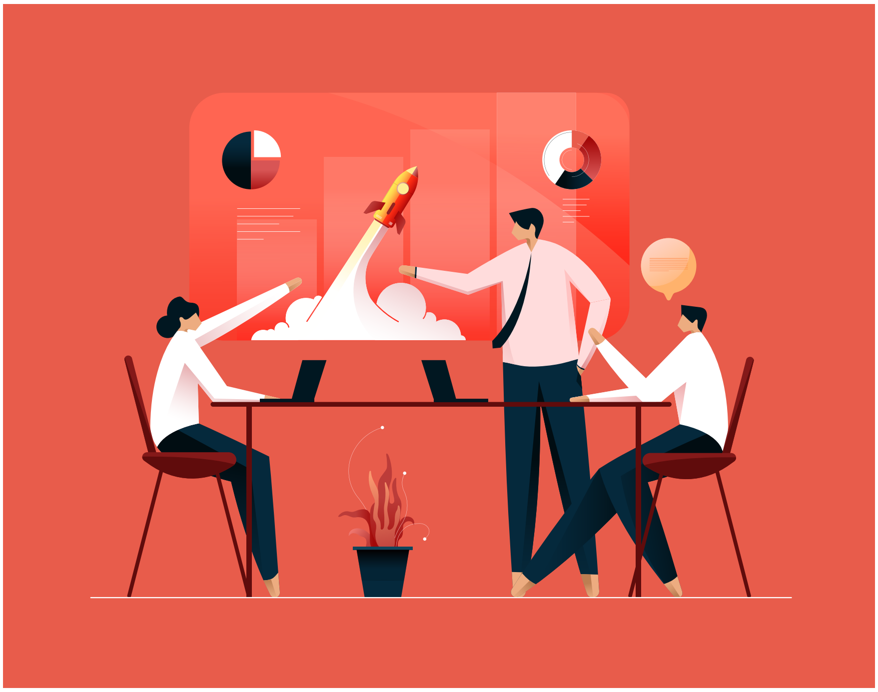
of a full-blown global financial crisis is no cause for hubris or overconfidence. In fact, in 1997–98 Asia had suffered a devastating financial crisis of its own. That crisis brought the region's financial markets to their knees as stock markets and currencies collapsed. The crisis soon spread to the real sector, pushing the economy into a deep recession and putting millions of Asians out of work. Although the region staged a V-shaped recovery in 1999, the crisis was a game changer that put a rude stop to the vaunted 'East Asian miracle'."

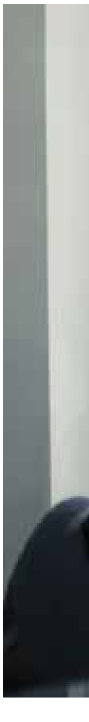
A timely reminder as jurisdictions across the world embark on the arduous task of strengthening the resilience of their economies through the mandated development of recovery and resolution plans for financial institutions.

## UNKNOWN UNKNOWNS

In a precursor to the invasion of Iraq, when questioned about the lack of evidence regarding the supply of weapons of mass destruction, Donald Rumsfeld, the then US Secretary of Defence, (in) famously said:

"As we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some





things we do not know. But there are also unknown unknowns — the ones we don't know we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones."

As convoluted as it sounds, Rumsfeld's point about 'unknown unknowns' harkens to a technique, the Johari Window, which is used by self-help instructors and corporations to increase their trust quotient and improve relationships.

Developed by psychologists Joseph Luft and Harrington Ingham in 1955, this heuristic exercise is a model on how to build a personality map for awareness. It comprises four viewpoints (**Figure 1**) and relies on a feedback/disclosure model in which trust is built in two ways: firstly, by revealing information about yourself to others; secondly, by learning about yourself from external feedback.

Although the Johari Window has been nudged aside in recent decades by 'sexier' analytical frameworks, for me, it stands as one of the quickest and most effective tools for self-awareness and trust building, no matter which rung of the ladder you are at in life or work.

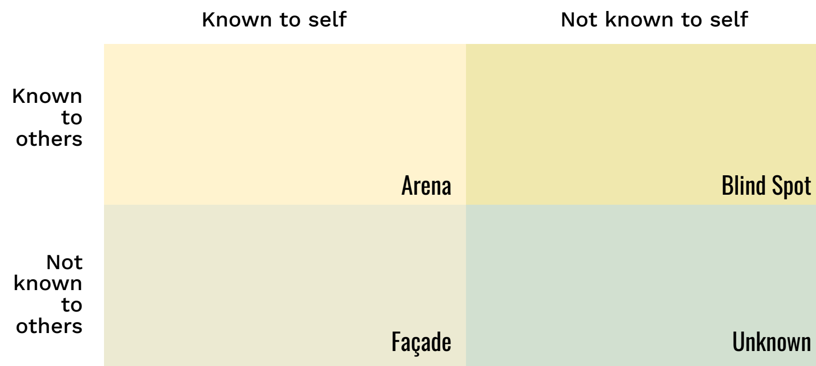



**Figure 1:** The Johari Window model.

"As we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. **BUT THERE ARE ALSO UNKNOWN UNKNOWNS – THE ONES WE DON'T KNOW WE DON'T KNOW.** And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones."

It is also satisfying to see its principles applied within the financial circuit, especially by prudential authorities who play a critical role in setting the tone at the top.

## AM I THE PROBLEM?

This is the question which Michael S Barr, Vice Chair for Supervision at the Federal Reserve, answered in the aftermath of the Silicon Valley Bank (SVB) failure.

The frank critique and self-awareness of the Fed's institutional flaws, outlined in his letter accompanying the *Review of the Federal Reserve's Supervision*

*and Regulation of Silicon Valley Bank* which was released this April, is an eloquent and rare departure from the PR spiel that prevails in regulator-issued communications. It is, if nothing else, an archetype strategy where self-awareness morphs into effective communications:

"We need to develop a culture that empowers supervisors to act in the face of uncertainty. In the case of SVB, supervisors delayed action to gather more evidence even as weaknesses were clear and growing. This meant that supervisors did not force SVB to fix its problems, even as those problems worsened.

"[W]e need to guard against complacency. More than a decade of banking system stability and strong performance by banks of all sizes may have led bankers to be overconfident and supervisors to be too accepting. Supervisors should be encouraged to evaluate risks with rigour and consider a range of potential shocks and vulnerabilities, so that they think through the implications of tail events with severe consequences.

"Contagion from the failure of SVB threatened the ability of a broader range of banks to provide financial services and access to credit for individuals, families, and businesses.

"This report is a self-assessment, a critical part of prudent risk management, and what we ask the banks we supervise to do when they have a weakness. **IT IS ESSENTIAL FOR STRENGTHENING OUR OWN SUPERVISION AND REGULATION.** I am grateful to the staff who conducted the review and prepared the report.

Fast and forceful action by the Federal Reserve, the Federal Deposit Insurance Corporation, and the Treasury Department helped to contain the damage, but weaknesses in supervision and regulation must be fixed.

"In doing so, we should be humble about our ability — and that of bank managers — to predict how losses might be incurred, how a future financial crisis might unfold, and what the effect of a financial crisis might be on the financial system and our broader economy. Greater resilience will guard against the risks that we may not fully appreciate today.

"This report is a self-assessment, a critical part of prudent risk management, and what we ask the banks we supervise to do when they have a weakness. It is essential for strengthening our own supervision and regulation. I am grateful to the staff who conducted the review and prepared the report.

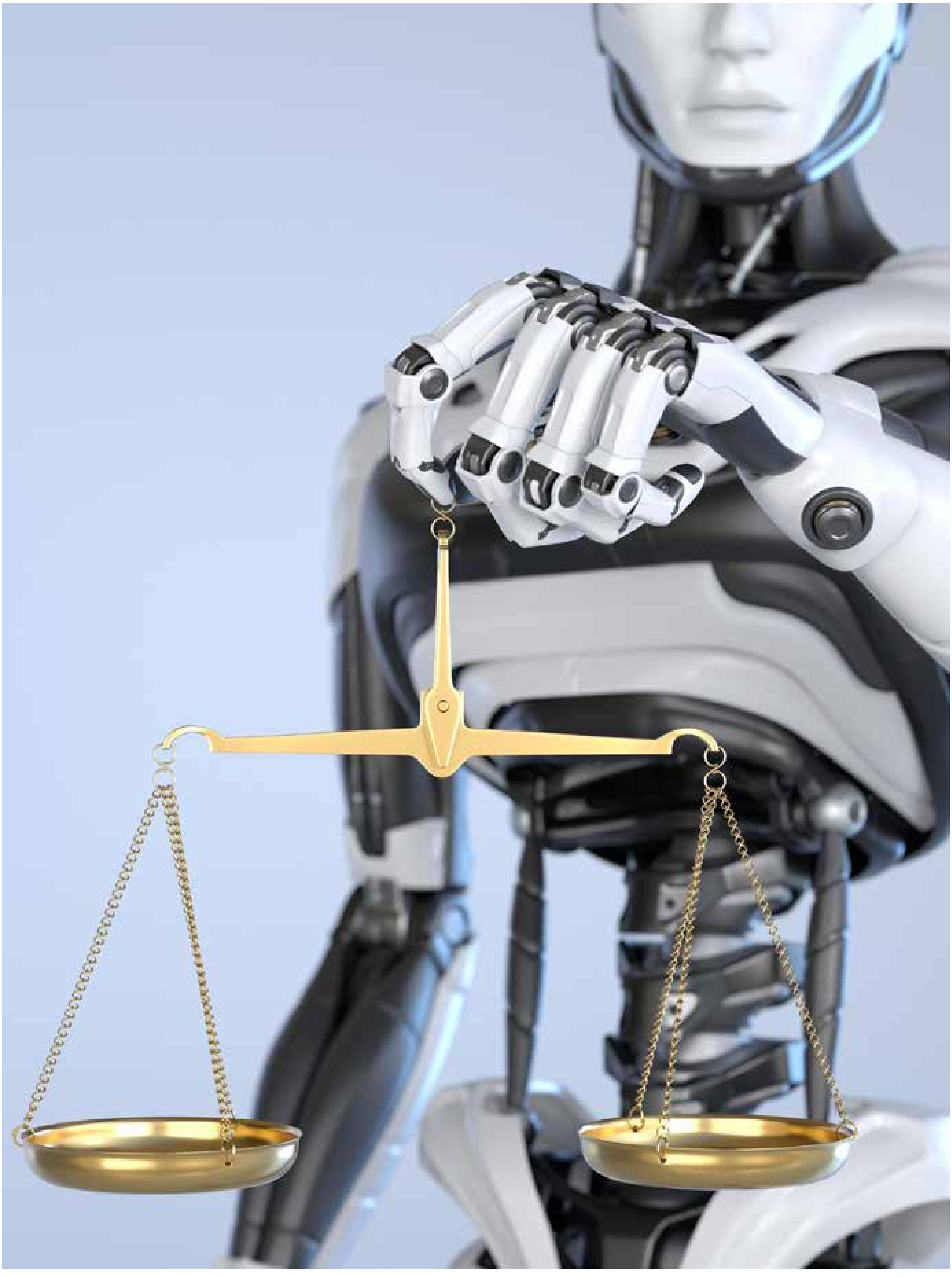
"I also appreciate that others will have their own perspectives on this episode. We welcome external reviews of SVB's failure, as well as congressional oversight, and we intend to take these into account as we make changes to our framework of bank supervision and regulation to ensure that the banking system remains strong and resilient."

It is prudent for us to take a page out of this playbook; when faced with a crisis, one should not be too proud to admit that they are part of the problem.

It is the only way to travel in a brave, new world.

Are you ready to face the wind? ✱

■ *Angela SP Yap is a multi-award-winning social entrepreneur, author, and financial columnist. She is Director and Founder of Akasaa, a boutique content development and consulting firm. An ex-strategist with Deloitte and former corporate banker, she has also worked in international development with the UNDP and as an elected governor for Amnesty International Malaysia. Angela holds a BSc (Hons) Economics.*



# WRITING THE RULES OF THE ROAD FOR ARTIFICIAL INTELLIGENCE

By Julia Chong

**Global monitor of the diverse regulations designed to create trustworthy tech.**

With the masses buzzing about generative artificial intelligence (AI) tools like ChatGPT and DALL-E, many long-established players are finally experiencing the long-awaited boom in the sector. Leading AI-chipmaker Nvidia cleared the USD6 billion profit mark this August whilst OpenAI, the company behind ChatGPT, is reported to be generating over USD80 million in monthly revenues (up from USD28 million for the whole of 2022) after its chatbot became a pay-for-use platform.

These companies currently operate in a relatively burden-free environment. There is no super-regulator and the industry is not heavily regulated; compliance costs are at a minimum as most operate within the known confines of the tech world with such costs already embedded in their day-to-day operations; and, let's face it, it is more creatively and financially rewarding to be a tech nerd in this day and age than it has been at any other time in human history.

However, this is set to change as regulators (and some standard-setters) in major jurisdictions compete to fill the void, each with their own version of the rules and laws to navigate the ethical and governance landmines posed by AI.

As it stands, the diverse approaches adopted by each of the authorities indicate that there is no single approach, no 'yellow brick road' in ensuring AI systems are governed well. It is crucial that bankers, in their roles as both users and financiers, have a birds-eye view of the key drivers, objectives, and guardrails that will shape the trajectory of AI governance in the decades to come.

## CHINA

As the world's largest producer of AI research, China is also ahead of the pack in the regulatory space as the first nation to roll out AI regulations. The following are key points excerpted from a July 2023 white paper by Matt Sheehan for the Carnegie Endowment for International Peace, *China's AI Regulations and How They Get Made.* The author relied on the English translations of Chinese legislations for the analysis.

China's AI regulation is the most voluminous and comprehensive issued to date by any jurisdiction. Outlining new technical tools such as disclosure requirements, model auditing mechanisms, and technical performance standards, the following are some of the most visible and impactful laws and regulations issued by the government:

> **Ethical Norms for New Generation AI.** This high-level guidance for ethical norms that should be embedded in AI governance sets moral norms, including ultimate human control and responsibility over AI systems. Issued on 25 September 2021, it is overseen by the country's New Generation AI Governance Expert Committee which sits under one of China's ministries and recommends policies and areas for international cooperation in the field.

> **Provisions on the Management of Algorithmic Recommendations in Internet Information Services.** This first major binding regulation on algorithms was enacted on 31 December 2021, motivated by government fears about algorithms controlling how news and content are disseminated online, specifically ByteDance, the parent company of TikTok, and the 2017 CCP backlash against the app in which user feeds were dictated by algorithms. The

regulation includes many provisions for content control as well as protections for workers impacted by algorithms. It also created the 'algorithm registry' used in future regulations.

- **Opinions on Strengthening the Ethical Governance of Science and Technology.** Issued by the CCP Central Committee and State Council on 20 March 2022, this document focuses on the internal ethics and governance mechanisms scientists and technology developers should deploy, with AI listed as one of three areas of particular concern, along with the life sciences and medicine.

- **Provisions on the Administration of Deep Synthesis Internet Information Services.** Effective from 25 November 2022, the regulation targets many text, video, and audio AI applications. It prohibits the generation of "fake news" and requires synthetically generated content to be labelled. There are three oversight agencies: Cyberspace Administration of China (CAC) as the national internet regulator, the Ministry of Industry and Information Technology (MIIT), and the Ministry of Public Security (MPS). The core motivation for this regulation was the growing concern over deepfakes.

- **Measures for the Management of Generative AI Intelligence Services (Draft for Comment).** Currently open for inputs, the draft was released on 11 April 2023 by CAC and is a near-mirror of the Deep Synthesis regulation with greater emphasis on text generation and training data. It requires providers to ensure that both the training data and generated content be "true and accurate".

The Chinese government recently announced in June 2023 that it will begin preparations on a draft Artificial Intelligence Law to be submitted to China's legislature. Widely expected to be a more comprehensive piece of legislation, analysts expect that it will act as a capstone on Chinese AI policy.

## EU

Although an agreement on the final version of the economic region's AI Act has yet to be reached, the trilogue debates – three-way negotiations between the European Commission, Council, and Parliament – have been underway since mid June. Once the bill is passed, the regulation will apply uniformly throughout the EU with no need for transposition to the respective member states and analysts have confirmed that it carries significant extraterritorial reach with stricter penalties that surpass current regulations, such as the General Data Protection Regulation.

The EU AI Act is a horizontal regulation, meaning that it is designed as an umbrella regulation to cover all applications of the tech. It is significantly different from China's regulatory AI regime, which is considered to be vertical regulation as each regulation specifically applies to a set of AI technologies, such as text, images, or data management.

Key contentious issues, according to a policy brief by the Brookings Institute, include:

- Definition of AI. This will determine the scope of the regulation: too narrow and the legislation of some AI systems might escape regulatory oversight; too broad a definition risks unfairly classifying them with more common algorithmic systems that don't come close to the ethical issues or harm of generative AI.
- Risk-based approach to AI regulation. Legislators have promised a proportionate risk-based approach based on four identified levels: Unacceptable, High, Limited, Minimal/Low risk. Ultimately, unusually risky or high-risk applications such as social scoring or hyper-personalisation services will be subject to regulatory burdens as these AI systems are "likely to pose high risks to fundamental rights and safety".
- Enforcement and Self-assessment Mechanisms. There are current concerns on the proposed governance structure of the AI Act, which will rest under the purview of a newly created European Artificial Intelligence Board (EAIB) and some believe will lead to a fragmented enforcement landscape

should member states vary in their commitment and capacity. There is also divergence in the proposed assessment of high-risk systems that have yet to be addressed. Currently, standalone AI systems need only undergo industry self-assessment whereas systems that touch on safety components (such as medical devices) must undergo strict conformity assessment by the relevant national authority.

EU states are also weighing the cost that comes with regulatory burden and at what price point compliance costs will begin to stifle innovation in small- and medium-sized enterprises. While waiting for the Act to run its course, Commissioner Thierry Breton announced in May the EU's work on an AI Pact alongside Alphabet, Google's parent company, and other developers to create non-binding rules with companies towards a safer and more accountable AI ecosystem.

## UK

On 29 March 2023, the UK government published its AI White Paper, reiterating its pro-innovation and context-specific AI regulatory regime. A departure from the EU approach, the UK proposes to spread the task of regulatory oversight by empowering its existing regulators such as the Financial Conduct Authority and the Competition and Markets Authority. Still in its infancy, the proposed regulatory framework focuses on five principles:

+ **Safety, security, robustness:** Measures must be in place for regulated entities to prove the security of their AI system; regulators may also need to provide guidance that is in sync with those of other regulators.
+ **Appropriate transparency and explainability:** Emphasis on public trust must drive any AI development and regulators should nudge industry to adopt sufficient transparency in any AI systems' decision-making.
+ **Fairness:** The onus is on regulators to develop and publish with illustrations of fairness that must apply to AI systems within their current remit.
+ **Accountability and governance:** Clear lines of accountability and compliance expectations must be mapped throughout the AI lifecycle.
+ **Contestability and redress:** Third-parties and/or persons negatively impacted by any AI system must have avenues to contest such decisions.

It is somewhat ironic when industry leads the push for greater regulation. During a US congressional hearing earlier this year, Sam Altman, CEO of OpenAI, told lawmakers that AI could cause **"SIGNIFICANT HARM TO THE WORLD"** and that regulating AI "would be quite wise" given the dangers an unfettered system could inflict on the world.

## US

This warrants an entry for its notable absence of impactful legislation in this sphere. Currently, the White House has invested USD140 million (a paltry sum by any standard) in AI research through various institutes, has released its AI bill of rights blueprint for public consultation on how best to regulate its use, and issued executive orders vaguely stating that AI systems should be implemented "in a manner that advances equity" in government agencies.

## INTERNATIONAL ORGANIZATION FOR STANDARDIZATION (ISO)

Aside from standards related to concepts, terminology, or classifications in machine learning performance and processes, the ISO's more recent AI-related standards remain vague and entirely voluntary:

+ **ISO/IEC 38507: Governance Implications of the Use of Artificial Intelligence by Organizations.** Meant as a high-level guide on building a robust governance programme for both public and private bodies, the focus is on building trust through required accountability and transparency frameworks in order to mitigate the ethical landmine that comes with AI applications. The April 2022-issued standard discusses the implications but does not entirely look into foolproof ways to address these. It is expected that the organisation is looking to future standards which will be developed to evaluate and dictate AI governance globally.

+ **ISO/IEC 23894: Information Technology – Artificial Intelligence – Guidance on Risk Management.** Published in February 2023, it outlines how organisations should develop, produce, deploy, or use products, systems and services that utilise AI and ways to manage its corresponding risks. It provides guidance on how organisations ought to integrate risk management into their AI-related activities and functions, for example process and procedures and transparency reporting.

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Altman proposed the formation of a US or global agency along commercial lines, "a new agency that licenses any effort above a certain scale of capabilities and could take that license away and ensure compliance with safety standards". Putting aside the monopolistic leanings in his suggestion, creating a McDonald's-type model is the most far-out proposal yet on global AI regulation.

Proof that the approach to global AI governance can really be as wide as an ocean and as deep as a puddle. ✱

■ *Julia Chong is a content analyst and writer at Akasaa, a boutique content development and consulting firm.*

# THE CHANGING FACE OF COMPLIANCE

By Bob Souster

**Greater reliance on qualitative assessments may be on the cards.**

Few functions in the banking industry have seen as many changes in their fields of operation than in compliance. Once regarded as a specialist area with a narrow focus on legal and regulatory matters, the work of compliance departments has expanded in scope and has moved steadily to occupy centre stage. This article examines some of the drivers behind such changes and looks ahead to the challenges of tomorrow.

The traditional view of compliance regarded it as a function that was necessary to ensure that the organisation operated within existing laws, regulations and generally accepted standards. This aligned with a simplistic view that ensuring adherence with rules would prevent undesirable behaviours and hence adverse outcomes to the organisation and its stakeholders. It also led many bankers of the past to be attracted to a 'box-ticking' approach through which the level of compliance would be assessed by the extent to which the organisation operated within legal and other parameters. The global financial crisis of nearly two decades ago shattered the illusion that a rules-based approach was sufficient or adequate.

To many bankers today, the **CRISIS DESCRIBED ABOVE IS EITHER A DISTANT MEMORY OR OCCURRED BEFORE THEIR TIME.** Some younger bankers were still in elementary school when Lehman Brothers collapsed and Northern Rock was rescued by the UK government's intervention. Yet one does not have to go as far back to understand that lessons were not learned and that history can repeat itself.

At the time, bankers became subject to profound public scrutiny, with some contemporary commentators complaining that those responsible for the ethical deficiencies "should have been locked up". But there are simple reasons why nobody (or very few) people were locked up: firstly, some of those responsible for the demise or near-demise of their employers did not break any rules and operated within the letter of the law; secondly, they were actually doing what bankers were then expected to do, which was to make judgments about risks and rewards within the frameworks that existed at the time. In the words of Tracey McDermott, former Director of Enforcement and Financial Crime at the Financial Services Authority (FSA), as reported in the *Chartered Banker* magazine's 2015 article, *The Compliance Balancing Act,* "In the same way as regulators have to stop ourselves reaching for rules, you have to stop yourselves reaching for ever more prescriptive controls to try and fix deeper seated issues. We have learned that rules alone are not the answer – the FSA rule book expanded significantly during the period building up to the crisis – but did it make people behave better? History would suggest not."

To many bankers today, the crisis described above is either a distant memory or occurred before their time. Some younger bankers were still in elementary school when Lehman Brothers collapsed and Northern Rock was rescued by the UK government's intervention. Yet one does not have to go as far back to understand that lessons were not learned and that history can repeat itself. The relatively recent demise of Silicon Valley Bank can arguably be attributed to simple failures, including overconcentration of business risks and unwillingness to modify business strategy when prevailing market conditions demand it.

Of course, these problems reflect shortcomings of leadership rather than compliance failures, especially if one restricts the view of compliance to the narrow, historic approach. The responsibility for deciding a bank's 'road to travel' and staying on that road lies squarely with the board of directors, whose strategies and policies are put into effect by the executive team. Yet, compliance has a significant role to play in reducing the prospect of future crises. While such risks cannot be eliminated, they can be mitigated by structuring compliance functions in an appropriate manner, whilst maintaining the delicate balance between managing commercial opportunities and ensuring rigorous scrutiny and oversight.

## COMPLIANCE WITH WHAT?

While compliance starts with ensuring that the organisation operates within laws and regulations, it is now recognised that the scope of the work of compliance departments goes much further. There will always be a need to commit resources to anti-money laundering and countering financing of terrorism policies, reducing exposure to market abuse and prevention of fraud. The people and budgets devoted to such activities are likely to increase still further in the future. Increasingly, however, banking organisations have to be aware of challenges such as conduct risk, demands of regulators to treat customers fairly at all times and generally accepted obligations to ensure that their strategies and policies are consistent with best practices in respect of ESG (environmental, social and governance). Significantly, none of these can be managed effectively by well-defined rules, or performance measured by ticking boxes. In future, compliance departments may have to rely on qualitative assessments, including making subjective judgments on matters that either cannot be quantified or around which no consensus has been formed.

## FORWARD-LOOKING, JUDGMENT-LED ORIENTATION

While a popular (and misguided) view of the compliance function likens its work to that of a 'traffic cop', a more positive approach is to regard it as an enabler. Properly executed, compliance functions can improve reputation, reduce customer attrition and identify areas for improvement.

## EMBEDDING COMPLIANCE ACROSS THE ORGANISATION

Increasingly, compliance professionals have to work hand in hand with functional managers, especially paying due regard to risk management imperatives. In addition, new demands will result in the need to consult specialists and experts. For example, in assessing whether a bank is acting in a manner that is consistent with the Principles for Responsible Banking, it may be necessary to analyse the positive and negative externalities of a deposit, an investment or a loan. In many cases it will be important to rely on expert support. This is a difficult and sometimes impossible call to make, when existing hard facts and scientific knowledge cannot provide definitive or conclusive answers.

Banks have been focusing more attention on ethics and professional standards in recent years. **THIS HAS RESULTED IN NEW DEMANDS OF MANY FUNCTIONS RELATING TO HUMAN RESOURCES MANAGEMENT,** including recruitment, selection, induction, training, performance management, measurement and appraisal. As a result of this, the work of some compliance functions has expanded into how bankers conduct themselves as well as what they do and how they do it.

## CHANGING DYNAMICS

The external environment is constantly changing, which means that compliance departments must adopt a proactive approach to their work. The next decade will see rapid innovations, including more widespread adoption of machine learning, predictive analytics and artificial intelligence. All of these have the potential to enhance the efficiency of banks and add value to the customers' experience, but they also represent steps into the unknown with associated risks.

## ACCEPTING THAT COMPLIANCE AND ETHICS ARE RELATED BUT DISTINCTIVE

Banks have been focusing more attention on ethics and professional standards in recent years. This has resulted in new demands of many functions relating to human resources management, including recruitment, selection, induction, training, performance management, measurement and appraisal. As a result of this, the work of some compliance functions has expanded into how bankers conduct themselves as well as what they do and how they do it. However, the lessons of history confirm that it is possible to act in a manner that is lawful and consistent with policy, yet still be unethical, whether assessed in terms of obligations to others or consequences. ✱

■ *Robert (Bob) Souster is a Partner in Spruce Lodge Training, a consultancy firm based in Northampton, England. He lectures on economics, corporate and business law, management, corporate governance and ethics. He is the Module Director for 'Professional Ethics and Regulation', a core module of the Chartered Banker MBA programme at Bangor University, Wales.*

# Moving Beyond Pledges

By Ira Poensgen

*Why transition plans are key for a net-zero, climate-resilient world.*

In recent years we have seen a tidal wave of companies announce climate targets, most often in the form of commitments to reduce their greenhouse gas emissions. According to data collected by Net Zero Tracker, over 50% of the world's 2,000 largest companies (covering a total of USD27 trillion in revenue) have set targets to reduce their emissions to net zero. This signals a momentous step change in private sector climate ambitions.

However, establishing the integrity of these commitments is often difficult. Most firms provide limited information about what steps, if any, they are taking today, to meet tomorrow's targets.

Developing and disclosing transition plans are critical next steps in the corporate climate journey. Such plans can serve a myriad of different purposes.

## THE VALUE OF THE TRANSITION PLANNING PROCESS

First and foremost, transition planning can be an immensely valuable exercise for the firm itself. For many companies, particularly those embedded in global supply chains, climate change poses a complex and multifaceted challenge. Firms have to grapple with pressures to rapidly decarbonise their own operations and value chain, in a context where the entire economy around them is transitioning in tandem. At the same time, they also need to respond to the increasingly severe physical impacts of the changing climate.

Responding to these challenges requires firms to answer fundamental questions about what role they want to play in tomorrow's economy, and what steps they need to take now to get there.

The process of transition planning allows companies to develop robust answers to these questions. This will invariably need to be a conversation that is led from the very top of the organisation, with scrutiny and oversight from the board. But it will also require input and involvement from across the firm, including strategy, finance, research and development and human resources functions. This creates an opportunity to build a cross-company vision of the direction of travel and develop a blueprint for delivery.

Ultimately, a transition plan will help senior management teams manage the transformation of their firm and ensure that they are well positioned to weather climate-related risks, capture opportunities and protect and generate value over the long term.

This will invariably need to be a conversation that is led from the very top of the organisation, with scrutiny and oversight from the board. But it will also require input and involvement from across the firm, including strategy, finance, research and development and human resources functions. **THIS CREATES AN OPPORTUNITY TO BUILD A CROSS-COMPANY VISION** of the direction of travel and develop a blueprint for delivery.

## WHY DISCLOSURES MATTER TO INVESTORS

In addition, investors and lenders are increasingly interested in understanding how their clients and portfolio firms are preparing for, and contributing to, the transition.

This is predominantly driven by a growing understanding that climate-related risks are material in the here and now.

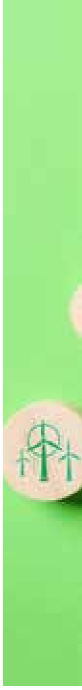
The chronic and acute physical impacts are undeniable. According to data from the Copernicus Climate Change Service, the period from January to October was the hottest on record, with global mean surface temperatures being a hefty 1.7°C warmer than estimated pre-industrial averages.

The impacts are being felt around the world. Just this year, we have witnessed:

> the continuation of a severe three-year drought disrupting agricultural production and water access in Syria, Iraq and Iran;
> devastating floods across the Mediterranean region which has led to over 3,900 casualties in Libya alone;
> a prolonged heatwave across Argentina, Brazil, Paraguay and Bolivia that has caused major wildfires; and
> extreme wildfires in Canada that caused at least 17 direct fatalities, led to the evacuation of over 150,000 people, caused major air pollution across Canada and the United States, and burnt over 13 million hectares of land.

According to analysis by the World Weather Attribution initiative, all of these would have been significantly less likely and less intense without human-induced climate change.

In addition, the transition risks faced by companies are also growing. Policymakers around the world are introducing climate policies with significant impacts on private markets. Prominent examples include the US Inflation Reduction Act as well as the European Union's Corporate Sustainability Reporting Directive and Carbon Border Adjustment Mechanism. Similarly, data from the London School of Economics and Political Science's Grantham Research Institute on Climate Change and the Environment show that the number of companies targeted in climate litigation cases has been steadily increasing for years.



To make informed lending, underwriting and investment decisions, financial institutions need to understand which firms are taking the necessary steps today to respond to these risks.

Transition plans provide this missing layer of information, helping investors identify those who are supporting stated ambitions with concrete action.

Investors are starting to recognise this, and are asking their clients and portfolio companies for improved disclosures. For example, Norges Bank Investment Management, the Norwegian sovereign wealth fund which manages assets worth USD1.4 trillion, updated its expectations to companies this year, calling on investee firms to develop credible transition plans.

## HELPING TRANSITION FINANCE SCALE WITH INTEGRITY

Thirdly, these plans are crucial for allowing transition finance to scale with integrity.

To successfully tackle climate change, we need to overcome a major investment gap. The Intergovernmental Panel on Climate Change estimates that we need a three- to six-fold increase in annual mitigation investments in the run up to 2030 to reach the goals of the Paris Agreement. This is supported by modelling from Bloomberg New Energy Finance, which estimates that an average 4:1 ratio of investment in low carbon versus fossil energy supply will be required by 2030 to support limiting global warming to 1.5°C.

> Transition plans can **HELP INVESTORS IDENTIFY WHICH FIRMS ARE BACKING UP AMBITIOUS TARGETS,** with concrete action and mechanisms for accountability. This will enable them to direct capital to companies and assets that are making meaningful contributions to the transition, and away from those that aren't.

This hurdle is particularly acute in emerging and developing economies which need to expand access to affordable energy, cater for growing domestic energy demand, whilst simultaneously reducing the carbon intensity of their energy systems.

According to analysis conducted by the International Energy Agency, meeting climate and sustainable development goals in emerging markets require annual investments in clean energy systems to more than triple to between USD2.2 trillion and USD2.8 trillion by the early 2030s (around USD200 billion to 240 billion of which are needed across Southeast Asia). An estimated 60% of this financing will need to come from the private sector.


Many leading financial institutions have publicly committed to supporting this transition. However, it is currently often challenging for investors to assess whether investing in a given company or asset will support business-as-usual practices or contribute to the required progress. In order to effectively allocate capital, they need to understand not only where a company or asset is today, but where it plans to be tomorrow.

Transition plans can help investors identify which firms are backing up ambitious targets, with concrete action and mechanisms for accountability. This will enable them to direct capital to companies and assets that are making meaningful contributions to the transition, and away from those that aren't.

Transition plans can also act as reference points in transition finance products and instruments. For example, the metrics and targets in a transition plan could be used as key performance indicators in sustainability-linked bonds, strengthening the incentives for delivery.

## GLOBAL MOMENTUM IS GROWING

Private actors around the world have started to recognise the benefits of transition planning. It therefore isn't surprising that we are seeing an increasing number of firms pressing ahead and publishing their first plans.

At the same time, the global political and regulatory momentum behind transition planning is accelerating.

In May 2023, G7 leaders highlighted the need for companies to underpin Paris-aligned, net-zero commitments with credible transition plans. In September, the G20 Sustainable Finance Working Group released a report that similarly calls on financial institutions and corporations to develop and disclose such plans.

In June 2023, the International Sustainability Standards Board (ISSB) released its two inaugural standards, IFRS S1 and S2, which are intended to serve as the global baseline for sustainability- and climate-related reporting globally. The climate-related disclosure standards include several provisions which relate to transition planning.

Increasingly, individual jurisdictions are also pressing ahead with increased expectations on transition planning. For example:

+ The **UK Government** announced in 2021 that it would move to make the publication of transition plans mandatory across the economy. To support delivery, it set up the Transition Plan Taskforce (TPT), which brings together leaders from across finance, corporates, civil society, academia, government and regulators to develop a 'gold standard' for good practice transition plans. The TPT launched its Disclosure Framework in October 2023, which is expected to inform future listing requirements in the UK.
+ The **European Union** has implemented the Corporate Sustainability Reporting Directive, which requires firms to report in line with the European Sustainability Reporting Standards. This includes requirements to disclose transition plans for climate mitigation.
+ In the **United States**, the Securities and Exchange Commission has proposed a draft rule that would require public firms to disclose plans where they have adopted them voluntarily. The Treasury has also released voluntary principles for net-zero financing and investment, which emphasise that financial institutions should ensure that their net-zero commitments are accompanied by robust net-zero transition plans.
+ In **Singapore**, the Monetary Authority of Singapore has recently released consultation papers outlining transition planning guidelines for banks, insurers and asset managers.
+ The **Australian government** has launched a consultation on a new Sustainable Finance Strategy which lists credible net-zero transition planning as a central priority.


Transition plans are also under consideration as a tool in many multilateral regulatory forums, including the International Organization of Securities Commissions, Financial Stability Board, Basel Committee on Banking Supervision, Network for Greening the Financial System, International Association of Insurance Supervisors, Coalition of Finance Ministers for Climate Action and International Platform on Sustainable Finance.

Overall, transition plans are poised to play a crucial role in tomorrow's sustainable finance infrastructure.

> In June 2023, the International Sustainability Standards Board (ISSB) released its two inaugural standards, IFRS S1 and S2, **WHICH ARE INTENDED TO SERVE AS THE GLOBAL BASELINE FOR SUSTAINABILITY- AND CLIMATE-RELATED REPORTING GLOBALLY.** The climate-related disclosure standards include several provisions which relate to transition planning.

## EMERGING BODY OF GUIDANCE CAN HELP YOU GET STARTED

Developing a transition plan is a complex exercise. But there is an increasing body of guidance that can help preparers get started.

In 2022, the Glasgow Financial Alliance for Net Zero developed recommendations and guidance for transition planning by financial institutions, and published a guide for real-economy companies, outlining what information financial institutions find relevant in their decision-making.

The work by the TPT complements these recommendations by setting out a sector-neutral Disclosure

Framework for best-practice transition plan disclosures. It is accompanied by a whole suite of guidance which can support preparers in their transition planning journey.

Central to the TPT's work is the idea that a credible transition plan requires firms to take a strategic and rounded approach. To avoid unintended consequences, entities need to not only think about how they will decarbonise their own operations and value chains, but also how they will respond to climate-related risks and opportunities and, crucially, contribute to the economy-wide transition towards net-zero and climate resilience.

Central to the TPT's work is the idea that a credible transition plan requires firms to take a strategic and rounded approach. To avoid unintended consequences, entities need to not only think about how they will decarbonise their own operations and value chains, but also **HOW THEY WILL RESPOND TO CLIMATE-RELATED RISKS AND OPPORTUNITIES AND, CRUCIALLY, CONTRIBUTE TO THE ECONOMY-WIDE TRANSITION** towards net-zero and climate resilience.

This will help avoid strategies of 'paper decarbonisation' which rely on the transfer of high-emitting assets to others who may be less well-placed to support their managed phase-out.

Recognising the importance of building international coherence in emerging norms, the TPT's work is designed to be consistent with, and build on, the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and the climate-related disclosure Standard issued by the ISSB. It also draws on the work of GFANZ, ensuring the two initiatives lock together to form an integrated approach to transition planning.


## GET GOING AND LEARN OVER TIME

Uncertainties are a fundamental part of transition planning and companies should be prepared to not have all the answers from the start. Some gaps, such as reliable Scope 3 emissions data, are likely to close over time as emissions reporting is mainstreamed. Others, such as uncertainties about future technological developments or policies, are a more permanent feature of forward-looking planning.

Given what we know about the urgency of climate action, however, this cannot be a cause for delay. Companies should start developing ambitious plans on the basis of what they know now, communicate not only their ambitions but also the strategies, assumptions and dependencies on which these rest, and build on that over time. ✱

■ *Ira Poensgen is the Technical Lead of the Transition Plan Taskforce Secretariat. She is also the Deputy Policy Lead at the Oxford Sustainable Finance Group and Deputy Head of Policy at the Centre for Greening Finance and Investment.*

# WHAT RESOLUTION PLANNING MEANS AND WHY IT MATTERS

By Perbadanan Insurans Deposit Malaysia (PIDM)

## Trust as the cornerstone in finance.

In the intricate world of finance, trust stands as the cornerstone upon which the entire system rests. However, this trust can be remarkably fragile at times. Even a misstep is capable of eroding the confidence of depositors and investors, potentially impacting not only a single financial institution, but may send rippling effects to the rest of the financial system. One notable example that underscores the fragility of trust is the case of Silicon Valley Bank (SVB) in the US where depositors' widespread panic and loss of trust resulted in the bank's rapid collapse and impacted other regional banks.

An important component of depositors' trust is also the ability of the financial safety net (FSN) authorities to ensure the functioning of the financial system, both during good and bad times. During the failure of SVB, the Federal Reserve, Federal Deposit Insurance Corporation (FDIC) and US Treasury worked together to enhance confidence in the banking system and prevent disruptive failures.

### PIDM AS ONE OF THE FSN AUTHORITIES IN MALAYSIA

As one of the FSN authorities, PIDM is mandated not only to protect depositors but also to resolve a failed member institution with minimal cost and impact to the financial system. PIDM works hand-in-hand with Bank Negara Malaysia (BNM) and the Ministry of Finance (MoF) in ensuring trust and confidence of Malaysians in our financial system.

An important element in ensuring trust is for each FSN player to be

#### INTERAGENCY COMMITMENT - HOW DO WE BUILD TRUST IN THE FINANCIAL SYSTEM?

T R U S T

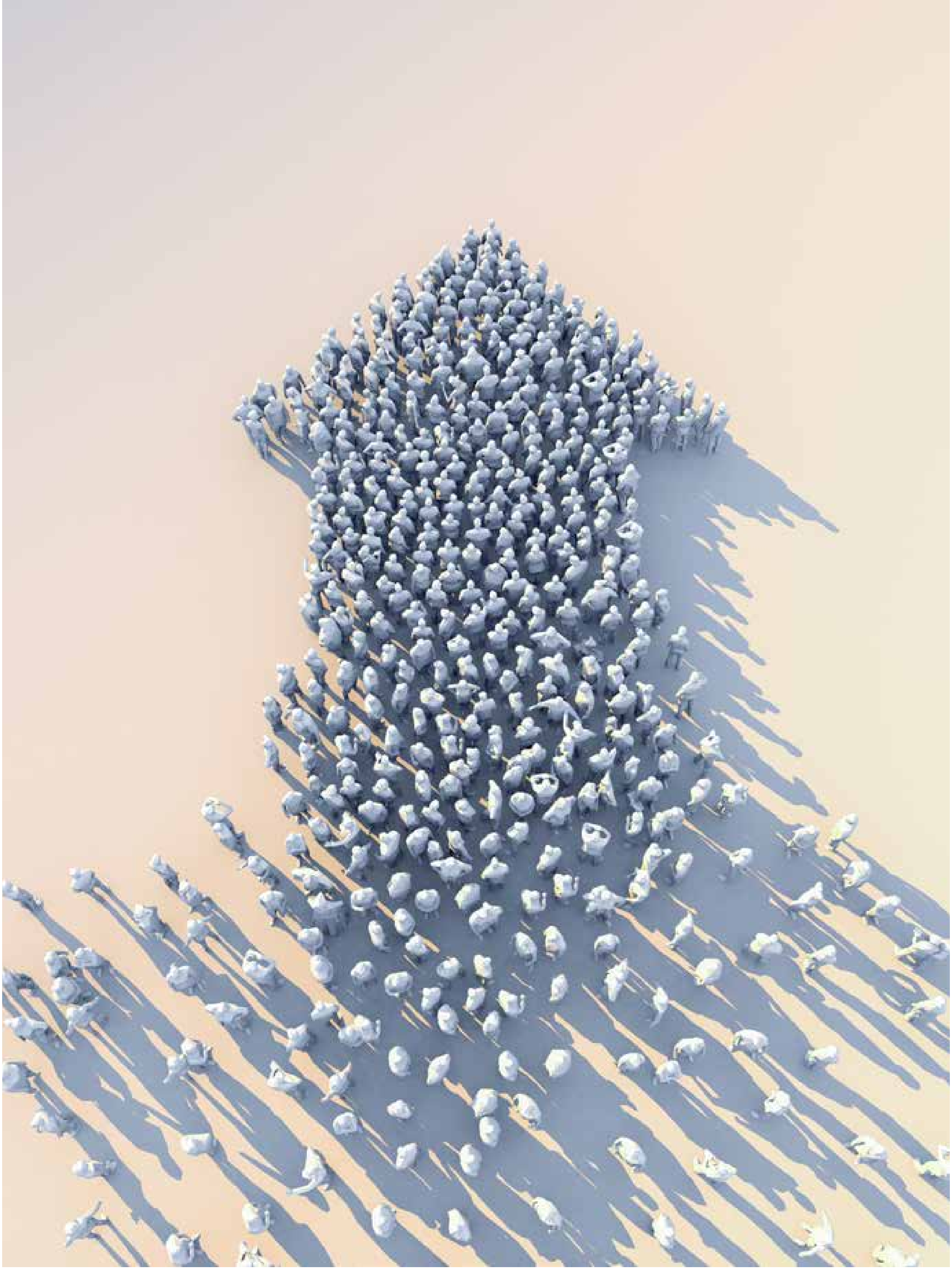
**TRANSPARENCY**
Transparent communication fosters confidence and helps stakeholders make informed decisions.

**RESILIENCE**
Ability to adapt and build resilience of the financial system by fulfilling FSN authorities' respective mandates.

**UNITED**
Collaboration among FSN authorities with specialised but shared responsibilities to prepare for an effective resolution.

**SKILLED**
Having the right and complementary skills, and capability to ensure financial stability.

**TOOLS AND POWERS READY**
Having in place adequate and effective tools to support FSN authorities' respective mandates.



prepared to fulfil its role in maintaining financial stability. One of the ways for PIDM to ensure that it can undertake an effective resolution is to go through a process called resolution planning.

Working closely with member banks during good times, resolution planning serves as a pre-planning exercise to help PIDM understand member banks better and to develop a customised plan for each member bank to support a resolution. By nature, banks are complex entities due to their roles as financial intermediaries and their interconnectedness within the payment and financial system. Resolution planning will enable PIDM to obtain not only in-depth knowledge about each specific member bank, but also to have an industry-wide overview of the financial landscape. This will facilitate informed decision-making to ensure prompt and timely intervention and orderly resolution.

## RESOLUTION PLANNING FRAMEWORK IN MALAYSIA

On 8 September 2023, PIDM issued the *Guidelines on Resolution Planning for Deposit-Taking Members.* Under the *Guidelines,* PIDM's preferred resolution strategy is for failed member banks to be resolved through a transfer strategy. The transfer strategy is the presumptive path for planning purposes in the Malaysian context.

The key steps to the resolution planning process are summarised in the following figure:

1

**UNDERSTAND** each member bank and how it can impact the financial system.

2

**IDENTIFY** gaps, build operational capabilities and ensure resolution plan can be effectively executed.

3

**MAINTAIN** readiness by continuously testing and improving the resolution plan.

## KNOWLEDGE OF TRUST IN FINANCE

The term 'credit' is derived from *credo*, which is Latin for 'belief', hence the expression "to bank on things we know to be true". This is also why some financial institutions are called 'trusts', and traditional banks were often built with sturdy granite facades and pillars to convey a sense of stability and permanence. Banking is – and has always been – built on the confidence of its customers. However, the evanescence of confidence means it is easily lost, and once gone, it is difficult to regain.

**Source:** *Firefighting: The Financial Crisis and Its Lessons; Bernanke, B; Geithner, T F; Paulson, H M.*

### WHY 'TRANSFER-READY'?

PIDM aims to work with member banks to develop transfer capability, so that they are 'transfer-ready'. Being transfer-ready means that a bank possesses the required operational capabilities to ensure continuity of operations and ability to support PIDM in implementing an effective transfer in resolution.

Being transfer-ready is preferred as it: (i) aligns with the funding structure of Malaysian banks, which is heavily reliant on deposits with limited loss-absorbing capacity in debt; (ii) ensures the continuity of critical functions and minimises disruptions while protecting depositors in a resolution; and (iii) is widely understood and universally applicable, making it not only useful during resolution, but also flexible during recovery, as well as during normal business operations when opportunities arise for mergers and acquisitions.

### EMBRACING THE PATH FORWARD

They say that "time and tide wait for no man… especially in a crisis". Have you ever wondered why window shades must be opened during flight takeoff and landing?

In the aviation industry, the above practice serves as a safety precaution as open shades enhances situational awareness during a flight's takeoff and landing. This is because the most dangerous part of the flight is during takeoff and landing as the aircrew and passengers need to take quick action during these times. By lifting the shades, it helps human eyes to adjust better to the surrounding environment and this facilitates a prompt response to external circumstances.

In a crisis, every second counts.

Relating this back to the banking industry, resolution planning enhances a bank's readiness to support an effective resolution by identifying and addressing key gaps and shortcomings early on. It also offers an opportunity to enhance the industry's collective readiness and contribute to a more resilient financial system, securing trust and confidence for tomorrow, today. ✱

HIGHLIGHTS FROM

## THE NATIONAL RESOLUTION SYMPOSIUM 2023

The inaugural National Resolution Symposium 2023 (NRS), with its theme *Empowering Resilience Through Resolution Planning*, was hosted by PIDM from 18 to 19 October 2023. Drawing upon lessons from global bank failures in the US and Europe in 2023, the symposium provided a unique perspective on resolution planning for the Malaysian financial system.

The NRS marked a milestone, fostering innovative thinking and cooperation among stakeholders, and building institutional resilience amid the complexities and challenges in the financial sector. The key points from the symposium are:

**The NRS marked a milestone, fostering innovative thinking and cooperation among stakeholders, and building institutional resilience amid the complexities and challenges in the financial sector.**

> **INDUSTRY COLLABORATION:** There is a need for close collaboration between PIDM and financial institutions. The goal is to achieve prompt and orderly resolutions by engaging with institutions to build resolution capabilities over time.

> **OPERATIONAL RESILIENCE:** When correctly executed, resolution planning offers significant benefits. It enhances operational resilience by clarifying roles, improves governance, enhances risk monitoring, and provides better management information systems for informed decision-making.

Participants engaged in balanced discussions and gained insights from regulatory and industry perspectives. Technical resolution masterclasses delved into specific issues, offering a comprehensive understanding.

# DOES RESOLUTION PLANNING HELP IN AN ACTUAL RESOLUTION?

**CASE 1**

**Silicon Valley Bank (SVB) – The first resolution plan was filed with the Federal Deposit Insurance Corporation (FDIC) in December 2022 without allowing sufficient time for an FDIC review and SVB to build its resolution capabilities. Does this suggest that resolution planning has little value?**

**> Who is SVB?**

Based in Santa Clara, California, SVB focused on providing private and commercial banking services to venture capital and technology start-ups in the US.

**> Why did SVB fail?**

- Lapses in risk management and governance.
- Deposit run due to loss of confidence among depositors, resulting in the sale of SVB's available-for-sale securities at a loss.

**> How was SVB resolved?**

- Did SVB have a resolution plan? Yes. SVB filed the first resolution plan with the FDIC in December 2022. However, the FDIC had relatively limited resolution-planning information and time to develop and implement a firm-specific plan to resolve SVB.
- The FDIC initially set up the Deposit Insurance National Bank of Santa Clara to assume and reimburse SVB's insured deposits. However, this measure triggered a confidence crisis, especially among uninsured depositors.
- As a result, the FDIC invoked the 'systemic risk exception' and transferred most assets and some liabilities, including all deposits of SVB to a bridge bank, before selling these to First Citizens Bank on 26 March 2023.

**> Could resolution planning have improved the outcome?**

If the FDIC had more time to review SVB's resolution plan, this would have aided in identifying issues and ensured the credibility and reliability of the plan, especially concerning the following areas:

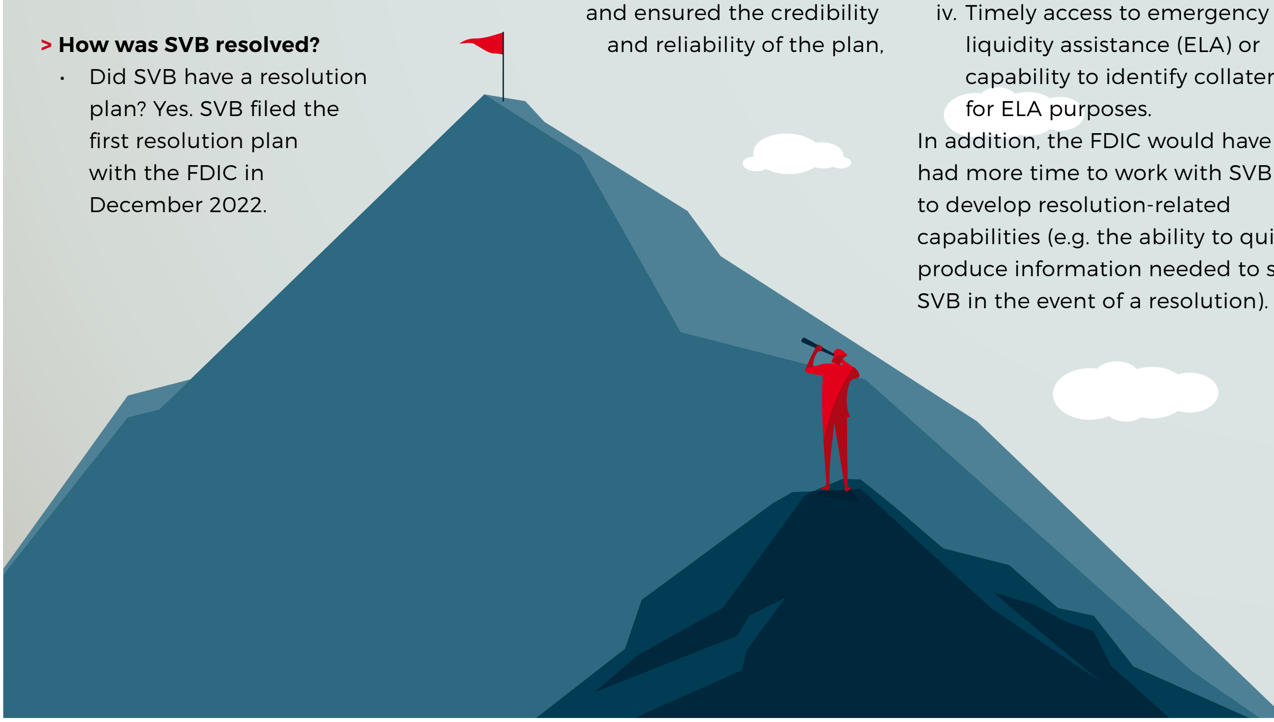
i. Understanding of interconnectedness and the contagion effect with regard to:
   - sectoral concentration of venture capital and technology start-ups;
   - SVB's critical function in payment and payroll services for its customers; and
   - the high proportion of uninsured deposits.

ii. Enhancing transfer readiness:
   - a shorter time frame for the transfer of SVB to another party as potential acquirers could have been identified in advance.

iii. Potentially lowering the cost of resolution:
   - the blanket guarantee cost the industry an estimated USD14.2 billion (cost attributable to the protection of SVB's uninsured deposits).

iv. Timely access to emergency liquidity assistance (ELA) or capability to identify collateral for ELA purposes.

In addition, the FDIC would have had more time to work with SVB to develop resolution-related capabilities (e.g. the ability to quickly produce information needed to sell SVB in the event of a resolution).



**CASE 2**

**Credit Suisse (CS) – Planned for a bail-in during resolution planning, but why was it subjected to an arranged merger with a global systemically important bank (G-SIB)?**

**> Who is CS?**

CS is a G-SIB in Switzerland. It has operations in over 40 countries.

**> Why did CS fail?**

CS was weakened by a series of events over the last two decades (e.g. allegations of money laundering, corruption, and tax evasion). It eventually experienced serious liquidity outflow in March 2023 due to the delayed publication of its financial statements and a widely publicised statement by a large shareholder which created concerns about CS' franchise and triggered a confidence crisis.

**> How was CS dealt with?**

- Did CS have a resolution plan? Yes.
- Outside of resolution, CS was acquired by another G-SIB, UBS Group AG. Additional Tier 1 bondholders experienced write-offs.

**> How did resolution planning process improve the outcome?**

- The capabilities developed during resolution planning for CS allowed swift action by Swiss authorities to restore market confidence (e.g. through legal entity rationalisation, reporting on liquidity and valuation, access to financial market infrastructure services, and operational continuity).
- The Swiss authorities had options to make swift decision during crisis. For example, the Swiss authorities were able to quickly put in place a government liquidity backstop through an emergency legislation.

*The following key lessons learnt of the case studies are based on the Financial Stability Board's report, 2023 Bank Failures: Preliminary Lessons Learnt for Resolution, dated 10 October 2023.*

***Key Lessons Learnt:***

In both cases, resolution planning helped/would have helped:

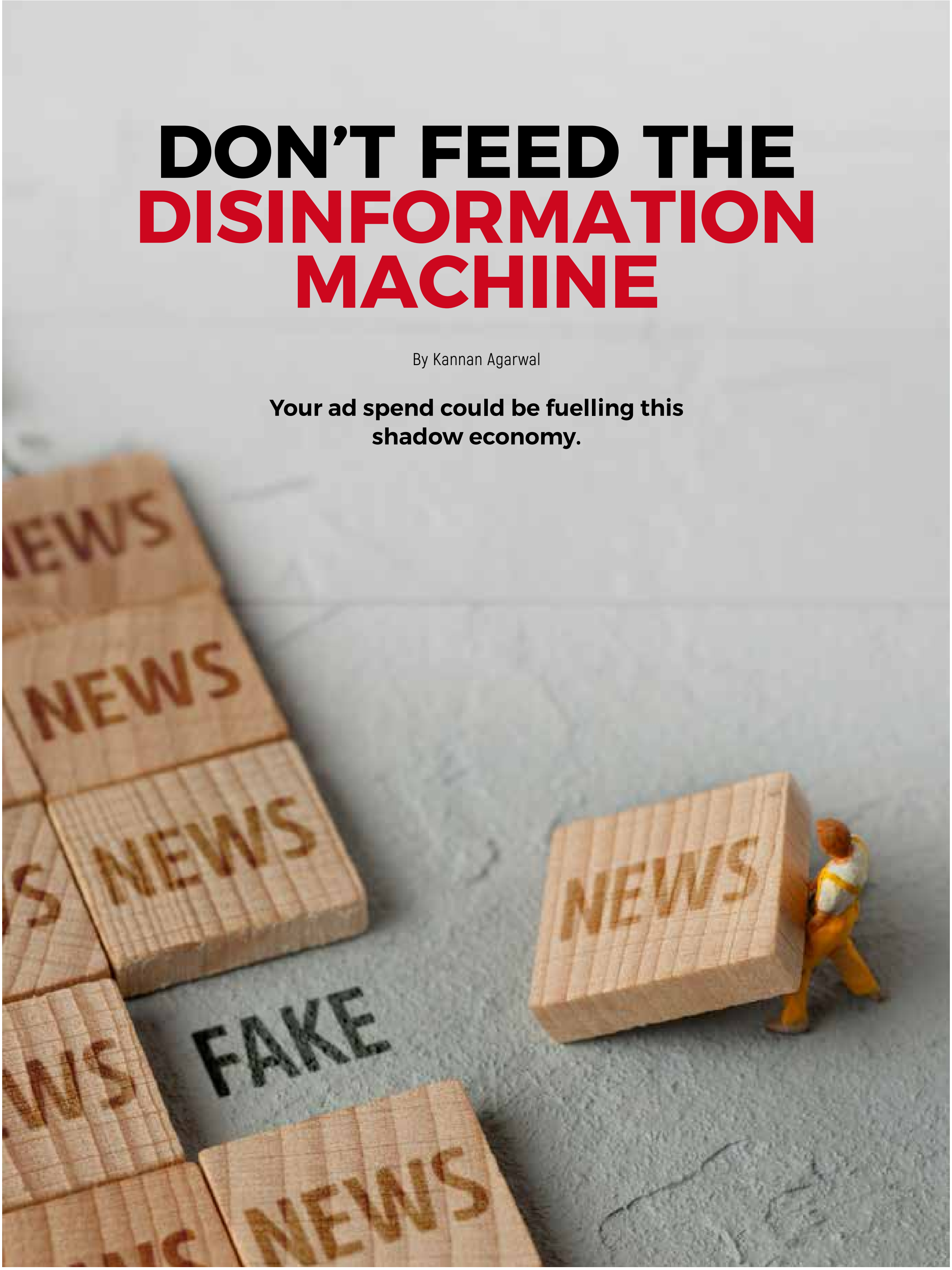
1. **SVB**
   The SVB case highlighted the importance for banks to develop resolution-related capabilities during good times (e.g. ability to generate information quickly to market an institution and the ability to operationalise the retention plan involving key staff). It was noted that when such capabilities lack maturity, this can be a hindrance to an efficient resolution process.
2. **CS**
   It was observed that resolution planning and other resolution-related work carried out had positioned authorities to conduct a Single Point of Entry resolution (SPE) via a bail-in strategy at the parent company level. Under the SPE approach, the group resolution authority will ensure that the parent bank and all significant subsidiaries remain well-capitalised as 'going concern' entities and stay 'out of resolution' through bail-in, ensuring that the entire banking group to remain intact and continue to operate. However, it was determined by the authorities that the SPE resolution via bail-in should not be the chosen path, despite it being an executable strategy at the time of planning. Nevertheless, the resolution planning process and preparedness aided authorities to swiftly execute the immediate transfer of CS to UBS without entering into a resolution.

■ *Established in 2005, PIDM administers two protection systems – the Deposit Insurance System and Takaful and Insurance Benefits Protection System. In addition to its financial consumer protection mandate, PIDM is also the resolution authority for its member institutions, and is responsible for undertaking prompt resolution actions at minimum cost to the financial system. PIDM's mandates and initiatives contribute toward financial system stability.*

# DON'T FEED THE DISINFORMATION MACHINE

By Kannan Agarwal

**Your ad spend could be fuelling this shadow economy.**



In early 2022, the European Banking Authority (EBA) called for increased vigilance on the possibilities of fake news triggering a bank run. The warning was issued based on data from its Q4 2021 *EBA Risk Dashboard,* a quarterly report of the major risks and vulnerabilities in the EU banking sector, which had detected the rumblings of a significant liquidity and funding threat arising from ongoing conflict in the Ukraine.

The EBA report wrote: "As market sentiment remains highly volatile and driven by news flow, banks' liquidity levels can become vulnerable due to spread of inaccurate information. Such campaigns that spread inaccurate information may result in deposit outflows from targeted banks."

An ominous warning that has since escalated in intensity and urgency.

On 19 July 2023, Joachim Nagel, President of the *Bundesbank,* echoed this warning when speaking to local journalists, saying that the veracity of fake news on social media could plunge banks into another crisis, citing the Twitter-fuelled collapse of Silicon Valley Bank run as an example. *Xinhua News Agency* reported that Germany's central bank president suggested that "banking supervision could be extended to social media, so that supervisors could identify the risk of a bank run at an early stage".

The news agency commented: "Social media platforms have emerged as an increasingly important tool for investors hunting for information. Industry insiders have warned that information on social media can spread so fast that a bank run can happen overnight. This means supervisors have to act faster, Nagel said. A banking supervisory task force to monitor social media and rapidly detect emerging risks could be set up in Europe, as in South Korea, he suggested."

How well versed are banks on the mechanics of these structured campaigns to spread inaccurate information, also known as 'information disorder', and are they equipped to counter these threats?

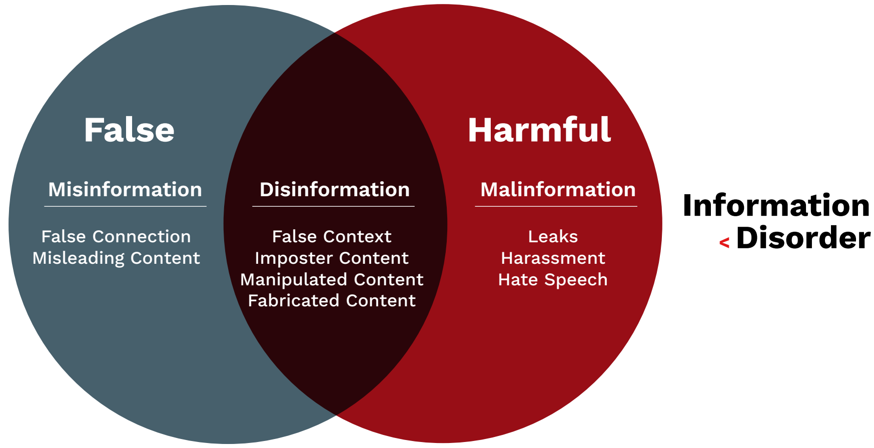



**Figure 1**
**Source:** Wardle and Derakhshan, Council of Europe, *Information Disorder: Toward an Interdisciplinary Framework for Research and Policy Making.*

## THE LAY OF THE LAND

In the first-ever research examining the elements of information disorder, Claire Wardle and Hossein Derakhshan's report for the Council of Europe, *Information Disorder: Toward an Interdisciplinary Framework for Research and Policy Making,* maps the terrain (**Figure 1**) and makes the distinction between three types of 'fake news':

+ **Misinformation**: This is when false information is shared, but no harm is meant. It covers:
+ **False connections**: When headlines, visuals or captions do not support the content.
+ **Misleading content**: When an opinion is presented as a fact.
+ **Disinformation**: When false information is knowingly shared to cause harm. This includes:
+ **False context**: Factually accurate content is combined with wrong context, for instance, click baits.
+ **Imposter content**: Impersonation of genuine sources, e.g. using deepfakes or AI voice mimicry to pass off as someone else.
+ **Manipulated content**: Genuine information or imagery that has been altered, such as photoshopped images with factually incorrect captions.
+ F**abricated content**: Completely false information.
+ **Malinformation**: When genuine information is shared to cause harm, often by moving information designed to stay private into the public sphere. This covers leaks, harassment, and hate speech. In this instance, the intent of the sender is important and could, at times, border into the realm of seditious content.

A Reuters Institute survey estimates that 88% of misinformation comes from social media; messaging services and/or platforms such as WhatsApp or Facebook Messenger are also significant sources of mis/disinformation campaigns.

Although the recent Silicon Valley Bank collapse garnered headlines as the world's first Twitter-fuelled bank run, this is factually incorrect. The world's first social-media-fuelled bank run predates it by more than a decade.

In 2011, the Stockholm-based Swedbank fell prey to disinformation which was first detected on Twitter (now known as X). In under 140 typed characters, rumours stated that its ATMs in Sweden were closed; the bank would exit its key market, Latvia; and Swedbank's Latvian CEO had been arrested. These were all untrue. Within hours, however, Swedbank's ATMs were emptied of money and public statements had to be issued to assure depositors that the machines would be constantly replenished with notes as a way to stem the panic. It was later discovered that the bank was targeted by disinformation-for-hire actors as part of a campaign to destabilise operations of financial institutions in Eastern Europe due to the Ukraine-Russia conflict.

Since then, the frequency, speed, tactics, and scale of such mis/disinformation campaigns on social media and messaging platforms have intensified. Banks should therefore not just exercise vigilance but stay a step ahead of threat actors by knowing how tech, tactics, and targets are evolving every day.

## FINGER ON THE PULSE

According to the United Nations High Commissioner for Refugees, the fast-growing methods and techniques in which social media is being used to manipulate the narrative or online conversations are becoming increasingly sophisticated. Its *Factsheet 4: Types of Misinformation and Disinformation,* published in 2022, lists some of the newer methods:

- A sockpuppet is an online identity used to deceive. The term now extends to misleading uses of online identities to praise, defend or support a person or organisation; to manipulate public opinion; or to circumvent restrictions, suspension, or an outright ban from a website. The difference between a pseudonym and a sockpuppet is that the sockpuppet poses as an independent third party, unaffiliated with the main account holder. Sockpuppets are unwelcome in many online communities and forums.
- Sealioning is a type of trolling or harassment where people are pursued with persistent requests for evidence or repeated questions. A pretence of civility and sincerity is maintained with these incessant, bad-faith invitations to debate.
- Astroturfing masks the sponsors of a message (e.g. political, religious, advertising, or PR organisations) to make it appear as though it comes from grassroots participants. The practice aims to give organisations credibility by withholding information about their motives or financial connections.
- Catfishing is a form of fraud where a person creates a sockpuppet or fake identity to target a particular victim on social media. It is common for romance scams on dating websites. It may be done for financial gain, to compromise a victim or as a form of trolling or wish fulfilment.

Since then, the frequency, speed, tactics, and scale of **SUCH MIS/ DISINFORMATION CAMPAIGNS ON SOCIAL MEDIA AND MESSAGING PLATFORMS HAVE INTENSIFIED.** Banks should therefore not just exercise vigilance but stay a step ahead of threat actors by knowing how tech, tactics, and targets are evolving every day.

Currently, there is no regulatory toolkit to counter mis/disinformation. However, innovations in suptech – or supervisory technology – are increasingly relied upon by financial institutions and supervisory authorities to monitor markets and detect emerging risks. Whether real-time or lagged monitoring of social media, websites, and messaging platforms, these innovations assist companies in processing the deluge of digital information in the following ways:

> **Web scraping:** Using bots (coded autonomous programmes) to extract or 'scrape' content and data from websites has been

around for decades. However, vast improvements in technological hardware have opened up opportunities for such technology to be deployed *en masse* at lower prices and at more granular levels of data. Scraper bots can now automatically harvest, analyse, and rank data from all digital platforms and raise the red flag at signs of potential risks that could impact financial stability.

- **Social media monitoring:** Also known as brand monitoring, it alerts organisations whenever a specific brand or keywords are mentioned in the digital space. It is easy to quantify and allows for quick response to complaints or negative sentiment.
- **Social listening:** Often confused with social media monitoring, social listening is a more proactive tool and lends insight into positive/negative sentiments or arising risks for not just the brand but broad-based industries based on online conversations unfolding in real time. Financial institutions are increasingly turning to intelligent social listening in order to enhance engagement with customers, detect potential risks, and inform strategic decision-making.

Often confused with social media monitoring, social listening is a more proactive tool and lends insight into positive/negative sentiments or arising risks for not just the brand but broad-based industries based on online conversations unfolding in real time. Financial institutions are increasingly turning to intelligent social listening in order to **ENHANCE ENGAGEMENT WITH CUSTOMERS, DETECT POTENTIAL RISKS, AND INFORM STRATEGIC DECISION-MAKING.**

- **Consumer sentiment analysis:** Gauging customer sentiment and how it impacts their experience with the brand require independent, no-holds-barred input. Using algorithms to discover, measure, and infer how customers feel about your brand, product, or service over the long term automates the process of inferring patterns and trends from surveys, social media posts, and other data sources in real time.
- **Reputational analysis:** A key tool to assess intangibles such as brand value, reputational analysis today has evolved to incorporate analysis and risk matrices for social media value. Many public-listed corporations today regularly track and disclose metrics such as the net promoter score or earned growth in their annual report or website.
- **Deepfake detection:** The threat of artificial-intelligence (AI) powered deepfakes – video or audio of a person which has been digitally manipulated to pass them off as someone else in order to maliciously spread false information – is the latest wave in fraud that's only just begun. In early 2020, the voice of a company director was allegedly deepfaked to demand that a Hong Kong-based bank manager sign off on a USD35 million transfer. Such voice-spoofing is just the tip of the iceberg as deep learning technology continues to refine itself in a variety of fields, including natural language processing and machine vision. Some early stage solutions, including MIT's open-source Detect Deepfakes research project, provide free tools and share techniques to identify and counteract AI-generated misinformation.
- **Dark web monitoring:** The dark web is content on the internet that only exists on darknets, i.e. networks with encrypted content that does not appear using conventional search engines (Google, Mozilla, etc.) and can only be accessed using an anonymising browser, Tor. In a 2019 study, *Into the Web of Profit:*

*Understanding the Growth of the Cybercrime Economy,* a researcher at the University of Surrey, Dr Michael McGuire, reported that the number of dark web listings which could potentially harm companies had risen by 20% since 2016 and included:

- data trading platforms, where private information such as stolen credit/debit card details, social security information, residential addresses and credit reports are traded or bought for as little as several dollars per record; and
- Cybercrime-as-a-Service platforms, where specific tools such as banking trojans, targeted distributed denial of service attacks, or even services such as hackers on call, can be procured or rented to target specific customers.

## DO YOU CARE ENOUGH TO ACT?

Media news organisation *Newsguard* reported in June this year that thousands of the world's leading brands unintentionally run their advertising on misinformation websites to the tune of USD2.6 billion annually. This ad revenue doesn't just keep the lights on for these malicious websites; it incentivises them to keep churning more and more false narratives, clickbait content, and hoaxes. However, many executives remain apathetic, brushing off the issue as too trivial for any meaningful action.

Gordon Crovitz, Co-CRO of *Newsguard* and ex-columnist for *The Wall Street Journal,* draws from personal experience in his op-ed on the future of journalism in 2023: "To my surprise, however, most brand managers shrug when they learn where their ads are running. They may figure that, with so many brands advertising on so many misinformation sites, no one brand will get blamed for the group problem."

This flies in the face of logic as studies prove that "when brands stop advertising on misinformation sites and instead advertise on quality news sites," writes Crovitz, "their CPM (cost per 1,000 impressions) price for ads goes down and engagement with their ads goes up."

As the push for greater environmental, social, and governance (ESG) gains momentum in financial circles, institutions must come to the realisation that funding misinformation campaigns – whether knowingly or unknowingly – is a critical governance issue because it directly impacts trust and public perception. ✱

■ *Kannan Agarwal is a content analyst and writer at Akasaa, a boutique content development and consulting firm.*

## Shields Up

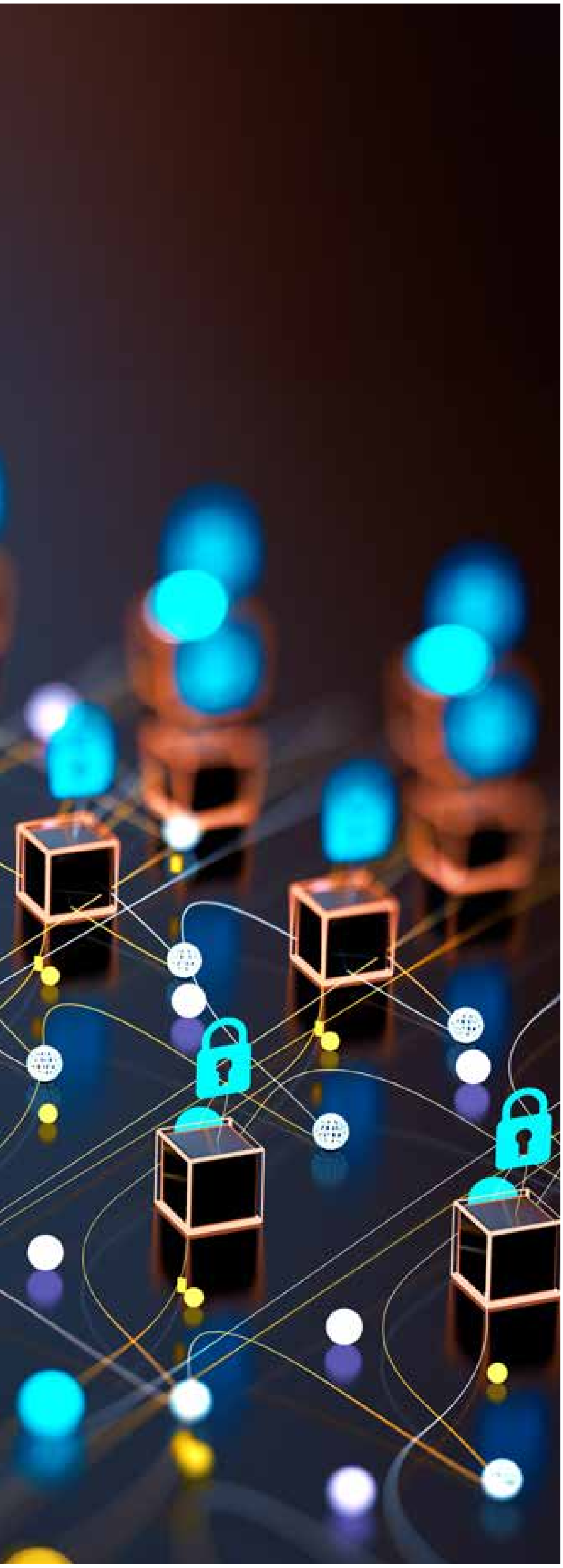
The mis/disinformation economy is a shadow industry that is set to only grow in size. Banks can and should do their part in taking it down. The following are three simple yet impactful ways in which companies can place guardrails to stop their brands from inadvertently funding dis-, mis-, mal-information websites, writes Claire Atkin, CEO and co-founder of advertising technology watchdog, Check My Ads, in her article, *Are Your Ads Funding Disinformation?*, which ran in a recent issue of the *Harvard Business Review:*


- **Check your ad campaigns.** Forget high-level performance reports from ad tech companies. Instead, ask them for log-level data, which is the real source of truth of your ad placements, because it includes specific data about on which websites where your ad appeared. Supply chain research firms can help you audit your campaigns.
- **Avoid brand safety technology.** The leading ad verification companies only provide high-level reports, keeping you unaware of which websites your ads are being placed on and blocked from. As mention[ed] above, this isn't sufficient for ensuring that your company's ads aren't supporting bad actors. If you are using brand safety technology, ensure that that data, too, gets audited regularly — brand safety technology is often ineffective, and sometimes even harmful.
- **Demand cash refunds.** There will often be a discrepancy between your log-level data and the campaign standards you were promised. When this happens, demand a cash refund — not a make-good. You are entitled to your money back and an explanation of how the discrepancies will be avoided in the future. If not, ditch the vendor.

# THE AI IMPERATIVE: RESHAPING CYBERSECURITY IN FINANCIAL SERVICES

By Christophe Barel

THE INTEGRATION OF ARTIFICIAL INTELLIGENCE (AI) WITH FINANCIAL CYBERSECURITY OFFERS EXCITING POSSIBILITIES AND FORMIDABLE CHALLENGES.



We can revolutionise how financial systems are safeguarded using AI to automate processes, analyse data, and make more informed decisions. But AI brings concerns around transparency, interpretability, and accountability as well. Organisations must constantly define the boundaries of acceptable AI use while tackling security, ethical, and regulatory concerns equally often.

One significant concern for financial institutions (FIs), in particular, is the impact of AI on their clients' trust. They'll have to strike a delicate balance between harnessing the advantages of AI and mitigating its inherent risks. That has become a paramount issue for the financial sector and will continue to be.

## AI-DRIVEN INSIGHTS FOR PROACTIVE CYBERSECURITY

The fusion of AI and human expertise – dubbed 'collaborative intelligence' – is ushering in a new era of proactive security. AI's remarkable ability to quickly process vast volumes of data, identify patterns, minimise errors, and offer real-time insights has fundamentally transformed threat intelligence. Operating at a pace far beyond human analysts, AI enables organisations to swiftly detect, mitigate, and respond to threats.

Nonetheless, it is the human expertise that makes the impact transformative. Adding critical thinking, contextual understanding, and strategic decision-making, creates a collaborative dynamic between human operators and AI tools. In this way, AI assumes the role of a vigilant guardian, promptly informing humans of potential threats. This symbiotic partnership improves the overall efficacy of threat detection and response, thereby ensuring heightened safety and operational efficiency.

AI's ability to analyse extensive datasets helps security professionals evaluate the vulnerability of corporate assets to specific threats by expediting threat detection and facilitating efficient risk prioritisation. Moreover, AI models continually adapt through machine learning (ML), which can swiftly recognise emerging malicious patterns. In a notable example, Google deployed a cutting-edge ML model in 2023 that effectively thwarted emerging attack methods, demonstrating the power of AI in proactive security.

The advancing capacity of AI to generate synthetic data could bolster fraud management as well. AI can mimic real scenarios and improve core machine learning tools, potentially transforming cybercrime prevention in our digital world. For instance, Mastercard has rolled out Decision Intelligence™ across its global network, an AI system powered by ML that enhances approval rates for valid transactions by analysing cardholders' past spending patterns when assessing new transactions.

AI's potential in financial services extends beyond threat detection. Generative AI – AI that creates text, images, and other content – can deepen board engagement by providing clearer and more easily understandable reports written in less technical language. That helps C-suite executives and board members better identify the organisation's cybersecurity infrastructure's strengths and weaknesses.

This clarity and comprehensibility facilitates more informed decision-making at the executive level and contributes to a more effective allocation of resources to bolster cybersecurity measures, safeguarding the organisation's digital assets and reputation.

## AI AS A TOOL TO ADDRESS THE CYBER TALENT SHORTAGE

AI-driven automation is a powerful ally where skilled cybersecurity professionals are in short supply. AI liberates cybersecurity experts from routine, time-consuming tasks – such as monitoring and analysing security logs or responding to routine security incidents – allowing professionals to focus on more valuable activities, like advanced threat analysis, incident response, and strategic cybersecurity decision-making.

Indeed, AI plays an increasingly significant role in mitigating the cyber talent shortage in financial services across APAC, in both the public and private domains. In May 2023, for instance, the Monetary Authority of Singapore (MAS) announced the Financial Sector Artificial Intelligence and Data Analytics (AIDA) Talent Development Programme, part of the National AI Programme in Finance, which aims to bolster the supply of AIDA talent. Similar programmes have been implemented in Taiwan and Korea.

Generative AI, in particular, is increasingly being used by threat actors, **ESPECIALLY IN FRAUDULENT ACTIVITIES LIKE CYBERATTACKS AND DECEPTION.** Threat actors exploit generative AI's capacity for complexity to lend sophistication to fraudulent impersonation, driving FIs to respond with multi-layered security measures, such as biometric authentication and stringent verification processes.

## RISKS OF AI IN THE FINANCIAL SECTOR

Nonetheless, the rising adoption of artificial intelligence in finance has not been without risk. A recent paper issued by the International Monetary Fund warns of biased results, privacy concerns, unclear outcomes, reliability problems, and the potential for new systemic risks, among other challenges – including AI's potential to be harnessed as a weapon by malicious actors.

Generative AI, in particular, is increasingly being used by threat actors, especially in fraudulent activities like cyberattacks and deception. Threat actors exploit generative AI's capacity for complexity to lend sophistication to fraudulent impersonation, driving FIs to respond with multi-layered security measures, such as biometric authentication and stringent verification processes.

The surge in phishing content designed by generative AI further complicates the cybersecurity landscape, necessitating continuous employee training to thwart phishing attempts. Threat actors also use generative AI for reconnaissance and target

selection, enabling state-sponsored cybercriminals to process stolen and open-source data more efficiently. These tools can identify patterns that enhance espionage tradecraft, aid social engineering campaigns, and create more effective lure materials for successful compromises, according to current open-source reports. A recent article describes using AI-powered chatbots in scams, a new level of sophistication in cybercriminals' tactics, techniques and procedures or TTPs.

Meanwhile, threat actors use AI-enabled large language models to create and improve malware. While AI-generated malware has limitations, AI greatly assists skilled and less-skilled developers, which marks a concerning trend in the evolving cyber threat landscape.

## DATA SECURITY IN THE ERA OF AI

As AI usage grows, financial institutions must focus on bolstering their resilience. Generative AI in particular, has reduced the barriers for cyber threat actors, granting them access to potent tools.

Financial institutions must sustain digital trust by prioritising resilience, reducing risks, and adhering to thoughtful internal policies and government regulations concerning AI usage. This involves implementing a transparent, responsible AI use policy that empowers employees to make informed decisions. AI considerations should be built into resilience programs. These strategies may include simulating AI-driven cyber threats, enforcing stringent controls on data access, and fostering collaborative efforts with other sectors to enhance collective defence against emerging threats.

Singapore has been a leader in AI governance in financial services. MAS provides guiding principles on using AI in the financial sector and, in June 2023, released a toolkit for responsible AI use. In September 2023, FS-ISAC released their Framework of an Acceptable Use Policy for External Generative AI, emphasising fairness, ethics, accountability, and transparency in the financial sector's AI endeavours.

## BUILDING RESILIENCE WITH AI IN CYBERSECURITY IN THE FINANCIAL SECTOR

The evolving relationship between AI and cybersecurity in our sector holds immense potential. By thoughtfully integrating AI into our programmes, institutions gain powerful tools for rapidly analysing data, detecting anomalies, and predicting potential threats.

However, FIs must balance AI's capabilities with human oversight for a truly resilient and adaptive financial ecosystem. Ethical considerations and proactive security measures should guide the use of AI to align with ethical standards and regulatory requirements. This blend of AI and human expertise equips financial institutions to respond effectively to emerging threats, adapt to evolving tactics, and maintain high ethical standards in their operations, thereby enhancing their overall cybersecurity resilience.

Financial institutions must, therefore, prioritise knowledge sharing and implement resilience-building measures within a robust ethical and governance framework. That vigilant approach harnesses AI's potential in the financial sector while preserving stakeholder trust. ✱

■ *Christophe Barel is the Managing Director for Asia Pacific at FS-ISAC, the member-driven, not-for profit organisation that advances cybersecurity and resilience in the global financial system, protecting financial institutions and the people they serve. Founded in 1999, the organisation's real-time information sharing network amplifies the intelligence, knowledge, and practices of its members for the financial sector's collective security and defence. Member financial firms represent more than 100 trillion in assets in more than 70 countries. Prior to joining FS-ISAC, Christophe was Managing Director at data and intelligence provider Acuris Group where he has set up their Risk & Compliance business for Asia Pacific, focusing on areas such as AML/ KYC screening, cybersecurity and enhanced due diligence. Christophe has been based in Asia for about a decade, starting off in Hong Kong before moving to Singapore in 2015. Previously, he worked for a variety of consulting and tech companies.*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# FOLLOWING THE MONEY IN SOUTHEAST ASIA

By Amanda Gore

**Banks must work with other actors to combat transnational criminal groups.**

The 2023 AICB conference was more spectacular than ever this year with the launch of the national scam awareness campaign set to educate local citizens in order to help combat the growing problem of scam centres in the region. With advancements in artificial intelligence (AI) and generative AI, scam centres are becoming more sophisticated and proficient in targeting and scamming their victims. Leveraging technology to alter their voice/face on video calls makes it increasingly difficult to recognise the potential scammer.

In the Malaysian context, Tom Clifford from Feedzai suggests that: "Whilst many measures have been put in place with the Royal Malaysia Police force, these actions are failing to deter the growth in scams in Malaysia recording over 72,000 scams cases resulting in over RM5 billion in losses between 2020 to 2022."

Scam centres are a growing regional issue which was also highlighted in the release of a United Nations Office on Drugs and Crime 2023 report *Casinos, Cyber Fraud and Trafficking in Persons for Forced Criminality in Southeast Asia.* The report highlighted the issue of forced criminality where trafficked victims from up to 40 different countries were trafficked into scam centres that promoted bogus crypto investment scams and/or linked into illegal gambling operations. The report highlights two types of victim:

1. Trafficked persons that are controlled through violence and intimidation; and
2. The scam victims that lose large amounts of money.

Other items of note from the report include:

+ The host countries used in scam operations include Cambodia, Laos PDR, and Myanmar but also increasingly Malaysia.
+ Recruitment agents can play a key role to traffic unsuspecting victims into scam centre "jobs" and then promptly disappear.

Profits were estimated to be between USD7.5 billion and USD12.5 billion for one unspecified country in the Mekong region.

Clifford suggests that real-time detection is the key to better identification of scams and stopping the funds before they leave the bank. Key indicators such as hesitation in clicks, ongoing calls whilst transactions are being made and unusual transactions to new beneficiaries for unusual amounts can all be risk elements to be considered. Outside of this, investment into inter-bank consortium models can also help share identified fraudsters and stop the flow of funds before they become too large.


## PIG BUTCHERING

The BBC released a documentary earlier this year, *The Pig Butchering Romance Scam,* on scams conducted in the region focusing on pig butchering schemes. Pig butchering refers to how the cryptocurrency scammers gain the trust of the victim (regarded by the fraudsters as a pig) and 'fatten them up' before the butchering — being taken for everything they have. After gaining their trust the scammer then often encourages the victim to invest in cryptocurrency trading, creating some initial 'false wins' on bogus investment platforms with each trade increasing in its amount. The documentary sets out the three key steps to pig butchering:

1. finding the pig;
2. fattening the pig; and
3. butchering the pig.

The documentary also showcases different real-life cases of scam victims and their stories along with the story of a trafficked victim which provides valuable insight into the regional scam operations and associated pig butchering schemes.

## ILLEGAL GAMBLING

Illegal gambling cases in the region are also on the rise post-Covid-19, including the recent Singapore arrests of 25 people in July 2023 highlighting the growing prominence of illegal gambling operations. Whilst the Singapore case is ongoing, it's clear the case has touch points with Malaysian banks and also links to unlicenced money lending (underground banking systems) in China. This is just the tip of the iceberg of illegal gambling in the region. A 2021 report by Violeta Prockyte, *Thailand Police to Stop Illegal Gambling Connected to Royal Slot 777 Casino App*, indicated that the police there had uncovered 133 bank accounts linked to Chinese nationals and 10 linked companies. Vietnam has also not been immune with multiple cases and arrests. One of the most recent cases cites officers from the Ministry of Public Security disrupting an online gambling ring that collected USD1.2 billion over three years and was run by Vietnamese in Cambodia.

## WILDLIFE TRAFFICKING

Action against wildlife trafficking networks has also gained traction in the region with the arrest of Malaysian national Teo Boon Ching, who was sentenced in September 2023 to 18 months in the US for conspiring to transport, distribute, sell and smuggle at least approximately 219 kilograms of rhinoceros horns worth approximately USD2.1 million. The case suggests cash and bank transactions were involved with Ching cited as saying "as long as you have cash, I can give you the goods in 1–2 days". Undercover operatives were to provide funds to Ching from New York bank accounts.

Other recent wildlife cases include the extradition of Chinese national Kung Juntao in 2020 from Malaysia on

Illegal gambling cases in the region are also on the rise post-Covid-19, including the recent Singapore arrests of 25 people in July 2023 highlighting the growing prominence of illegal gambling operations. Whilst the Singapore case is ongoing, **IT'S CLEAR THE CASE HAS TOUCH POINTS WITH MALAYSIAN BANKS** and also links to unlicenced money lending (underground banking systems) in China.

a standalone money laundering charge linked to the trafficking of turtles from the US to Hong Kong and the arrest of the CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) Management official in Cambodia in November 2022.

The 2022 US Indictment alleges eight individuals/corporations in Cambodia conspired to supply macaques, falsely labelling them as captive-bred to avoid restrictions under the CITES permit system. Macaques have historically been exported from Southeast Asian countries to the US for medical testing purposes (i.e. Covid-19 vaccines) but this is only allowed with the appropriate CITES documentation and conditions. Vanny Bio Research (Cambodia) Corporation Ltd was provided with payments as part of an undercover operation to facilitate the illegal trade of the macaques to the US. Further details of the case show that the wild caught macaques were taken to breeding facilities and provided with false CITES permits where Ministry of Agriculture, Forestry and Fisheries staff would receive cash in exchange.

Finally, Thai authorities have led with asset forfeiture laws to take away by the proceeds of crime linked to wildlife trafficking networks with the most recent cases linked to Boonchai Bach and previously the Chaimat family network.

Some bank transaction examples for international wildlife trading include:

+ A pet store in Southeast Asia remitting funds to CITES Management Official in West Africa for the amount of USD5,000 to falsify permits to allow endangered wildlife to be traded;
+ An import-export company in Laos sending multiple wire transfers to South African game farms for the purchase of ‘wildlife trophies’ that were obtained on false pretences;
+ An art supplies company in Vietnam linked to known wildlife trafficker Nguyen Mau Chien sending funds to local individuals across Africa; and
+ Vannaseng Trading company in Laos sending USD190,000 to individuals in Uganda known to be involved in wildlife trafficking.

## OTHER FINANCIAL CRIME AREAS IN FOCUS

The Asia/Pacific Group on Money Laundering (APG) has recently published typology reports jointly with partners on non-profit organisations, terrorism financing and tax and money laundering. Upcoming priorities for APG beyond 2023 include a focus on proliferation financing along with a further examination of beneficial ownership of legal persons and arrangements.

Good progress is being made against wildlife trafficking networks and illegal gambling operations in the Southeast Asia region, but more can be done. This includes updating laws linked to gambling operators where grey areas still exist, policing anti-money laundering/counter terrorism financing obligations for gambling operations where they are legal, along with additional scrutiny and follow up on known wildlife trafficking individuals and/or corporations. The profits accumulated in Southeast Asia are significant so efforts to combat wildlife crime across Asia are crucial in combatting the wider global issue of wildlife trafficking. Banks can also play a key role in combatting these crimes by learning more about these crime types, engaging with experts and non-governmental organisations and following up on those named to be involved in wildlife trafficking in the media. The more information we have about these crime types, the better we can come together to combat these transnational criminal groups. ✱

■ *Amanda Gore leads the Centre for Global Advancement (C4GA) and specialises in the intersection between environmental and financial crime, money laundering through casinos, and underground money movements. She focuses on training, education, and research within these areas and emerging topics of interest, including cryptocurrency regulation and enforcement. Her work spans multiple continents with a deep focus on Asia and African markets.*

# Preparing for What's Around the Corner

By Chartered Banker, UK

*By the end of the 2020s there will be a plethora of new job titles hitherto unknown even among field experts. How can professionals equip themselves and confidently tackle the changes ahead?*

In recent years entire economies and industries have been completely transformed as technological developments have advanced leaps and bounds. New technologies have redefined the goods and services consumers demand, reinvented businesses' operations and processes, created whole new industries and sectors, and broken down geographical boundaries.

As a result, the skills, talent and job roles required in this new world will likely be very different to those of the past – while understanding exactly what those will be in such a fast-changing world is difficult. In fact, a report carried out a few years ago by the Institute For The Future (IFTF) forecast that an astonishing 85% of the jobs that will exist in 2030 haven't even been invented yet.

While that statement may feel provocative, a glance at some of the roles that have emerged in recent years supports the notion that there may well be plenty of new ones to emerge between now and the end of the decade. Who in 2005 would have foreseen today's demand for mobile app developers, virtual design and construction consultants, cloud and artificial intelligence (AI) specialists, and blockchain engineers?

And, while the exact roles of tomorrow are difficult to predict, Rachel Maguire, Research Director, IFTF, believes the focus will certainly continue to be on digital. "By 2030, we'll likely be living in a world where artificial assistants help us with almost every task, not unlike the way email tries to finish spelling a word for users today.

"For the humans, for the people who are digitally literate who are able to take advantage, they'll be well positioned to elevate their position, elevate the kind of work they can do, because they have, essentially, an orchestra of digital technologies that they're conducting. They're playing the role of a conductor, but the work's being done, at least in partnership, with these machines." Others also believe that tech and digital roles will dominate the required skill sets of the future. *Forbes,* for example, recently published a report titled *The Top 10 In-demand Skills for 2030.*

Top of its list was 'digital literacy', and *Forbes* predicts more than half of all jobs in 2030 will require an understanding of digital technology. As AI and

automation revolutionise industries, 'augmented working' skills will also become essential, it stated. 'Sustainable working', whereby staff can minimise waste, will also be critical as the world faces up to the effects of rapid climate change. Other key skills likely to be in demand, according to the report, include 'critical thinking and analysis', 'data skills', the ability to engage with virtual collaborative working platforms – and 'soft skills, such as creative thinking and emotional intelligence'.


## BANKING'S WISH LIST

So, what new skills and capabilities will be needed to serve and advance the banking profession specifically – the abilities that banks will be looking for and the capabilities bankers of the future should focus on obtaining?

A recent report by the Financial Services Skills Commission (FSSC), entitled *Reskilling Everywhere All At Once, Skills for the Future of Financial Services,* attempted to explore that very topic.

Released in the spring, the report outlined how today's bank boardrooms must prioritise reskilling to boost innovation, productivity and competitiveness. Following a survey of various FS firms over a 12-month period, the report highlighted increasing demand for a baker's dozen of 13 future technical and behavioural competencies as critical for the profession's sustainable growth.

On the technical side, these skills were data analysis and insights, digital literacy, software development, cybersecurity, user experience, and machine learning/AI. However, it stated the importance of aligning these with a strong set of behavioural abilities to optimise success. These were adaptability, coaching, relationship management, agility, creative thinking, empathy and teamwork.

Unveiling the report, the FSSC said: "Despite organisations increasing their focus on skills forecasting and upskilling, demand for these future skills is approximately 20% short of supply, further widening the profession's existing skills gaps."

Perhaps the biggest surprise here is the focus on so-called soft skills – the behavioural capabilities – needed to support the adoption of digital skills, with the FSSC saying that demand for these is, on average, around 10% above supply.

Looking deeper into the report, the Commission's findings show that "demand for tech skills continues to grow, and one in eight roles in financial services is now a tech role – double the proportion compared to the wider economy". It adds that "data analytics and insight skills are most in demand, with 95% of firms identifying this skill as a priority, while machine learning has the largest gap between supply and demand".

The FSSC also observed that "competition for many of these skills is tough; almost half (47%) of its members found data roles hard to fill and 35% found the same for software roles".

Furthermore, firms responding to the Commission's survey said they believe that the ongoing shortages are increasing operating costs and adding to existing staff workloads, impeding opportunities for innovation and growth across the profession.

As the FSSC points out: "Although there has been an increase in future skills, there has also been an exponential increase in demand across all sectors."

In terms of behaviours, the study held that coaching is the behaviour most in demand, while relationship management is where firms see the biggest gap – with the data suggesting this is in part related to the growing importance of sustainable finance demand from customers.

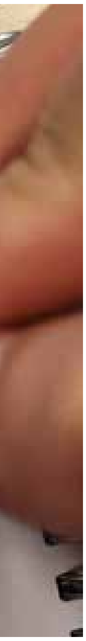
Clearly, there are big gaps to fill, and those professionals with the direction and the drive to upskill to meet future FS demand will likely see the reward in their careers.

## EXPERT OPINIONS

Once the skills and competencies of tomorrow have been identified, the banking profession will need to start building a suitable pipeline to fill demand. A large part of the responsibility for that will fall not just on schools and other academic institutions but also organisations responsible for the development and evolution of skills directly within the profession – such as the Chartered Banker Institute (CBI).

It is with this in mind that the Institute has been carrying out its own research and strategising around the various needs for the future of banking.

As part of this, the Institute's regular podcast series *The Future of Professional Skills and Learning in Banking,* hosted by Joanne Murphy, COO, CBI, "brings together banking learning experts, along with those from other professions, to forecast the future of learning and to promote the building of more sustainable



careers more widely," according to Murphy.

Interestingly, one of the themes to emerge from that podcast has been the role that technology itself could play in boosting the uptake of learning and development, a message supported by the rapid growth and take-up of new technologies across the profession during the pandemic. Arguably, that has been the stimulus for a new, technology-driven approach to lifelong learning.

Put simply, the greater connectivity it offers opens the door to more opportunities for learning and development. To cite one example: a banking professional at a regional branch, thanks to technology and changing attitudes to its application, is no longer stuck in a far-flung office and having to obtain books or attend night school to advance their knowledge.

Rather, most banking professionals are now expected to be self-guided and to adopt a growth mindset of their own – supported by access to online resources often tailored to their specific needs.

## BRINGING ESG INTO THE MIX

Of course, another major area of skills in demand lies within ESG. As signatories to the Green Finance Education Charter (now known as the Sustainable Finance Education Charter), the Institute has aligned its learning materials and guidance with other leading professional bodies in the FS sector to help ensure consistency and to raise standards.

The Charter is a world first, designed to help build the capacity and capability of the green and sustainable finance profession, both in the UK and internationally. One of the main aims of the Charter is to ensure, as the UN Special Envoy for Climate Action and Finance, Mark Carney, sets out in the COP26 Private Finance Strategy, that "every professional financial decision takes climate change into account".

The impact here is far-reaching. Charter signatories between them educate, train and represent approximately one million accountants, actuaries, bankers, financial analysts, insurers, investment managers, treasurers, risk managers and other finance professionals – and reach many more though their public engagement and thought-leadership activities.

Put simply, **THE GREATER CONNECTIVITY IT OFFERS OPENS THE DOOR TO MORE OPPORTUNITIES FOR LEARNING AND DEVELOPMENT.** To cite one example: a banking professional at a regional branch, thanks to technology and changing attitudes to its application, is no longer stuck in a far-flung office and having to obtain books or attend night school to advance their knowledge.

Other ESG-focused resources provided by the Institute include: the Sustainability Unlocked video platform, the Ethical Finance Exchange platform in partnership with the Global Ethical Finance Initiative, ethics assessment through the Institute's Code of Professional Conduct, the Responsible Banking toolkit and the Foundation Course in Green & Sustainable Finance.

This array of resources is certainly supporting the drive to upskill the profession in line with the Institute's commitment to provide "world-class initial and continuing professional development and lifelong learning to help individuals develop and apply a professional, responsible approach to banking throughout their career, through a wide range of resources". ✱

■ *This article previously appeared in the Chartered Banker magazine, UK, Summer 2023 edition.*

# DO YOU KNOW OF THE EMOTIONAL BANK ACCOUNT?

By Angela SP Yap

**Checking in the right way.**

If you are stuck in a rut in your relationships with family, friends, or colleagues, you might want to give this next idea a spin to see if it changes your perspective.

In the evergreen read, *The Seven Habits of Highly Effective People,* author and motivational guru Stephen R Covey writes about the fundamentals of an emotional bank account, a concept he created to assist people in shifting their perspective and enhance relationships at home and at work.

The concept is straightforward. Every relationship we have is thought of as a bank account and each time we interact with that person, we are either depositing into or withdrawing from the reserve of trust in that emotional bank account. Deposits are made through our positive actions – whenever we interact and perform acts of honesty, kindness, or integrity – and a withdrawal is made through negative actions – disrespect, breaking a promise, or ignoring a partner's problem.

Like a regular bank account, you can only withdraw when your account is 'in the black', i.e. you've put in more deposits than withdrawals and the account is in surplus. However, if you have not invested time and effort to build a positive emotional bank balance with a person, you're likely 'in the red' and can't withdraw because of insufficient capital. You will recognise the symptoms – tension, miscommunication, resentment, molehills turning into mountains – and the only way to come back to a healthy balance is to make more deposits.

## LITTLE ACTS OF GOODNESS

Covey outlines six major ways to make a deposit, which we've summarised below:

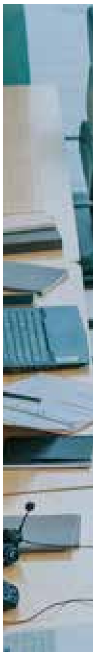
+ **Understanding the individual.** Really seeking to understand another person is probably one of the most important deposits you can make and it is the key to every other deposit. Be mindful though that what might be a deposit for you – going for a walk to talk things over, working on a common project – might be perceived as a withdrawal for the other person if it doesn't touch his or her deep interests or needs. The common denominator is to understand people deeply, the way we want to be understood, and then to treat them in terms of that understanding, without us projecting our intentions onto others.

+ **Attending to the little things.** Little kindnesses and courtesies are big things in a relationship, whilst small discourtesies, little unkindnesses, little forms of disrespect result in large withdrawals. As with many things in life, the scales are often unbalanced and such is the human condition. It takes more investment to build, and very little to break, trust.

+ **Keeping commitments.** This is a major deposit and, correspondingly, breaking a promise is a major withdrawal. Life does throw the occasional, unexpected spanner in the works. When it does, either keep the promise anyway or explain the situation thoroughly to the person involved and ask to be released from the promise. In this way, people will continue to trust your word and, in future, will act on your counsel even when you decide to make a withdrawal. You will see evidence of this in people who wield more social influence, which in this instance, counts as social capital.

+ **Clarifying expectations.** Unclear expectations lead to misunderstanding, disappointment, and withdrawals of trust. Many expectations are implicit, which is why whenever you come into a new situation, it is necessary to get all expectations out on the table because people will begin to judge each other through those expectations; if they feel that their basic expectations have been violated, the reserve of trust is diminished. Clarifying expectations takes a great deal of courage; the upside is that everyone is able to face these differences head-on and work to arrive at a mutually agreeable set of expectations. Although it may seem easier to ignore this and hope things will work out on their own, this rarely works out in the long run as it becomes a drain on one's emotional bank account.

+ **Showing personal integrity.** The lack of integrity can undermine almost any other effort to create high trust accounts. Integrity includes, but goes beyond, honesty. It involves the practice of fairness which dictates that we treat everyone by the same set of principles. As we do so, over time, people will come to trust us. They may not initially appreciate the honest confrontational experience (as many prefer to take the path of least resistance), however, in the long run, one will eventually earn the trust and respect of others if we are consistent.



+ **Apologising sincerely when you make a withdrawal.** It takes a great deal of strength to apologise quickly and sincerely out of one's heart rather than out of pity or because one has no other choice. Sincere apologies make deposits; repeated apologies interpreted as insincere are withdrawals. The quality of the relationship reflects this.

Regular deposits will eventually bring about a surplus of goodwill, trust, and respect. You will see this manifest as more meaningful relationships, deeper connections with people, and greater fulfilment and esteem for yourself and others. On the other hand, constant withdrawals with no replenishment in capital, will produce the opposite effect.

It takes a great deal of strength to apologise quickly and sincerely out of one's heart rather than out of pity or because one has no other choice. **SINCERE APOLOGIES MAKE DEPOSITS;** repeated apologies interpreted as insincere are withdrawals. The quality of the relationship reflects this.

Take stock and evaluate where you are in the balance of things: Is your emotional bank account showing a healthy balance? How are you relating with the people closest to you? Are you making deposits and withdrawals that reflect the type of life you want for yourself?

In an organisational context, this applies to businesses big and small. Has the board checked in with their most valued divisions and people? Where is the level of trust in the employer-employee relationship? Does the company, division, or department's emotional bank balance reflect its optimal state or can it do better?

## IN THE MONEY

In the *Better Every Day* podcast, John Mitchell, Culture and Workforce Advisor for Right Networks, draws from personal experience in relating how he applied Covey's concept of the emotional bank

account in his relationship with his son, sparking some a-ha moments which he has since held on to in order to assist other people and organisations in need of greater connecting.

"Back then, I owned my own production company and I was in the 80-hour-week world travelling all the time. I was three or four weeks on the road and barely seeing him (my son)… just enough to see him, feed him, and give him a hug. (One night) I came home and his report card was on the counter and it wasn't good. I picked up the report card, went to his room, and the first thing that I really said to him in four weeks was, "What is this?".

"In that moment," Mitchell said, "we had tension in our relationship."

"It wasn't about the report card; it was that I was in the red in our relationship. I hadn't invested time or energy or love or anything in our relationship and I was withdrawing. That hard conversation has to be had between a father and son, but it can't be had in a positive way without a positive balance in our relationship account."

Having figured this out, he has held on to this lesson and applied it to help others raise their emotional quotient in relationships, albeit in more professional settings, in his work as a consultant and coach.

In today's context, **IT IS MISSION-CRITICAL THAT LEADERS PUT THIS IDEA INTO ACTION IN THEIR ORGANISATIONS.** The after-effects of the pandemic are undeniable – sky-high anxiety, brain fog, isolation – but let's be honest, such deep-rooted dissatisfaction in the corporate world have been going on for quite some time, predating Covid-19.

Mitchell stated: "This is true of every relationship we have and what we're finding out, especially in small businesses, is that when we ask someone to do something for us, paying them is not enough. We have a relationship between people that is constantly needing attention one way or the other and continuing to withdraw is causing serious relationship problems all around us and in our world."

In today's context, it is mission-critical that leaders put this idea into action in their organisations. The after-effects of the pandemic are undeniable – sky-high anxiety, brain fog, isolation – but let's be honest, such deep-rooted dissatisfaction in the corporate world have been going on for quite some time, predating Covid-19. Many people have been burning both ends of the candle in order to stay afloat and it is perhaps, in good measure, that the world was forced to hit the reset button. Feeling emotionally fulfilled is as important as being financially stable.

Call it 'the great resignation' or 'quiet quitting', but this generation of professionals are looking for more than just monetary reward; they're in search of meaningful relationships – at home, at work, and at play.

Today's leaders need to invest differently. They need to invest in creating their reserves of trust. This starts by asking the right questions. It's never too late to ask, "What am I checking in to my account today?" ✱

■ *Angela SP Yap is a multi-award-winning social entrepreneur, author, and financial columnist. She is Director and Founder of Akasaa, a boutique content development and consulting firm. An ex-strategist with Deloitte and former corporate banker, she has also worked in international development with the UNDP and as an elected governor for Amnesty International Malaysia. Angela holds a BSc (Hons) Economics.*

# CAN YOU HEAR ME, GEN Z?

By Angela SP Yap & Kannan Agarwal

*Banking has its work cut out as younger generations turn to finfluencers and social media for financial advice.*

Elbowed out – that's what happened to banks when financial influencers, or 'finfluencers', came onto the stage.

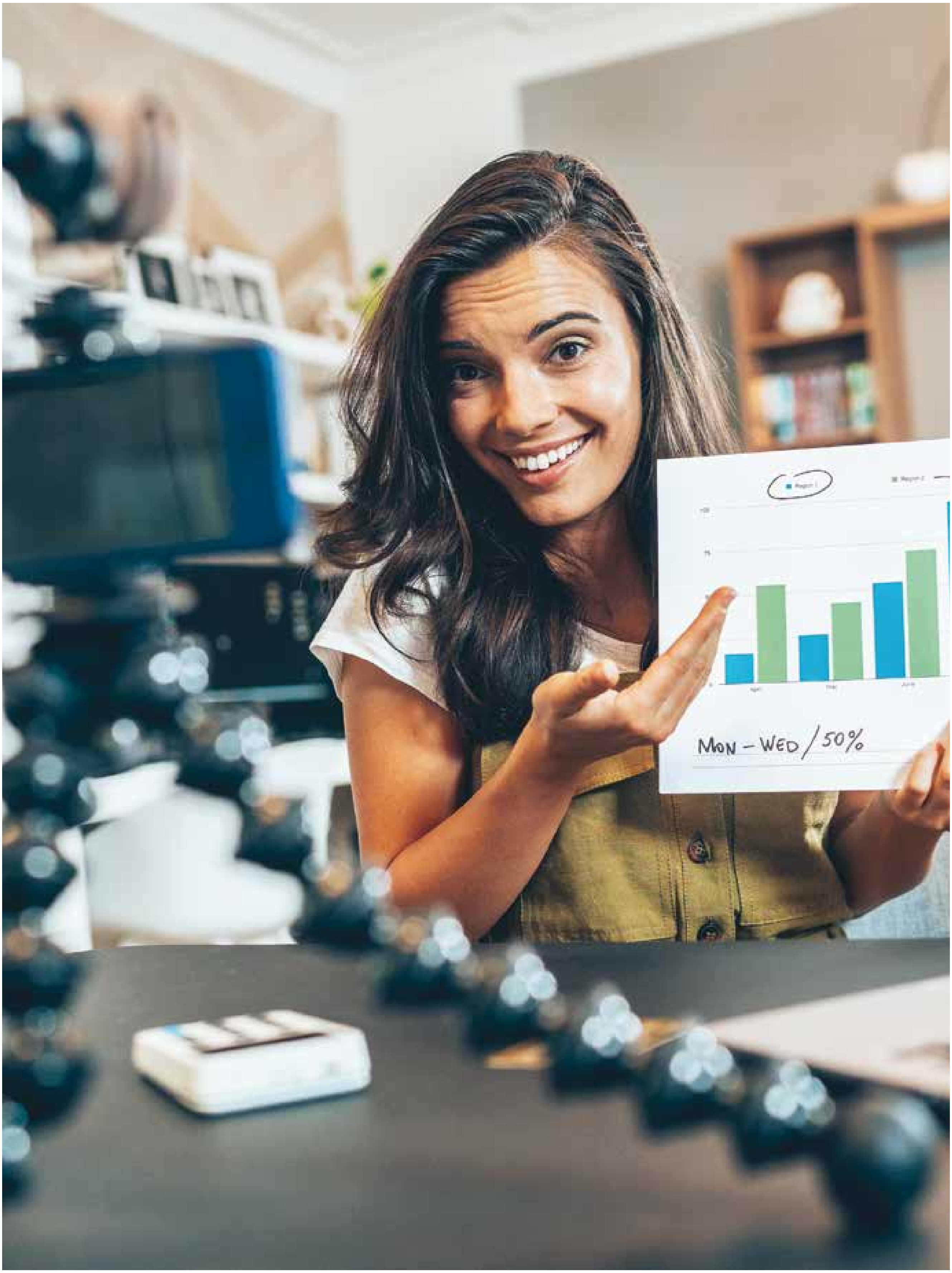
Whether it's about personal finance, investing know-how, or how to get out of debt, finfluencers are increasingly using their social media credibility on platforms such as TikTok, Instagram, and YouTube to provide tips, opinions, and advice about financial matters and are reaching out to younger generations far more effectively than banks.

In the US, almost 80% of millennials and Gen Z get their financial advice from social media, according to a joint survey by Forbes Advisor and market research firm Prolific earlier this year. The same trend is echoed in a 2022 report published by FINRA Investor Education Foundation examining the changing landscape of investors in the US which found that:

**60%** of investors **aged 18 to 34** use social media as a source of investment information. In comparison, only **35%** of investors **aged 35 to 54**, and **8%** aged **over 55** use social media for this purpose.

More than one in five were relatively new investors with **less than two years** of experience.

These numbers run in tandem with the deteriorating level of trust that the younger generation have of traditional sources of information. Of the 16 industry sectors identified by Edelman, financial services ranked 15th in trustworthiness.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## #FINTOK

The appeal of finfluencers is quite basic: People trust who they know, or in this instance, people whom they feel they know. Coupling charismatic personalities with engaging content, finfluencers have captured the attention and imagination of millennials and Gen Zers by making themselves real, relatable, and free from PR-speak. They remind you of someone you trust – a mentor, an adviser, a good friend – with no fancy branding or hefty production budget. It is no wonder that Gen Zers in the Forbes Advisor study feel the way they do:

- 76% believe financial content on social media has made it less taboo to talk about money;
- 62% feel empowered by their access to financial advice on social media; and
- 50% have made money as a direct result of financial advice they received on social media.

Although celebrity endorsements are nothing new, finfluencers are testing the boundaries by making recommendations and failing to declare potential conflicts of interest in an industry that is highly regulated and stringent about performance claims. Some headlines are clearly clickbaits ("How to buy a house with no money") whilst others are reminiscent of pump-and-dump schemes ("These hidden-gem stocks boosted my earnings").

Some finfluencers are professionally qualified and proffer sound financial advice. They also move the needle more effectively by improving financial literacy and increasing retail participation, especially in the sphere of values-based investing. However, a recent research paper by Sue S Guan, *The Rise of the Finfluencer* published in the *New York University Journal of Law & Business*, typifies the average finfluencer as "motivated by a much broader set of incentives than seeking out fundamental value information. They seek to maximise popularity, be entertaining, and "grow their brand", among other motivations".

"Positive and negative implications follow. On the one hand, finfluencers can improve financial literacy and broaden retail investor participation and market access. On the other hand, finfluencers can influence large numbers of followers' trades in predictable ways. As a result, their incentives to provide valuable information to those followers may diminish, and profiting at the expense of their followers becomes more tempting."


On the one hand, **FINFLUENCERS CAN IMPROVE FINANCIAL LITERACY AND BROADEN RETAIL INVESTOR PARTICIPATION** and market access. On the other hand, finfluencers can influence large numbers of followers' trades in predictable ways. As a result, their incentives to provide valuable information to those followers may diminish, and profiting at the expense of their followers becomes more tempting.

The majority are free-and-easy about technical analysis and investor returns; they rely on anecdotal evidence in their marketing pitches; their message positions them in an altruistic light, that they are increasing everyone's access to information. A recent poll by an integrated public relations agency found that 82% have either purchased, researched or considered purchasing a product or service after seeing friends, family or influencers post about it. Such inordinate sway over retail investors can affect price movements and impact financial stability.

## SHOW ME THE MONEY

Aside from social currency, being a finfluencer is an increasingly lucrative profession. Top-tier finfluencers reportedly earn USD500,000 or more through collaborations with financial firms. Mega-influencers, those with over one million followers, charge in the range of USD5,000 to USD25,000 per sponsored post.

The finfluencer revenue model is simple. In exchange for the direct or indirect promotion of products, services, or securities on their individual platform(s) or to reach out to their 'tribes' or followers, organisations agree to:

+ Referral fee(s). This can occur through online courses, sponsored partnerships, or affiliate links (where links in video descriptions, captions, or click-throughs are embedded with the finfluencer's unique ID in order to track conversion of a sale). Finfluencers work on either a variable fee model (typically calculated on per use or per user basis) or fixed fee model (similar to a retainer-based model). At times, compensation is structured as a combination of both, paid either upfront or in trailing commissions.
+ Non-cash benefits. These include free or discounted use of the product, service, or securities.
+ Direct compensation. Payment is made by the platform (e.g. Instagram, TikTok, Facebook) where the content is shared.
+ Profit-sharing. At a rate agreed upon by all parties.

## A LOWBALL FOR EYEBALLS

The most prominent case thus far relates to a crypto asset security token called EMAX which was sold by the website EthereumMax and recruited Hollywood A-listers to pump up its price.

Kim Kardashian, the celebrity businesswoman and social media maven with 364 million followers on Instagram, coyly promoted the newly issued EMAX with a story about "what [her] friends just told her about the EthereumMax token" (**Figure 1**). Her post was labelled an ad and chimed in with other recruited celebrities such as boxing legend Floyd Mayweather Jr,

## CURBING A BAD INFLUENCE

In October 2023, the Securities and Exchange Board of India (SEBI) blacklisted finfluencer Mohammad Nasiruddin Ansari, who goes by the social media handle 'Baap of Chart', from dealing in securities and ordered him to cough up INR17.2 crores (MYR9.68 million) after he allegedly lured clients through "misleading/false information and influencing them to deal in securities". He is alleged to have given guaranteed-return stock recommendations through social media platforms under the guise of providing educational financial advice to the public.

Earlier in May, another finfluencer, P R Sundar who has 6.45 million YouTube subscribers, agreed to stay off securities trading for 12 months after a more than INR6 crore settlement agreement with SEBI, which included penalties and disgorgement, for providing investment advisory services without the requisite registration from the regulator.

This August, SEBI issued the *Consultation Paper on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Entities (including Finfluencers)* for public comment. It proposes to "restrict the association of SEBI registered intermediaries/regulated entities with such unregistered finfluencers, to curb the flow of such compensation" in the following ways:

- Undertake enforcement action against unregistered finfluencers who breach SEBI regulations.
- Disrupt the revenue model for such finfluencers.
- No direct or indirect association – monetary or non-monetary – of SEBI-registered intermediaries/ regulated entities or their agents/representatives for any promotion or advertisement of their services/products, with any unregistered entities (including finfluencers).
- Mandate that finfluencers registered with SEBI, stock exchanges or AMFI display their appropriate registration number, contact details, investor grievance redressal helpline, and make appropriate disclosure and disclaimer

American footballer Antonio Brown, and basketball Hall of Fame's Paul Pierce. Each were paid for their promotions but disclosures fell short of regulatory standards.

At the height of the cryptocurrency hype, the token's market capitalisation was close to USD250 million in May 2021. Whilst these celebrity endorsements were running full force, few knew that the EthereumMax founders – Russ Davis and Justin Maher – were dumping their own EMAX tokens through secret digital wallets. In just a few months after Kardashian's post, the token had lost 98% of its initial value, triggering a securities fraud investigation.

Last October, the US Securities and Exchange Commission charged Kardashian with promoting and failing to disclose a USD250,000 payment she received for the EMAX post, in violation of the anti-touting provision of federal securities laws. Although she technically did not admit or deny the SEC findings, Kardashian paid a total of USD1.26 million in penalties, disgorgement, interest, and agreed to cooperate with the SEC's ongoing investigation into the EMAX debacle.

In a press release, Gary Gensler, SEC Chair, said: "This case is a reminder that, when celebrities or influencers endorse investment opportunities, including crypto asset securities, it doesn't mean that those investment products are right for all investors… Ms. Kardashian's case also serves as a reminder to celebrities and others that the law requires them to disclose to the public when and how much they are paid to promote investing in securities."

Gurbir S Grewal, Director of the SEC's Division of Enforcement, added: "The federal securities laws are clear that any celebrity or other individual who promotes a crypto asset security must disclose the nature, source, and amount of compensation they received in exchange for the promotion. Investors are entitled to know whether the publicity of a security is unbiased, and Ms. Kardashian failed to disclose this information."


**Figure 1**: The paid post that triggered a USD1.26 million settlement with the US SEC.

The federal securities laws are clear that **ANY CELEBRITY OR OTHER INDIVIDUAL WHO PROMOTES A CRYPTO ASSET SECURITY MUST DISCLOSE THE NATURE,** source, and amount of compensation they received in exchange for the promotion. Investors are entitled to know whether the publicity of a security is unbiased, and Ms. Kardashian failed to disclose this information.

Regulators throughout Asia also have their sights trained on errant finfluencers.

In India, regulators are cracking down on errant finfluencers, clocking record penalties this year. See *Curbing A Bad Influence* on page 61.

In March 2023, the Australian Securities and Investments Commission (ASIC) warned that social media influencers who fail to obtain a financial services licence or quit promoting investment funds online could face jail time and fines up to AUD1 million. Soon after the announcement, the corporate regulator charged influencer and trader Gabriel Govinda (@Fibonarchery) with 23 counts of stock manipulation and 19 counts of information dissemination of the same manipulation. ASIC found that Govinda had created and used 13 different share trading accounts to manipulate the price of 20 stocks listed on the Australian Stock Exchange in order to submit dummy bids for these stocks in order to artificially inflate their share prices. He subsequently shared news of these market-moving stocks on HotCopper, an online forum, and eventually dumped the stocks at a

higher price. Govinda pleaded guilty and was sentenced to two and a half years' imprisonment and a pecuniary penalty of AUD42,840.

## BELLING THE CAT

Guan's research suggests several ways in which markets could increase the benefits and decrease the dangers of finfluencing:

+ **Regulating fraud and manipulation.** Legislatively, there are still many ways in which finfluencers could easily profit from their followers' predictable trading behaviour without running afoul of existing antifraud or antimanipulation laws. Prohibiting and punishing clearly illegal, deceptive, and manipulative activity is needed for overt offences.
+ **Finfluencer disclosure.** Most disclosures in securities markets are company-specific, not finfluencer-specific, and this needs to evolve. Knowing that a finfluencer's post is sponsored may cause viewers to evaluate the content more critically and sceptically. Additional types of disclosures, such as corporate social media activity reporting and finfluencer blacklists published on social media platforms, can also be considered.
+ **Better finfluencer information.** Incentives can be devised to nudge finfluencers toward generating higher-quality information for price accuracy.

Finfluencer discipline, whether self-imposed or externally enforced, is only part of the solution towards **ENHANCING FINANCIAL STABILITY AND RESILIENCE.** To rely on regulators for the enforcement of market discipline paints the impression of a diktat – an order imposed by those in power without popular consent – when really, it is our collective responsibility to maintain law and order.

In an old Aesop fable, the Mice once called a meeting to hatch a plan that would alert them whenever the Cat was coming. It was proposed that a bell should be hung around the Cat's neck; whenever the bellrings, the Mice would know that the enemy was coming.

"A very good idea," said one Mouse. "But who will bell the Cat?"

That is the proverbial problem.

Finfluencer discipline, whether self-imposed or externally enforced, is only part of the solution towards enhancing financial stability and resilience. To rely on regulators for the enforcement of market discipline paints the impression of a diktat – an order imposed by those in power without popular consent – when really, it is our collective responsibility to maintain law and order.

Financial institutions must exercise good judgment, conduct their own due diligences whether in their alliances with influencers or internal media strategies, and up their game to regain a foothold among next-gen investors.

Who will bell the Cat, you ask?

The answer is "We will". ✱

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■ *Kannan Agarwal is a content analyst and writer at Akasaa, a boutique content development and consulting firm.*

*The world's demographics are in the midst of significant change. We explore the potential impacts on wealth and productivity, as well as the long-term effects on banks.*

# Shifting Sands

By Chartered Banker, UK

The world's population was projected to reach eight billion on 15 November 2022 – more than three times larger than it was in 1950. And based on current trends, the estimates the population could grow to about 8.5 billion by 2030 and 9.7 billion by 2050.

The pace of growth is, however, slowing – with projections suggesting that a peak of about 10.4 billion people will be reached in the 2080s.

The largest increases in population took place in the early 1960s, but the pace of growth has slowed as fertility levels decreased with the greater availability of contraception and as countries developed their economies. Increased levels of education, especially among girls, and more job opportunities for women have also played key roles.

On average, women are now giving birth twice, rather than five times, as they were in 1950. Figures vary across regions, however. In sub-Saharan Africa, women are giving birth more than four times and in the Pacific region, or Oceania (excluding Australia and New Zealand), three times. The result of this is that the populations of 61 countries are expected to drop by at least 1% between now and 2050.

Many Asian countries, meanwhile, have rapidly ageing populations. Japan leads the pack with nearly 30% of its population now over the age of 65 and some other nations in the region are not far behind. And at fewer than 800,000, Japan had record low births last year. South Korea, meanwhile, broke its own record for the world's lowest fertility rate, with the average number of babies expected per woman falling to 0.78.

Here, we examine what these trends mean for economies, banks and their future plans.

## INEXORABLE, POWERFUL AND SCARY

Author and former economic consultant Russell Jones says: "I'm always of the opinion that demography is one of those things that never gets the attention it should do because it's such a slow moving process. It's inexorable and powerful, but it doesn't really fit into the five-year or four-year time frame of the electoral cycle. We had this great post-war boom, which was built on very rapid population growth after the Second World War. But nobody ever really mentioned it unless they had to.

"Now we're starting to see a lot of the opposite problems coming through and some of the numbers are really scary. I think the UK is okay by most standards, but in some countries – Japan, South Korea, Germany and Italy – it's really frightening. They're confronted by significant declines in their overall population, but we're all going to have to deal with the fact that the economy won't grow as fast and that we're going to have a huge number of people that we have to look after. And I think that in the next 40 or 50 years, we'll see some dramatic changes in societies, especially if we put climate change on top of that. It's a whole new ballgame."

## NASTY SPIRAL

Jones believes that there is a vicious cycle at play. "As we grow more slowly, which we've been doing for some time, the amount of wealth that people can expect during the course of their lifetime declines, and then their willingness to have children is reduced. And then as the willingness to have children falls, economic growth falls. You get into a nasty spiral. I think that's something that is definitely affecting a lot of countries, certainly in Japan and South Korea.

There are, according to Jones, two factors that make economies grow. "One is how many hours are being worked," he says, "and that's very much dictated by how many people a company employs, and

second, how productive they are. And we're losing one engine in its entirety as populations stop growing and even start declining. So, all the focus is now on raising productivity to enable growth. And we're not really doing a terribly good job of that anywhere, never mind in the UK. Productivity growth has fallen, in fact, so the way out is through quite a complex series of policies."

What needs to be done then? Jones suggests: "We have to take steps to promote the employment and the skills of the elderly. We have to include more women in the workforce or encourage doing so. We need more money and more migrants. But more than that, we have to design our pension schemes better.

"Every government is going to have to spend a lot more on pensions, social care and long-life care. And every government is going to have to tax more to fund that if they're going to make the numbers add up. Politically, that's a tough sell, especially to any right-wing political party. We're still hearing Tories saying that they want to cut taxes, which is madness. The only direction for taxes and public spending is upwards over the longer term."

## URBAN SHIFT AND INTERGENERATIONAL INEQUALITY

Dimitri Zenghelis, Visiting Senior Fellow, London School of Economics and Political Science, looks at the issue of shifting demographics from a slightly different point of view. "What all countries share – especially the ones where populations are growing, but also the ones where they're declining – is that they're still urbanising," he points out. "This doesn't necessarily mean that the density of populations is going down. People are, in general, moving into cities across the world. So, from the perspective of banks, whether big tracts of countryside are emptying out is probably not that material. What matters more is how many people live in urban centres and how many people live in dense proximity to branches."

Like Jones, Zenghelis stresses that we're dealing with long time periods. "Population decline is a very slow secular change," he says. "It's also key to remember that while populations are going down, people are, in fact, living longer. That means that even if the total replacement fertility rate is low, it will take a while for populations to actually decrease because people are alive for a bit longer.

"Another part of the problem is the fact that the older people have the wealth and younger people have to wait for the older people to transfer it to them. And that's causing intergenerational inequality. That will probably change the nature of what banks do, in particular when it comes to savings products."

He questions whether we might see a change in the demand for banks. "I suppose the big question is do we still require banks, or do we need to disintermediate to financial services and fintech? Perhaps we don't need them at all?"

Another part of the problem is the fact that the older people have the wealth and younger people have to wait for the older people to transfer it to them. And **THAT'S CAUSING INTERGENERATIONAL INEQUALITY**. That will probably change the nature of what banks do, in particular when it comes to savings products.

He points out that banks rely on a critical mass. "They're a contract, but they're a contract that works so long as enough people are confident in it, but as soon as the depositor base starts to thin out, then we have problems. We're currently seeing this in the US.

"The cost-of-living crisis won't be a long-term thing, it's short term," he continues. "But when we see crises like this, banks can become very vulnerable, especially after years of low interest rates and overleveraged, overstretched financial institutions. Then add into the equation corporations and individuals that may start not repaying their debt."

## WOMEN, WORK AND MARRIAGE

Finally, but importantly, Zenghelis examines the way that women and work have impacted the financial services sector. "A lot more women are obviously working and entering the formal economy today. And as societies mature, the informal economy is disintermediated because there's a lot of activity at home that wasn't paid for in a traditional model.

"Now, increasingly and rightly, women are working. And many of these services that weren't paid for are monetised because people are brought in to take over the childcare and the cleaning etc, meaning there's more formalised money in circulation, and more GDP (gross domestic product) as well. That doesn't affect the banking system particularly, but the amount of money circulating through formal structures will, perhaps quite substantially, offset a lot of the issues around changing demographics because more people in the formal economy will need bank accounts.

"We also have fewer married couples, and fewer women having children probably means more women working. These are really important and powerful points because the demographic changes in terms of population are probably much slower in many societies than the demographic changes in terms of working and marriage habits." ✱

■ *This article previously appeared in the Chartered Banker magazine, UK, Summer 2023 edition.*

# THE INTERROBANG EFFECT: HOW ASKING BETTER QUESTIONS CHANGES EVERYTHING WITH HUMANS AND MACHINES

By Derek Ariss

*A range of techniques are available to enhance the range of questions asked of man and machines, optimising output, and enhancing productivity.*

In an era characterised by relentless and rapid change, we face an array of formidable challenges. These dynamic times prompt us to ponder: how can we successfully navigate change, uncover superior solutions, and optimise the tools at our disposal? The answer lies in the art of asking the right question.

These days the power of questioning is becoming a transformative leadership tool. This article examines a range of questioning techniques, focusing on their ability to shape our thought processes, ignite creativity, and guide us toward ground-breaking solutions. What makes this journey exciting is the tangible and quick results it delivers. Exploring the significance of asking refined questions reveals their potential to drive change, enhance decision-making, guide thinking, empower problem-solving, and even leverage the capabilities of AI.

In essence, we aspire to pose questions that elicit answers accompanied by an exclamation reminiscent of an interrobang, a question that elicits an answer accompanied by an exclamation – an outcome that is both impactful and transformative.

This article will highlight the benefits of asking better questions by looking at how they can:

> drive change and performance;
> enhance decision making;
> guide and direct thinking;
> empower problem solving; and
> allow us to leverage answers generated by AI.

## DRIVING CHANGE AND PERFORMANCE

The mastery of posing insightful questions lies at the core of instigating change and augmenting performance. Whether one is an individual striving for personal advancement, a team aiming for excellence, or an entire organisation pursuing transformation, questions serve as the guiding beacon.

One technique of asking questions resulting in improved performance is called the '5 Whys' technique.

In the mid-20th century, Toyota encountered substantial challenges related to quality and production efficiency. Taiichi Ohno, inspired by the principles of statistical process control and adept problem-solving methods, embarked on developing a system to address these concerns. Ohno and his team refined a problem-solving technique centred on repeatedly asking "'why?"' to uncover the root causes of issues. This evolved into the renowned '5 Whys' technique, which has become an integral aspect of Toyota's problem-solving culture. The impact of this root-cause analysis technique extends far beyond Lean manufacturing, permeating industries such as software development, healthcare, project management, and finance. It has become a foundational tool with broad applicability.

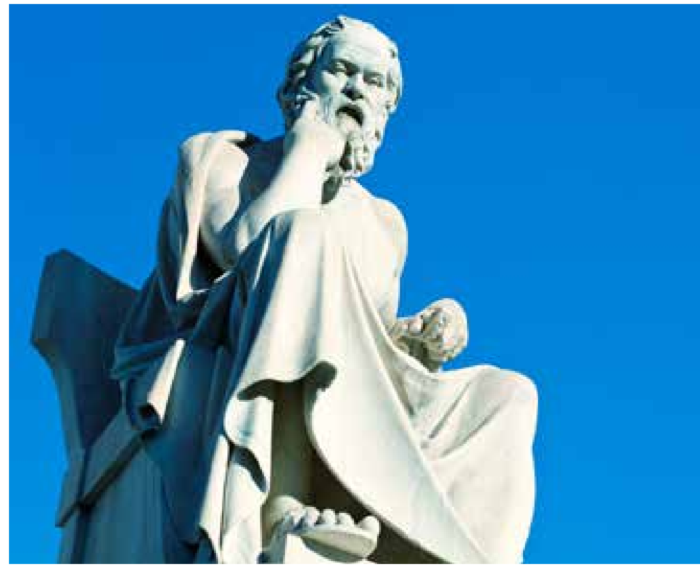
So, how can we leverage this powerful technique? As an example, the '5 Whys' approach encourages a deep dive into issues by repeatedly asking "why?" This method unveils the fundamental causes of a problem, shifting the focus from addressing symptoms to penetrating the core of the matter. In a way reminiscent of a child persistently asking "why?" until the heart of the matter is revealed. Fostering a culture of root-cause inquiry within an organisation empowers employees to explore innovative solutions. This not only improves efficiency but also contributes to overall organisational success.

Try it as an exercise. The next time you have a small issue and someone explains the rationale 'why' (politely) several times over, you will be amazed that the actual cause of the issue is seldom clear in the first explanation. Often, people will only get to the real cause of an issue after a series of more profound questions. For example, when a product launch had total impact of 60% lower than projected, we thought that perhaps the messaging didn't meet the audience need or the targeted media was off the mark. After reviewing the 5 Why's, it was discovered that it had nothing to do with our messaging. There was a distribution problem. The messaging didn't go out on time because of a programme delivery issue. By spending time identifying the root cause, time was saved on solving a major issue.

## ENHANCING DECISION-MAKING

Good questions can do much more than deliver change and performance improvements; they also enhance decision-making.

Effective decision-making hinges

on achieving clarity and considering multiple perspectives. Skilful questioning can illuminate blind spots, challenge assumptions, and facilitate a comprehensive analysis of situations. When faced with dilemmas, questions such as "what are the potential risks and benefits?" or "how does this decision align with our long-term goals?" prove invaluable. These precise queries promote critical thinking and establish a structured framework for evaluating options, resulting in well-informed and confident choices.

Five questions are a starting checklist for critical thinking:

- what is the central issue or problem?
  - define the core challenge or question.
- what assumptions am I making?
  - identify and question underlying assumptions.
- what alternative perspectives should I consider?
  - explore viewpoints different from your own.
- what are the pros and cons of each option?
  - evaluate the advantages and disadvantages.
- what evidence supports my position and is it reliable?
  - scrutinise the evidence supporting your stance.

Incorporating these critical thinking questions into your decision-making process is a valuable starting place. By consistently challenging assumptions, considering alternative perspectives, and evaluating evidence, you not only navigate through dilemmas effectively but also cultivate a powerful skill that enhances your overall decision-making capabilities.

While this form of questioning can lead to a clear decision, another form can guide thinking.

## GUIDE THINKING THROUGH SOCRATIC QUESTIONING

Based on the teachings of the ancient philosopher Socrates, the Socratic method follows a logical sequence of prompts that directs individuals or groups to analyse their beliefs, assumptions, and implications critically. By employing this technique, one can steer conversations and help people discover deep insights. This approach is powerful in fostering an understanding and refining of decision-making processes. When participants discover answers to solve work and personal issues, they 'own' the process.

This method is advantageous when trying to gather information on topics with multiple perspectives or when engaging in discussions where opinions may differ.

To use the Socratic method effectively, follow these steps:

+ Identify the central idea or topic that you want to explore.
+ Develop a list of open-ended questions that encourage discussion and exploration.
+ Ask questions in a non-threatening and conversational manner.
+ Listen actively and attentively to the answers provided.
+ Probe for clarification and consistency by asking follow-up questions.

The following are some examples of Socratic questions that can help uncover hidden gems:

- Are there any assumptions that may be influencing your perspective?
- What evidence supports your position?
- How do your conclusions align with the available data?
- Can you explain your reasoning further?

What alternative viewpoints should be considered?

Using the Socratic method truly guides thinking and allows individuals or groups to come to a conclusion. The strength here is that they are guided toward the solution, yet they are the ones that draw a conclusion based on their personal thoughts. This increases buy in, learning, and ownership.

## EMPOWERING PROBLEM-SOLVING

Often when solving a problem, leaders need to see multiple perspectives and opportunities. How can this be accomplished? It can't always be done through critiquing or directing. Instead of directing answers in one direction, multiple answers may be required.

Embracing inquiries like "What if?" and "How might we?" ignite creativity and exploration. Imagine addressing a challenge by asking, "What if we approached this from a completely different angle?" or "How might we reshape this process to achieve unexpected outcomes?" Such questions stimulate thinking beyond the ordinary, sparking innovative solutions and pushing the boundaries of traditional problem-solving. Through open-ended questions, individuals enhance their capacity to overcome obstacles with ingenuity and originality. Consider, for instance, questions like "If we no longer used plastic straws would that reduce the environmental impact of plastics?", or "How might we discourage the use of plastic shopping bags to mitigate plastic's environmental impact?".

We can take this questioning technique one step further to find better answers. One technique has been developed by Hal Gregersen, a senior lecturer in leadership and innovation at MIT's Sloan School of Management, and a former executive director of the MIT Leadership Center. He wrote a book entitled "Questions Are the Answer: A Breakthrough Approach to Your Most Vexing Problems at Work and In Life." In the book he describes a technique called "Question Storming". Instead of looking at solving a problem by asking a single question the technique involves generating a large number of questions in a short amount of time, for example as little as four minutes.

The idea behind question storming is to create a fertile ground of exploration and innovation by encouraging individuals and teams to ask various questions that break away from conventional thinking, challenge assumptions, and uncover new possibilities. The result of the exercise is that it creates a rich reservoir of questions that can be analysed and prioritised to identify the most relevant and impactful ones for further exploration.

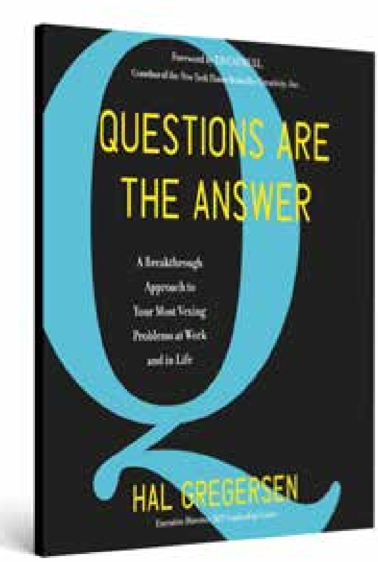
Using this technique steers people away from their standard solutions and forces them to look at the issue from perspectives that might never have originally been considered.

## HOW TO LEVERAGE ANSWERS GENERATED BY AI

How can these essential questioning techniques work in a data-driven world where generative AI is seeping into everything we do? Well, the link is more direct than might have initially been thought.

In today's organisational dynamics, the power of questions finds new dimensions when coupled with technology. In an organisation where questioning is encouraged and developed to see continuous improvement, imagine the power that could be unleashed when asking solid questions to the AI interfaces that presently exist. AI-powered tools provide answers based on the questions they receive. Valuable outputs occur when we can leverage our ability to ask questions with the strengths of compiling information with AI tools.

Behind the scenes of AI-powered question answering lies the concept of Prompt Engineering. Large language models such as GPT4 excel at understanding and generating human-like text based on prompts they receive. When we can craft these prompts carefully to instruct and guide AI's responses, we can then harness the full potential of AI to shape insightful output. The better the questions asked, the better and more impactful the answers become. For example, if you ask a Large Language Model about the mega-investment trends concerning next-generation clients, you will get a good solution. However, suppose you ask the Large Language Model about the critical points that are often missed when reviewing the mega-investment trends dealing with investments concerning next-generation clients. In that case, you will get a more exciting package of information – something worth thinking about.




In conclusion, the art of questioning is far more than a mere conversation starter. A transformational tool can drive change, enhance decision-making, and guide individual, group, and organisational journeys. By learning and practicing better questions using various combinations of the techniques outlined above, we unlock new opportunities that lead to new ideas and impactful solutions from both humans and machines. Do your questions have the interrobang effect? If not then perhaps you need to increase the range of questioning techniques used. ✱

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# SECURING SECRETS

By Julia Chong

## UP YOUR GAME IN TRADE SECRET RISK MANAGEMENT.

Although it is common for most organisations to already have in place non-disclosure clauses or separate confidentiality agreements to protect their intellectual property (IP), given the rapidly evolving digital landscape and proliferation of new technologies embedded into current work processes, it is prudent for corporations to reassess their secrecy policies and corresponding risks on an ongoing basis.

Most executives are familiar with patent registration and IP protection, a trade secret, however, is more extensive and covers a broader spectrum of intangible assets that are of significant commercial value to a company. Think of KFC's secret herbs-and-spices recipe (which was reportedly leaked on social media recently) or Google's search algorithm. An equivalent in banking could be the banks credit policy or the digital approval keys to its smart contracts.

The established processes and protocols to protect the value of these intangible assets are known as trade secret risk management, an evolving practice that is gaining ground amongst risk professionals as companies increasingly bank on innovation to deliver customer value.

Trademarks, patents, customer lists, business strategies and ops, business processes, formulae, algorithms, software code – essentially any aspect or innovation which gives the corporation a competitive advantage against their competitor – should be defined and protected as a trade secret. In banking and finance, such trade secrets are spread throughout the back, middle, and front offices.

One of the leading authorities governing standards in this sphere is the World Intellectual Property Organization (WIPO), an international United Nations agency responsible for the development of a global IP architecture, which defines a trade secret as follows:

"Trade secrets are IP rights on confidential information which may be sold or licensed. In general, to qualify as a trade secret, the information must be:

- commercially valuable because it is secret;
- known only to a limited group of persons; and
- subject to reasonable steps taken by the rightful holder of the information to keep it secret, including the use of confidentiality agreements for business partners and employees.

"The unauthorised acquisition, use or disclosure of such secret information in a manner contrary to honest commercial practices by others is regarded as an unfair practice and a violation of the trade secret protection."

Legislation and enforcement frameworks in the US and UK are currently the most progressive, however other jurisdictions including the Asia-Pacific region are close on their heels as emergent risks have seen an increase in failure to protect trade secrets from hackers, corporate espionage, and other threat actors.

In the US, two main legislations govern this:

> Economic Espionage Act, enacted into law in 1996, considers theft and misappropriation of a trade secret a federal crime with conviction resulting in fines of up to USD250,000 for an individual; USD5 million for a corporation; and/or imprisonment of up to

Trademarks, patents, customer lists, business strategies and ops, business processes, formulae, algorithms, software code – essentially any aspect or innovation which gives the corporation a competitive advantage against their competitor – **SHOULD BE DEFINED AND PROTECTED AS A TRADE SECRET.** In banking and finance, such trade secrets are spread throughout the back, middle, and front offices.

## Zero-trust Security & More

Rooted in cybersecurity, this approach is typified as 'never trust, always verify' and is embedded in frameworks meant to protect proprietary knowledge in IT, such as multifactor authentication and behaviour monitoring as a tip-off to potential security threats. It advocates access approval of a trade secret to a limited number of people thus minimising the threat of breach and/or indiscretion by insiders/outsiders.

Other methods include confidentiality agreements, physical controls (biometric locks for filing cabinets, security cameras, etc.), and employee training.

Some highly innovative financial institutions that are based primarily on IP, such as bond pricing or algorithmic trading, often opt for insurance coverage to limit the downside in the event of a breach or failure to protect their intangible assets. Insurance policies oftentimes will cover certain tangible costs like service downtime, forensic investigations, and the cost to replace data, but never the full value of the intangible asset.

10 years. If such trade secret benefited any foreign government, penalties will increase and be dealt with in a manner commensurate to the crime.

- Defend Trade Secrets Act, more recently passed by the Obama administration in 2016, gives US companies the opportunity of federal legal remedy in the misappropriation of "actual or potential" value arising from IP theft, which translates into enhanced shareholder value. It also provides a 'safe harbour' clause for whistleblowers, giving them immunity from civil or criminal liability "solely for the purpose of reporting or investigating a suspected violation of law."

The UK's Trade Secrets Directive of 2016 was implemented following the EU Directive 2016/943 passed by European Parliament. Different from its American counterpart, the Directive is limited to tackling the unlawful conduct or illicit means through which the trade secret is acquired. This means that if no misconduct was detected, although such information was misappropriated, the disclosure of the trade secret is out of scope under the Directive. An example would be the divulging of a secret which is in breach of a contract or another existing law.

In Malaysia, similar to other Southeast-Asian nations, there is no express legislation to protect trade secrets. For public-listed companies, the Capital Markets and Services Act 2007 provide assurances that privileged parties or "insiders" maintain the secrecy of non-public price-sensitive information in order to prohibit insider trading.

Instead, companies can rely on contracts and/or tort law (harms committed that require the at-fault party to compensate the victim(s), including for the loss of past or future income and punitive damages) to achieve similar results. Non-disclosure agreements are often included as a standard feature

In Malaysia, similar to other Southeast-Asian nations, **THERE IS NO EXPRESS LEGISLATION TO PROTECT TRADE SECRETS.** For public-listed companies, the Capital Markets and Services Act 2007 provide assurances that privileged parties or "insiders" maintain the secrecy of non-public price-sensitive information in order to prohibit insider trading.

of employment contracts or signed separately as a precautionary measure.

When it comes to the practical day-to-day running of a company, robust contracts, audit trails, and documentation must form the arsenal of pre-emptive measures used to minimise the risk of future dispute. This is because once private information is misused or leaked, confidentiality is lost forever. Should there be a breach of confidentiality, time is of the essence and the next best option is for the company to quickly seek an injunction from the court of law and ring-fence the leak based on its contracts and documentation.

Trade secrets are classified into several types:

- **Technical information.** This is knowledge concerning processes and procedures, maps and valuations, as well as policies and know-how. More recently, cases surrounding IP violations are increasingly dealing with issues surrounding software algorithms, hardware configurations, and experimental research data. This includes cutting-edge technologies that are entering the commercial sphere in banking such as cryptocurrencies (JPM Coin, a cryptocurrency developed by JP Morgan Chase, is utilised by its institutional and corporate clients for more secure cross-border transactions) or quantum-computing to unlock efficiencies in pricing and trading strategies (HSBC and Goldman Sachs are leading the pack on this score).

- **Commercial data.** From details on pricing, structured deals, supplier lists, and clientele to strategic information such as platforms for advertising and promotions, expansion plans, and exclusive partnerships, it is necessary that such information be made on a need-to-know basis. In a US-based case, a team of investment bankers left their firm to work for a competing financial institution, taking with them confidential client lists and information, which included some of their former employer's most sophisticated and important clients. After a thorough investigation and audit conducted by the bank, the case was brought to arbitration before the Financial Industry Regulatory Authority, which awarded full damages to the bank.

- **Combinatorial elements.** In some instances, a trade secret comprises several or a chain of information or elements which in their separate parts rest in the public domain, such as annual report filings, formulae, or source codes. The design or method of how these individual elements are combined could provide a corporation with significant competitive advantage and in this way is seen as a trade secret. One example is when a company uses a general source code available on, let's say, Github, a developer-based code-hosting platform, and then customises this code to suit the organisation's specific needs. This can come in the form of rewriting, adding, deleting lines from the initial code for the software to now perform new tasks, such as to automate the pulling of data from an excel worksheet in order to populate it into the bank's internal system. Should the modified source code, to which the company has invested substantial time and effort in its customisation, be compromised through accidental leaks, lax IT security, or even corporate espionage, this would constitute a breach of its trade secret.

**FAILURE TO CORRECTLY IDENTIFY AND MANAGE ITS TRADE-SECRET RISK** can make or break an enterprise; financial losses, business disruption, loss of market share, loss of public trust, additional costs for investigation and new security measures, and reputational damage are all consequences of compromised IP.


Failure to correctly identify and manage its trade-secret risk can make or break an enterprise; financial losses, business disruption, loss of market share, loss of public trust, additional costs for investigation and new security measures, and reputational damage are all consequences of compromised IP. Closing the backdoor to this risk has to do with enforcing a culture of vigilance and collective responsibility. Financial firms must first begin by understanding that there is no foolproof solution (no matter what the consultants tell you). Any proposed strategy, including zero-trust strategies (see box story on page 72), is only as good as the people and culture that it is embedded in and corporates must customise such strategies according to their business, context, and current situation. ✱

■ *Julia Chong is a content analyst and writer at Akasaa, a boutique content development and consulting firm.*

# 10 STEPS TO BUILDING A TRADE SECRET MANAGEMENT PROGRAMME

STEP 1

### PUT IN PLACE A SYSTEM FOR IDENTIFYING TRADE SECRETS

Identifying and categorising trade secrets is a prerequisite for starting a trade secret protection programme. The steps taken to protect your trade secrets should be dictated by the nature of the secrets themselves. Make a written list of the information to be protected and organise it into the different types of information, depending on its value to the business and the type of protection measures that would be needed to protect it.

STEP 2

### DEVELOP AN INFORMATION SECURITY POLICY THAT INCLUDES A TRADE SECRET PROTECTION POLICY

The information security policy encompasses systems and procedures designed to protect the information assets from disclosure to any person or entity not authorised to have access to that information. It is important to have a written policy in place as it provides clarity on all aspects that need to be addressed including:

- explanations on the why's and how's;
- prescriptive measures on how to reveal or share such information in-house or with outsiders; and
- articulation of the commitment to protect trade secrets, which will play a key role in the event of litigation; and physical, administrative or technical controls.

STEP 3

### EDUCATE ALL EMPLOYEES ON ISSUES RELATED TO INFORMATION SECURITY

Safeguards include:

- hiring an employee for competence, knowledge, skills and not because of their access to trade secrets of a former employer;
- all employees should acknowledge that they have understood the policy and that they agree to abide by it;
- periodically, reiterating the policy;
- avoiding the hiring of a person bound by a non-compete agreement, but if unavoidable then do so only after taking advice from an independent and competent lawyer;
- indemnifying a new employee who is bound by a non-compete agreement to a previous employer should also be avoided;
- reminding employees not to disclose trade secrets and to follow the security procedures by way of notices, memos, emails, newsletters, etc.; and
- hiring away more than one employee from a competitor raises suspicion of wrongdoing and so should be avoided.

STEP 4

### IMPORTANCE OF MAKING EMPLOYEES AWARE OF OBLIGATIONS

Educate and train employees to recognise and properly protect trade secrets in order to prevent inadvertent disclosure due to ignorance. Make departing employees aware of their obligations towards their former employer through exit interviews that should include focus on issues related to confidentiality, trade secrets, etc.

The World Intellectual Property Organization (WIPO), one of 15 United Nations' specialised agencies, is tasked with leading the development of a balanced and effective international IP system for its 193 member states. Established in 1967 through the WIPO Convention, its work has helped shape the architecture that protects IP, including trade secrets, globally with powers as a resolution dispute body.

Its e-learning content on intellectual property, *IP Panorama™*, is jointly published by WIPO, the Korean Intellectual Property Office (KIPO), and the Korea Invention Promotion Association (KIPA). Covering 12 modules, its chapter on trade secrets includes a 10-step guide on how to build a trade secret management programme, summarised below.

**STEP 5**

### INCLUDE REASONABLE RESTRICTIONS IN WRITING, IN ALL CONTRACTS

Examples of this are non-analysis clauses (where the other party agrees not to analyse or have analysed any material or sample supplied under the agreement), or no-raid clause (where the departing employee is forbidden from soliciting all current employees as well as any employee who resigned within a time frame from the employee's departure date).

**STEP 6**

### RESTRICT ACCESS TO PAPER RECORDS

Limit access to only those employees who are duly approved, or cleared, to see them on a need-to-know basis. This may be done more easily by proper labelling of records or using specially coloured folders and keeping such marked records physically isolated or segregated in a secure area or in locked filing cabinets. There must be proper access control through appropriate authorisation and tracking systems for employees provided with access to classified information.

**STEP 7**

### MARK DOCUMENTS

Labels should provide brief but clear directions to the user on how to handle the information, such as 'make no copies', 'distribution limited to', or 'covered by non-analysis agreement'.

**STEP 8**

### OFFICE MANAGEMENT AND KEEPING CONFIDENTIALITY

Standard practices should include restricting the use of mobile phones when discussing sensitive topics, handling paperwork such as faxes and photocopies with extra care, shredding to dispose of sensitive paper records, caution with internal literature (newsletters, magazines, etc. that may contain names of employees in sensitive job functions), and caution be exercised by employees during conversations.

**STEP 9**

### MAINTAIN COMPUTER SECRECY

Multifactor authentication and automated audit trails enable system security personnel to trace any additions or changes back to whoever initiated them, and to indicate where and when the change was carried out. Access control methods can be either rules-based (access control based on policies that can be algorithmically expressed) or identity-based (access to individuals or a defined group of entities).

**STEP 10**

### GUARDING SECRETS THAT ARE SHARED IN PARTNERSHIPS

While employees can be the single biggest threat to secrecy, it is also important to guard secrets in joint ventures, with consultants and even with customers. For many software companies, the most dangerous exposure is the sale of a system because the software is then susceptible to reverse engineering. In software and many other high-tech industries, licensing of your company's product is a secure way to guard against loss.

**SOURCE:** WIPO, KIPO, KIPA; *IP Panorama, Module 04 Trade Secrets.*

# Hold On To A Good Catch

By Dr Amanda Salter

*Five ways savvy employers keep their best employees.*

A 2022 study by the National Australia Bank found that 25% of Australian workers looking to switch jobs were in the finance and insurance services sector, a worrying increase from 19% earlier in the year. Digital and data workers, one of the most valuable skillsets for a progressive organisation, represented the highest proportion of people looking to change jobs, at 27%. The 'great resignation' is clearly not over yet.

Don't leap to the conclusion that salary hikes alone will solve this problem. Research done by MIT last year showed that compensation ranked only 16th among all the factors that influence employee turnover. Temporary measures such as off-cycle wage reviews are kind but difficult to rollback even if inflation falls. So, what else can be done to keep hold of your most valuable employees?

Here are five avenues that forward-thinking banks can explore.

## 1 FIX YOUR SPECIALIST CAREER PROGRESSION PATHWAYS

Many organisations promote their best individual contributors to management based on their technical skills. If you have a fantastic data scientist, the sensible reward is to promote them to the next level as a data science manager. Right?

Wrong. This is the classic 'Peter principle' – a part-satirical management concept by Dr Laurence J Peter and Raymond Hull to describe how people in hierarchical organisations tend to rise to "a level of respective incompetence" – in action, and can be a costly mistake. Don't assume that everyone who can do a highly skilled job at expert or master

level will automatically be good at managing others to do the same. Also consider that as people managers, they will, as a matter of necessity, become distanced from the hands-on work they love doing. The organisation effectively pays double in this scenario – firstly in losing a valuable and highly skilled individual contributor, and secondly in declining team performance as the newly promoted manager struggles to master the corporate management skillset he/she needs to do a good job.

Don't force your highly skilled staff into management in order to progress. Many specialists, especially in the digital and data space, are better off remaining as individual contributors. Consider a branching specialist career pathway, where at specific job grades employees can move either onto an individual contributor pathway or to a people manager pathway. Only place people on the management pathway if they display good potential for it. The individual contributor pathway should have the same number of grades and levels as the management pathway. Each step up on either branch should be recognised and rewarded with a more prestigious job title and the accompanying corporate accoutrements, including that corner office or reserved parking lot.

## ❷ GIVE EMPLOYEES SUFFICIENT AUTONOMY

Research in the area of self-determination theory suggest that humans have three basic psychological needs – autonomy, competence, and relatedness – that are crucial to driving motivation. When all three needs are met, individuals become highly motivated and engaged in their work. This leads to many benefits, including enhanced performance, creativity, or persistence.

Autonomy specifically refers to the feeling that you have choice and control over your own behaviour and actions. Smaller banks can emphasise the flexibility and agility afforded by flat organisational structures, ability to influence the direction of the company, and easy access to decision-makers.

Larger banks may be able to provide tailored packages where employees can select the benefits they prefer, such as time off in lieu of working on public holidays, flexitime, more comprehensive insurance, or longer paid time off.

A recent example of this is Citi's new post-Covid resiliency programme. In 2022, Citi Singapore launched a partially paid sabbatical leave option, allowing eligible full-time employees to take up to 12 weeks off while drawing 25% of monthly pay. This allows employees to pursue personal interests and focus on well-being, travel, spend time with loved ones, voluntary work, or just to recharge.

There are different ways for managers to provide freedom and choice in the workplace, and the options offered should work with the team culture and needs. The size of the organisation matters here – larger organisations may be able to afford more options than smaller ones. Also, don't go overboard – too much autonomy can lead to a loss of connectedness and can also lead to poor behaviours in employees.

There are different ways for managers to provide freedom and choice in the workplace, and the options offered should work with the team culture and needs. The size of the organisation matters here – **LARGER ORGANISATIONS MAY BE ABLE TO AFFORD MORE OPTIONS THAN SMALLER ONES.** Also, don't go overboard – too much autonomy can lead to a loss of connectedness and can also lead to poor behaviours in employees.

## ❸ ENSURE EACH EMPLOYEE'S WORK IS CLEARLY LINKED TO COMPANY OBJECTIVES

Employees who can see that their work is contributing to a meaningful purpose are generally happier, work harder, and are more resilient at overcoming challenges. Large organisations have historically struggled to create a direct sense of connection between employee and the broader company vision or objectives, especially for frontline colleagues. Research from McKinsey found that frontline managers and workers were three times less likely than leaders to say that they can connect their daily work to the organisation's purpose.

Global organisations from Google to Barclays Bank use a framework called Objectives and Key Results (OKRs) to ensure that everyone can connect their contribution to company goals and objectives. How do OKRs generally work? At the beginning of every quarter, the company board sets their OKRs and makes these visible to everyone. Once that's done, departments and teams lower down can then set their own. OKRs belonging to departments and teams must align to other OKRs that are higher up, at any level. A team can choose to align their work to OKRs at the board level if they wish.

Well-managed OKRs drive accountability and transparency because every team's OKRs are always visible, together with the progress that is being made towards achieving them. Well-written OKRs grant every employee clarity and visibility on how the work of their team ladders up to the bigger picture, all the way up to the board.

There are other benefits to using OKRs. OKRs deliberately focus on outcomes instead of outputs. This grants more autonomy to teams to choose the best way they feel they can drive the higher-level outcome that the organisation is looking for.

Many banks understandably rely on external consultants for innovation services, but to do only this is missing a trick. All banks are sitting on an untapped goldmine of insight and knowledge that can spark thousands of innovative ideas. This rich resource resides within the **COLLECTIVE INTELLIGENCE OF YOUR OWN EMPLOYEES.** Your employees already have a deep understanding of the issues that your customers face with the existing services.

## ❹ FOSTER AND EMBRACE INNOVATION FROM THE GRASSROOTS

Many banks understandably rely on external consultants for innovation services, but to do only this is missing a trick. All banks are sitting on an untapped goldmine of insight and knowledge that can spark thousands of innovative ideas. This rich resource resides within the collective intelligence of your own employees. Your employees already have a deep understanding of the issues that your customers face with the existing services. They know which internal processes need to be transformed and overhauled in order to improve the way things work. They are also more motivated to fix these problems because they have a direct connection to improving the day-to-day lives of colleagues and customers.

Innovative banks can create channels where employees can submit ideas for improving things. The mindset here is that valuable innovative ideas can come from anyone, from the lowliest intern to the highest paid executive. Giving good ideas recognition, credence, and support builds engagement and loyalty as employees see that their ideas are valued and adopted.

BNP Paribas' Lab4Good intrapreneurship programme enables employees to submit a social action idea in line with the UN Sustainable Development Goals, apply for support, and, if successful, progress their ideas into the pilot stage. The Lab4Good programme is now in its fifth year and around one-third of the projects emerging from the incubator are taken up by the bank's business lines. Successful projects range from a new responsible savings account for clients with options to invest in the sustainable economy to a complete energy-efficient retrofit solution for office buildings utilising expertise within the BNP Group, including financial advice for renovations.

## 5 WEED OUT TOXIC BOSSES, PROTECT YOUR WORKFORCE

Research from Stanford Business School concludes that organisations tend to hire narcissistic leaders, particularly in times of turmoil. A narcissistic leader can demonstrate, on the plus side, extreme self-confidence, a strong visionary attitude, charm, and charisma. On the downside, they exhibit aggressive behaviour, extreme self-interest, a lack of empathy, and a defiance of ethical boundaries. In a position of power, these behaviours percolate downwards, guiding the behaviour and expectations of others, shaping the culture, and normalising unethical, self-serving behaviour. Organisations large and small can be destroyed from within by putting this type of leader into power and examples abound from Enron to WeWork.

In evaluating candidates for senior leadership positions, look beyond the interview. Don't skimp on background checks – **FEEDBACK FROM PEOPLE WHO HAVE WORKED WITH THEM AND FOR THEM IN THE PAST IS CRITICAL.** Look for discrepancies in feedback from the people above and below them – narcissists will treat both very differently.

There is truth in the cliché that 'people don't leave bad companies, they leave bad managers'. Working for a narcissistic, toxic boss results in higher levels of depression, lower job satisfaction, and ultimately, the loss of high-value employees.

In evaluating candidates for senior leadership positions, look beyond the interview. Don't skimp on background checks – feedback from people who have worked with them and for them in the past is critical. Look for discrepancies in feedback from the people above and below them – narcissists will treat both very differently.

Ensure your grievance policy and whistleblowing procedures provide enough protection for staff to feel safe. Provide conflict training to staff so that they are equipped to better handle a toxic manager. As for the toxic individual themselves, professional coaching can help, but if faced with a stubborn, aggressive person, you must be prepared to let them go, even if they appear to be driving great benefits for the business. This is the only way to protect your workforce.

None of these avenues may seem like an easy fix. Is it really worth investing in employee engagement, motivation, purpose, and well-being? A recent joint study by Oxford University's Said Business School and Harvard University uncovered positive evidence for the long-suspected belief that companies with higher employee well-being (which includes aspects of happiness, purpose, and satisfaction) have higher profitability and better stock market performance. Improved well-being naturally increases the likelihood that employees will stay with you for the longer term. This saves on employee turnover costs, which can have a significant impact on your bottom line.

At the end of the day, if a valuable individual is determined to leave, there is not much you can do to stop them. Where banks can make a difference is by giving their people more reasons to stay. ✱

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