Ms Ng Wei Wei, CB, Chief Executive Officer of United Overseas Bank (Malaysia) Berhad
'You are Defined by Your Personal Core Values'

BANKING INSIGHT

IDEAS FOR LEADERS | AUGUST 2024

PP 17327/05/2013(032407)

A Fast & Furious Dress-down

When it comes to window dressing, Basel takes the bull by the horns.

A PUBLICATION OF

AICB
ASIAN INSTITUTE OF CHARTERED BANKERS

ISSN 2231-8267

When It Comes to Statistics, Boring is No Longer the Benchmark

FIGHT OR FLIGHT? MANAGING EMOTIONS AT WORK

BANKING'S NINE LIVES

Editor's Note

Charting Our Future Together

It's been an exciting time at the Asian Institute of Chartered Bankers. These past six months have seen a host of exciting programmes produced in collaboration with the Institute's ever-expanding universe of partners.

As part of the ongoing AICB Sustainability Series 2024, our joint technical session with the United Nations Environment Programme — Finance Initiative (UNEP-FI), *Advancing Sustainable Finance — Sustainability, Climate, and Nature* was held from 27 to 28 February. It gives me great hope that this session is the first-ever training of its kind organised by UNEP-FI in Malaysia, indicating that the scales are tipping in favour of banking's sustainability movement.

Together with the International Finance Corporation (IFC), this April, we were also proud co-organisers of the IFC Green, Social, and Sustainability (GSS) Bonds Executive In-person Programme, a closed-door event developed exclusively for the Institute's membership. By cultivating an in-depth understanding of the mechanics of GSS bonds issuances amongst market players, we foresee this to be one of the many concrete steps that will act to counter-balance threats from the ongoing climate crisis.

It is against this backdrop that we've devised an editorial which represents the diversity of issues bankers and banking must contend with today.

In our exclusive interview with Ng Wei Wei, CB, UOB Malaysia's first female CEO and conferred Chartered Banker this year, we explore her take on some of the most crucial issues in banking today.

A *Fast & Furious Dress-down,* our cover story in this issue by Angela SP Yap, walks us through the Basel Committee on Banking Supervision's report on the impact of 'window dressing' and its proposed revisions to the Basel III assessment framework among the global systemically important banks. This important policy direction to negate window dressing behaviour concluded its consultation period on 7 June 2024 and will have a ripple effect in banking once it is rolled out in its final form. The proposed transitional period starts on 1 January 2026 with a proposed implementation date of 1 January 2027.

Together with the International Finance Corporation (IFC), this April, we were also proud co-organisers of the IFC Green, Social, and Sustainability (GSS) Bonds Executive In-person Programme, a closed-door event developed exclusively for the Institute's membership. By cultivating an in-depth understanding of the mechanics of GSS bonds issuances amongst market players, **WE FORESEE THIS TO BE ONE OF THE MANY CONCRETE STEPS THAT WILL ACT TO COUNTER-BALANCE THREATS FROM THE ONGOING CLIMATE CRISIS.**

Bob Souster, a regular contributor to the Institute's publication and Chairperson of the Ethics Committee at the International Association for Sustainable Economy, admirably explores *Objectivity and Independence* in the current context of banking and finance.

Discussing what's at the forefront of talent management trends, Dr Amanda Salter shows how it is possible for people to be *Happier by the Minute* by applying the five pillars that will elevate your employee experience strategy.

With these and many more thought-provoking articles, I hope that you enjoy reading *Banking Insight* as much as we've had curating this issue. ✱

The Editor

AICB **BANKING**INSIGHT

PUBLISHER
Asian Institute of Chartered Bankers
197701004872 (35880-P)
(formerly known as
Institut Bank-Bank Malaysia)
Levels 11 & 12, Bangunan AICB
10 Jalan Dato' Onn
50480 Kuala Lumpur, Malaysia
Tel +603 2602 6833
Email enquiries@aicb.org.my

PUBLISHING CONSULTANT
Executive Mode Sdn Bhd (317453-P)
Tel +603 7118 3200
Fax +603 7118 3220
Email info@executivemode.com.my

PRINTER
Empress Print Sdn Bhd
No. 33, Jalan PBS 14/8
Taman Bukit Serdang, Seksyen 14
43300 Seri Kembangan
Selangor Darul Ehsan
Tel +603 8959 9233

WE WANT TO HEAR WHAT YOU HAVE TO SAY ON BANKING INSIGHT.

Why not drop us a line now?
enquiries@aicb.org.my

Visit us online at our website
www.aicb.org.my

CONTENTS | AUGUST 2024

Internal Audit Expands Horizon

The Institute's inaugural Bank Audit Conference (BAC), themed 'Future of Internal Audit – Embracing Change, Staying Relevant', was held from 6–7 March 2024 in Kuala Lumpur. The conference convened over 500 bankers, regulators and internal audit experts from local and international financial institutions.

Co-organised with the Institute's Chief Internal Auditors Networking Group, the BAC featured a pre-conference workshop on cybersecurity integration into the internal audit framework, plenaries on megatrends shaping the audit and risk management landscape, and networking sessions with industry experts.

Delivering the keynote address, Datuk Wan Suraya Wan Mohd Radzi, Auditor-General of Malaysia, emphasised the need for internal audit teams to stay ahead of the curve as "technology will be at the forefront of internal audit".

"Artificial intelligence, machine learning, and data analytics will revolutionise the way audits are conducted. By harnessing the power of technology, internal auditors will be able to identify emerging risks in real-time and proactively mitigate them."

The Institute's Chairman, Tan Sri Azman Hashim, FCB, followed the Auditor-General's message with a call for auditors to deftly navigate the ethical challenges posed by technologies such as artificial intelligence.

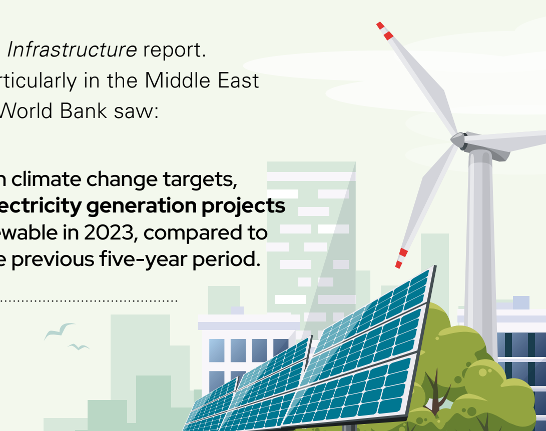
"In times of change, internal auditors continue to play a critical role in ensuring 'checks and balances' for sound corporate governance within banking institutions. The internal auditor of the future must be able to adapt to the sustainable and digital transformation landscape and be prepared to lead in a tech-centric audit landscape," he said in his welcoming address. "Therefore, the continuous professional development of our members is of paramount importance to us."

Over 1,700 internal bank auditors have been professionally certified since the Institute's audit certification was first introduced in 1998.

PRIVATE INFRA INVESTMENTS TAKE A CLEANER PATH

The World Bank posts a record according to its *2023 Private Participation in Infrastructure* report. The renewable energy sector led the way, with a tripling of investments particularly in the Middle East and North Africa region, and East Asia and Pacific region. In a nutshell, the World Bank saw:

- **USD4.3 billion** received in investment commitments, equivalent to an 18% increase in funds year-on-year.
- Delivery in a record **53 global projects**, most of which are in the world's poorest countries.
- In line with climate change targets, **97% of electricity generation projects** were renewable in 2023, compared to 93% in the previous five-year period.
- **Solar photovoltaic technology** accounts for 41% of all power generation capacity in low- and middle-income countries, followed by wind technology (29%), and hydropower (17%).



Hot-house Finance

Bank Negara Malaysia's (BNM) methodology paper on Climate Risk Stress Testing (CRST), issued on 29 February 2024, sets out its expectations for financial institutions. The paper outlines the refinements – qualitative and quantitative – which banks should be making to their existing risk management strategies and new stress testing approaches that should be explored as they incorporate climate-related risks into their assessments.

The document facilitates financial institutions' learning and capacity building as they carry out the industry-wide CRST exercise this year in order to gain vital hands-on experience in measuring the impact of climate-related risks on their assets, insurance / takaful liabilities and business operations through the 2024 CRST exercise.

The central bank notes: "Although current risk measurement approaches may not yet be sufficiently comprehensive and accurate to produce robust estimates of climate-related risks impact, the 2024 CRST exercise will provide financial institutions an opportunity to refine their existing risk management strategy and explore new stress testing approaches that are relevant for assessing climate-related risks."

As one of the cornerstones of sustainable finance, the 2024 CRST exercise aims to enhance financial institutions' capabilities in the following areas

IMPROVE the understanding and appreciation amongst board, senior management, and staff of financial institutions on how the business and operations of financial institutions could be impacted by climate-related risks

EXPLORE novel approaches that could lead to better identification and measurement of financial institutions' exposures at risk to climate change

IDENTIFY current gaps, specifically those related to data, measurement, methodology, technology, and capabilities, as well as potential solutions to these challenges.

The 2024 CRST models the impact of physical and transition risks arising from three long-term adverse climate scenarios:

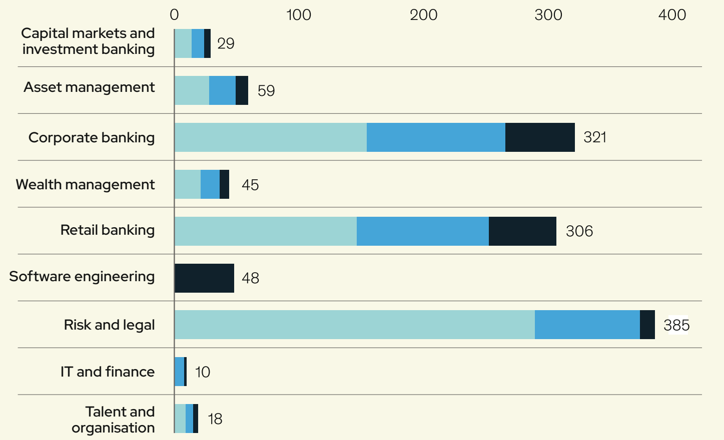
- **Orderly – net zero 2050:** An orderly transition to a low-carbon world, limiting global warming to 1.4°C in 2050.
- **Disorderly – divergent net zero 2050:** Detect financial institutions' vulnerabilities to a disorderly transition in the climate-policy pathway, while limiting global warming to 1.4°C by 2050.
- **Hot House World:** Assess the vulnerability of current business models to inadequate climate policies, leading to an increase in global temperature of 2.6°C by 2050.

Although the CRST will not currently lead to additional capital requirements, this does not rule out the possibility that corporations which fail to demonstrate adequate resilience measures to counter climate risk may be subject to increased prudential measures in future.

TIPS IN OUR FAVOUR

The McKinsey Global Institute estimates that banking is expected to have one of the largest opportunities when it comes to generative artificial intelligence with an annual potential between USD200 billion and USD340 billion (9%–15% of operating profit) on the back of increased productivity. The greatest gains are the corporate and retail banking sectors, whose potential upside are pegged at USD56 billion and USD54 billion, respectively.

Value Created by AI at Stake by Segment and Function, USD billion.



SOURCE: McKinsey & Co, Capturing the Full Value of Generative AI in Banking, Dec 2023.

AMLA Gets More Bite

On 19 March this year, the European Parliament passed the EU's Anti-Money-Laundering package, a historic set of measures to combat money laundering and terrorism financing at the Union level. First introduced in July 2021, the legislative package was part of a 2020 action plan for an integrated system that would empower both the Union authority and national jurisdictions as well as support EU financial intelligence units with a formal cooperation mechanism.

The two main elements of the EU AML package are:

- **A SINGLE AML RULEBOOK.** Harmonising AML regulations is no mean feat. The newly approved 'Single Rulebook' Regulation will tighten the noose on financial crime as it closes the loopholes currently exploited by criminals throughout global finance.
- **AN EU ANTI-MONEY-LAUNDERING AUTHORITY.** Working as a decentralised agency with its seat held in Frankfurt, the EU AMLA will act as both a regulator and a supervisor. The body is entrusted with direct supervision over what it terms 'selected obliged entities', i.e. certain high-risk credit and financial institutions (including high-risk cryptoasset service providers) and operates in at least six member states. For 'non-selected obliged entities', AML/CFT supervision will remain at the national level overseen by national supervisors.

Sentiments have proven positive since consensus was reached for this historic legislation.

In her keynote address at the European Anti-Financial Crime Summit 2024, Derville Rowland, Deputy Governor at the Central Bank of Ireland said in Dublin: "The creation of AMLA is a significant step in the right direction to confront the challenges we face, today and tomorrow."

"Most people do not think about designing regulation and supervisory architecture. Why would they? It is only something that catches people's attention when something goes wrong, either a micro issue involving a firm or a group of people, or a macro issue where the system no longer functions the way it should.

"We now have an opportunity to get the design right for AMLA so that it is set up in a way that when a shock or risk crystallises that it stands up to scrutiny. In recent years, there has been no shortage of risks and shocks in financial crime meaning getting the set-up of AMLA right is even more pronounced.

"AMLA will need to build in a way that allows it to be looking at the risks today but also be forward-looking and agile. This will allow it to pivot in its approach and focus when necessary to keep pace with change. Again, what aids this is not relying too heavily on prescription or process-driven approaches but more on flexible approaches that allow one to follow the risks, wherever they might lead."

‘You are Defined by Your Personal Core Values’

Reporting by the Banking Insight Editorial Team

Insights into the journey of the newest CEO to be conferred Chartered Banker status.

Our exclusive interview with ***MS NG WEI WEI, CB, CHIEF EXECUTIVE OFFICER OF UNITED OVERSEAS BANK (MALAYSIA) BERHAD*** is proof that fortune favours the bold as she joins our illustrious alumni of Chartered Bankers at the Institute’s 2024 conferment.

Q ***You have had an impressive career journey. Could you share with us the start of your banking career journey and key highlights of your professional life?***

Interestingly, being a career banker was never in the plan. In fact, I had always wanted to follow in my father’s footsteps to become an entrepreneur. So, after graduation, I decided to do a couple of years in banking to get exposure to various sectors of business before venturing out on my own.

But I discovered that banking goes beyond transactions and balance sheets; it’s really about making a real impact on people’s lives. I fell in love with banking and since then, I have been given the opportunity to hold various senior country and regional leadership roles at global financial institutions in Malaysia and Hong Kong.

There have been many key highlights throughout my career, but one that stands out is when I led UOB's successful acquisition and integration of Citigroup's consumer banking business in Malaysia. It was a massive and complex exercise. We migrated over a million former Citi customers' accounts onto UOB's platform. I am very proud of my team as we simultaneously managed the integration while continuing to deliver for our clients. At the same time, we also hit record income and profit last year.

Another defining milestone in my career was when I was responsible for overseeing trade businesses for 10 countries in the Asia-Pacific region for an international financial institution.

I don't recall ever waking up thinking why I chose a career in banking, even when the going was tough. In fact, I find my job to be incredibly fulfilling as I have the unique opportunity to support communities and businesses and make a meaningful contribution to the country's economic growth.

Ms Ng delivering the keynote address at *Prestige Malaysia*'s 2024 Women of Power Summit. This is the bank's second year of collaboration with *Prestige*, and the partnership reflects the bank's commitment to building a more diverse and inclusive workforce, while making a positive impact on the community that the bank serves.

Photo credit: Saufi Nadzri for *Prestige Malaysia*

Q *You have seen and lived through a fair share of tumults and changes throughout your career. What values do you hold that keep you steady in rough waters?*

I strongly believe that you are defined by your personal core values. With that, setting a moral compass for myself early on has helped me make better decisions and choices as I moved up the ladder.

There are two values which I feel are particularly important. The first is integrity. Success in banking is as much about people as it is about numbers. As a banker, you must build strong, trust-based relationships with your stakeholders. To me, my credibility is my brand equity. I have been in situations where I had to choose between walking away from a deal or compromising my integrity. I have also had to make unpopular decisions because it was the right thing to do.

The second important value is having a growth mindset. This is especially critical as the financial industry keeps evolving; what has served us well before may not ensure our success tomorrow. For example, just five years ago, sustainability was still an abstract concept to many, but today, it is a key strategic consideration which directly impacts and shapes how we operate in the financial industry. I had to learn alongside my colleagues and today, I am very pleased to be on board this journey with like-minded stakeholders to help our country and businesses transition.

Q *Your strong passion for continuous development and learning is evident from your own effort when you recently attained Chartered Banker qualification via the CBBE route. This is despite your busy schedule and during a pivotal time for UOB. How do you think organisations like AICB can help shift the culture and mindset amongst next-gen bankers towards continuous learning and upskilling, especially now that you have also become a Chartered Banker?*

Pursuing the Chartered Banker qualification was demanding of my time, but it was a challenge that I am very glad I took on.

I have always advocated lifelong learning and the importance of maintaining a growth mindset. And because I also believe in leading by example for my team, I completed the course last year when we were in the thick of migrating former Citi customers onto the UOB platform.

Balancing work and assignments was tough, and resilience and commitment were key. Despite my hectic schedule, I stayed focused on my goal because I wanted to show to my son and my team that no matter how busy we are, we must always prioritise growing ourselves to our full potential.

It is very good that AICB has this platform to help us excel in our careers. AICB's programmes and professional certifications are structured in a way that learning becomes an ongoing journey. Apart from shaping the mindset of young bankers towards continuous learning, the platform also allows them to network and learn from senior bankers, which will help deepen the pool of talent in our industry.

Q *Employee well-being is now top-of-mind for corporations. What have you done in your organisation to drive this?*

The people pillar is an integral part of our growth strategy and so, promoting employee well-being is one of my key priorities. At our bank, we have implemented comprehensive wellness initiatives that cover mental, physical, financial, and social health so our people can reach their full potential.

Our new headquarters, UOB Plaza 1 Kuala Lumpur (P1), was built as a green building with our employees' wellness in mind. Besides having our own gym, games room, and other wellness amenities, we also have a childcare centre that provides early education through play-based learning so that our people can have the peace of mind that their children are well taken care of while they are at work. Today, the childcare centre takes care of more than 50 children including newborns, and P1 has received platinum certifications from Malaysia's GreenRE and Singapore's BCA Green Mark. Having moved into P1 over 1.5 years ago, I am very pleased to see my employees having a strong sense of pride working in UOB.

Beyond that, I initiated our first country corporate social responsibility programme for the bank in Malaysia so our people can volunteer their time and give back to the community. Launched this year, we tied up with the SOLS Foundation to roll out various activities that help marginalised communities in the country, which so far has been very fulfilling. I also established the bank's first diversity, equity, and inclusivity committee to ensure that we foster a welcoming and supportive workplace for our people.

UOB Plaza 1 Kuala Lumpur is the first bank headquarters in Malaysia to achieve Platinum certifications from Malaysia's GreenRE and Singapore's BCA Green Mark.

I hope that all these initiatives create a positive and inclusive work environment where my people can thrive.

Q *As the sustainability agenda deepens in importance and with you being one of the thought leaders in the industry, what are the key areas that banking needs to step up in order to make Net Zero a reality?*

The financial sector in Malaysia has made a lot of headway in helping to drive the sustainability agenda for the country but if we want to move it to the next level, we need to continue our close collaboration with the government, regulators, industry associations, and certification bodies.

I believe that developing clear sectoral pathways with defined baselines and targets is crucial in the transition to net zero as different industries have unique challenges and opportunities when it comes to sustainability. Equally critical is enabling policies that are practical and implementable, not just for big corporations but also for small- and medium-sized enterprises (SMEs). Additionally, setting timelines for decarbonisation will ensure that we are all moving in a timely and coherent manner.

Overall, I am very encouraged by the positive developments we are seeing in the country. This year onwards, we are seeing more effort from large corporations, i.e. anchors, committing to achieving net zero as well as engaging and supporting their supply chain to transition. Their efforts include capacity building, setting environmental, social, and governance targets, providing support on data baselining, and so on.

Here, banks can play a part by working with anchors to help the supply chain, which are largely SMEs, to transition progressively. This would also help financial institutions in managing Scope 3 financed emissions, which is ultimately dependent on the real economy.

Secondly, we also see increasing conversations around transition finance. And lastly, the availability of professional qualifications in sustainability, such as those offered at AICB, is growing, which will equip more Malaysians with the skills needed to drive this transformation. ✱

A FAST & FURIOUS DRESS-DOWN

By Angela SP Yap

When it comes to window dressing, Basel takes the bull by the horns.

Do you seem more attractive than you actually are?

Or rather, does your bank look better than it actually is?

That is what we call window dressing, behaviour that is increasingly coming under the radar of supervisory authorities led by the Basel Committee on Banking Supervision (BCBS).

In the decade since the adoption of chapter SCO40 of the consolidated Basel Framework in 2013, which describes the indicator-based measurement approach for assessing global systemically important banks (G-SIBs), the BCBS has stated: "Window-dressing by banks is unacceptable, as it undermines the intended policy objectives of the leverage ratio requirement and risks disrupting the operations of financial markets."

BRACE FOR IMPACT

"The mismeasurement of systemic importance in the G-SIB methodology due to window-dressing activity can result in changes in the allocation of G-SIBs to the buckets used to assign the higher loss absorbency requirements and the misidentification of G-SIBs. Also, bank scores in the G-SIB framework are calculated using a relative methodology, which means that any window-dressing behaviour by banks to artificially lower their G-SIB scores will cause the scores of banks that do not engage in window-dressing activities to increase.

"These impacts have implications for financial sector resilience and resource efficiency as well as broader unintended consequences for both financial stability and monetary policy."

Evidence from the BCBS' quantitative impact study, *Working Paper 42: Banks' Window-dressing of the G-SIB Framework,* indicate that the existing G-SIB framework generates window-dressing incentives, with such behaviour occurring significantly more in the group of banks that lie just below the G-SIB bucket threshold since 2016.

In order to rein in such behaviour, on 7 March 2024, the BCBS published its proposed revisions to the assessment framework containing potential measures

The Financial Stability Board, in consultation with the BCBS and national authorities, apply the following requirements to G-SIBs:

- **Higher capital buffer:** Since the November 2012 update, the G-SIBs have been allocated to buckets corresponding to higher capital buffers that they are required to hold by national authorities in accordance with international standards. The capital buffer requirements for the G-SIBs identified in the annual update each November will apply to them as from January fourteen months later. The assignment of G-SIBs to the buckets, in the list published below, determines the higher capital buffer requirements that will apply to each G-SIB from 1 January 2025.
- **Total Loss-Absorbing Capacity (TLAC):** G-SIBs are required to meet the TLAC standard, alongside the regulatory capital requirements set out in the Basel III framework. The TLAC standard began being phased-in from 1 January 2019.
- **Resolvability:** These requirements include group-wide resolution planning and regular resolvability assessments. The resolvability of each G-SIB is reviewed in the FSB Resolvability Assessment Process by senior regulators within the firms' crisis management groups.
- **Higher supervisory expectations:** These requirements include supervisory expectations for risk management functions, risk data aggregation capabilities, risk governance, and internal controls.

LIST OF G-SIBs AS OF NOVEMBER 2023

Bucket: 5 (3.5%*)

- N/A

Bucket: 4 (2.5%*)

- JP Morgan Chase

Bucket: 3 (2.0%*)

- Bank of America
- Citigroup
- HSBC

Bucket: 2 (1.5%*)

- Agricultural Bank of China
- Bank of China
- Barclays
- BNP Paribas
- China Construction Bank
- Deutsche Bank
- Goldman Sachs
- Industrial and Commercial Bank of China
- Mitsubishi UFJ FG
- UBS

Bucket: 1 (1.0%*)

- Bank of Communications (BoCom)
- Bank of New York Mellon
- Groupe Crédit Agricole
- Groupe BPCE
- ING
- Mizuho FG
- Morgan Stanley
- Royal Bank of Canada
- Santander
- Société Générale
- Standard Chartered
- State Street
- Sumitomo Mitsui FG
- Toronto Dominion
- Wells Fargo

**The numbers in parentheses are the required level of additional common equity loss absorbency as a percentage of risk-weighted assets that each G-SIB will be required to hold in 2025.*

to mitigate window-dressing behaviour in G-SIBs. The consultative document, *Global Systematically Important Banks – Revised Assessment Framework,* outlines revisions which would require banks to report and disclose the indicators used to calculate G-SIB scores based on average values over the reporting year, rather than year-end values.

A TURN IN THE ROAD

To recap, the current assessment methodology for G-SIBs is an indicator-based approach comprising five broad categories: size, interconnectedness, lack of readily available substitutes or financial institution infrastructure, global (cross-jurisdictional) activity and complexity. Banks are designated as G-SIBs based on these indicators and supervisory judgment.

G-SIBs are subject to higher capital requirements and other policy measures to reduce the probability and impact of their failure. In particular, they must maintain additional capital buffers, the size of which range from 1% to 2.5% Common Equity Tier 1 (CET1) depending on a bank's systemic importance.

Potential revisions would require banks to report and disclose the indicators used to calculate G-SIB scores based on average values over the reporting year, rather than year-end values. Industry comments were submitted by 7 June 2024. They were not entirely supportive.

A joint response by the International Swaps and Derivatives Association, the Global Financial Markets Association and the Institute of International

The consultative document, Global Systematically Important Banks – Revised Assessment Framework, outlines revisions **WHICH WOULD REQUIRE BANKS TO REPORT AND DISCLOSE THE INDICATORS** used to calculate G-SIB scores based on average values over the reporting year, rather than year-end values.

Finance – private trade organisations whose members, mainly banks, transact in the over-the-counter derivatives market – believe that the BCBS findings and focus on perceived window-dressing behaviour is "not founded on robust evidence".

The coalition's inclusion of several anonymised responses from member banks across the major banking jurisdictions highlight the variety of operational challenges that would apply across all jurisdictions and business models in banking and finance.

"The feedback is therefore intended to help achieve higher-quality data over the financial year to support the G-SIB assessment framework, rather than focusing on purported window-dressing behaviour."

Those in industry who are supportive of the BCBS' objectives and methodology to mitigate window dressing in banking operations have raised concerns regarding the data requirements and additional regulatory compliance burdens in a financial ecosystem that's already bursting at the seams.

The proposals put forth by the World Savings and Retail Banking Institute are just part of the feedback that the BCBS need to take into account to ensure a more proportional G-SIB framework and less burdensome reporting requirements for banks:

"Regulators should there[fore] consider a phased approach to implementing these requirements, with gradual rollout times, which can grant banks sufficient time to upgrade and adapt their processes without compromising data integrity. Additionally, the BCBS should take into account materiality of each entity and their weight in terms of those indicators that are more likely to incentivise window-dressing behaviours during the G-SIB assessment exercise. That would contribute to setting more proportional, risk-sensitive, and meaningful requirements. Informational requirements should be proportionate to 'window-dressing risks'. As such, by tailoring reporting to the specific operation situation of a bank, it would be more practical to limit the assessment to monthly averages and quarterly average reporting should be sufficient to achieve the BCBS objectives on this matter."

Regulators should there[fore] consider a phased approach to implementing these requirements, with gradual rollout times, **WHICH CAN GRANT BANKS SUFFICIENT TIME TO UPGRADE AND ADAPT THEIR PROCESSES WITHOUT COMPROMISING DATA INTEGRITY.** Additionally, the BCBS should take into account materiality of each entity and their weight in terms of those indicators that are more likely to incentivise window-dressing behaviours during the G-SIB assessment exercise.

NATIONAL DISCRETION

What does this revision to G-SIB assessment mean for us?

Just as these selected international banks are subject to additional requirements over and above those of Basel III, national supervisory authorities can opt to translate the same modality to domestic systemically important banks.

In Malaysia, these powers rest with the central bank, Bank Negara Malaysia, and Perbadanan Insurans Deposit Malaysia, the resolution authority for banks and member institutions. In September 2023, the latter issued its *Guidelines on Resolution Planning for Deposit-Taking Members,* outlining the objectives, approach, and requirements for resolution planning.

Translating these global rules to the national level are led by those who are best placed to determine the impact of failure in the local financial ecosystem. ✱

SUMMARY OF PROPOSED REVISIONS TO THE ASSESSMENT FRAMEWORK FOR G-SIBS

The proposed revisions are aimed at negating window-dressing incentives and will apply to international banks at the consolidated level with a proposed transitional period starting on 1 January 2026 and proposed implementation date of 1 January 2027. During the transitional period:

1. reporting banks will be required to report both financial year-end values and, on a best-efforts basis, their averaged values; and
2. supervisors will be expected to apply supervisory judgment in cases in which material differences between those values are observed.

AREA OF REVISION	CURRENT	PROPOSED
Reporting data	Stock data used to calculate the G-SIB indicators are based on financial year-end values.	Stock data used to calculate the G-SIB indicators to be based on an average of values over the financial year. The BCBS is seeking feedback on the range of averaging frequencies, including daily average, average over month-end values and average over quarter-end values. The Committee sees benefits in using the average of daily values over the financial year for the calculation of the stock data items, rather than financial year-end values, as this would negate any window-dressing incentives.
Sample of reporting banks	Data supplied by a large sample of banks as proxy for the global banking sector are used to calculate banks' scores. Banks fulfilling any of the following criteria are included in the G-SIB assessment sample: 1. Banks that the Committee identifies as the 75 largest global banks, based on the financial year-end Basel III leverage ratio exposure measure, including exposures arising from insurance subsidiaries. 2. Banks that were designated as G-SIBs in the previous year (unless supervisors agree that there is compelling reason to exclude them). 3. Banks that have been added to the sample by national supervisors using supervisory judgment.	Point 1 will be amended such that the 75 largest global banks are no longer identified based on the year-end amount of the leverage ratio exposure measure, but on the average of this measure over the financial year.
Disclosure requirements	For each financial year-end, all banks with a leverage ratio exposure measure (including exposures arising from insurance subsidiaries) that exceeded EUR200 billion in the previous year-end should be required to make publicly available the 13 indicators used in the G-SIB assessment methodology. Banks that do not qualify for the G-SIB assessment sample but whose leverage ratio exposure measure exceed the EUR200 billion threshold form part of the additional G-SIB sample.	The 13 indicators to be disclosed will no longer be based only on year-end values, but on the averaged amounts over the financial year, taking into account any potential adjustments. The criteria to determine which banks will be subject to the disclosure requirements are expected to remain based on the leverage ratio exposure measure (including exposures arising from insurance subsidiaries) as of the previous year-end.

AREA OF REVISION	CURRENT	PROPOSED
Scope of banks subject to the new requirements	N/A	In principle, the Committee sees benefits in a wide application of the new averaging requirements, for example to all banks in the G-SIB assessment sample and all banks in the additional G-SIB sample. Options under deliberation include: • Applying the highest-frequency (i.e. daily) averaging requirement to a narrower set of banks and a lower-frequency (e.g. month-end or quarter-end) averaging requirement to the remaining banks • Applying the highest-frequency averaging requirement to existing G-SIBs and to any bank close to the G-SIB identification threshold based on a numerical cutoff, while applying an averaging requirement with a lower-frequency to the remaining banks in the G-SIB assessment sample and to banks in the additional G-SIB sample. • Feedback on approaches to the scope of application of an averaging requirement as described above: a. apply the same averaging frequency to all banks in the G-SIB assessment sample and in the additional G-SIB sample; b. apply a higher averaging frequency to banks in the G-SIB assessment sample and a lower frequency to banks in the additional G-SIB sample; and c. apply a higher averaging frequency to G-SIBs and banks in the reporting sample that are close to the 130-basis-point G-SIB identification threshold (based on a numerical cutoff) and a lower averaging frequency to other banks in the G-SIB assessment sample and to banks in the additional G-SIB sample.
Application of new requirements to a subset of indicators only	• Some indicators, such as payment and underwriting activities and certain trading indicators, are based on *flow*, rather than *stock*, variables. • Some indicators are more difficult to value at a high frequency (e.g. off-balance sheet items as part of the total exposure measure, or Level 3 assets) or they may be less likely to be targeted for window-dressing.	• The stricter reporting requirements should apply only to stock variables, and the current year-end reporting should continue to apply to flow variables. • Due consideration will be given to evidence brought forward for specific data items or indicators for which reporting high-frequency averages would be particularly challenging.

■ *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.*

Unified Ledger: Blueprint for a Future Monetary System

By Kannan Agarwal

The foundation of trust provided by central bank money heralds fundamental changes in the financial world.

On 20 June 2023, in a special chapter published as part of the Bank of International Settlements' (BIS) annual economic report, the international institution for central banks discussed how it seeks to turn the page on the faltering progress of ongoing tokenisation projects through "a new type of financial market infrastructure – a unified ledger – [which] could capture the full benefits of tokenisation by combining central bank money, tokenised deposits, and tokenised assets on a programmable platform."

Entitled *Blueprint for the Future Monetary System: Improving the Old, Enabling the New*, it writes: "Today, the monetary system stands at the cusp of another major leap. Following dematerialisation and digitalisation, the key development is tokenisation – the process of representing claims digitally on a programmable platform. This can be seen as the next logical step in digital recordkeeping and asset transfer."

In finance, the issuance of tokens is used to represent assets such as central bank money or central bank digital currencies (CBDCs); bonds; equities; real estate; contracts; or even intellectual property (through non-fungible tokens). A recent podcast with Hyun Song Shin, economic adviser and head of research at the BIS, explains how tokens can be put to practical use in the financial world.

"Tokenisation is…a form of digital representation but on a programmable platform, which means that the token can govern the rules and logic regarding transfers as well as the information regarding the asset itself, like what it is, who owns it, et cetera."

In its present form, Hyun explains that transactions are recorded on separate databases and these need to be connected through separate

third-party messaging systems. This necessitates separate reconciliation processes in order for clearing to occur and transactions to be settled with finality. What the BIS envisions in the not-too-distant future is that financial institutions will harness the power of programmability of these tokens in order to combine the different parts of the process – trading, reconciliation, and settlement – into one seamless operation. For this to happen, however, the right elements must coalesce into a form that's bigger than the current sum of its parts.

Enter the concept of the unified ledger.

ZERO-FRICTION VISION

The BIS report states: "A unified ledger transforms the way that intermediaries interact to serve end users. Through programmability and the platform's ability to bundle transactions (composability), a unified ledger allows sequences of financial transactions to be automated and seamlessly integrated. This reduces the need for manual interventions and reconciliations that arise from the traditional separation of messaging, clearing and settlement, thereby eliminating delays and uncertainty. The ledger also supports simultaneous and instantaneous settlement, reducing settlement times and credit risks. Settlement in central bank money ensures the singleness of money and payment finality.

"Moreover, by having 'everything in one place', a unified ledger provides a setting in which a broader array of contingent actions can be automatically executed to overcome information and incentive problems. In this way, tokenisation could expand the universe of possible contracting outcomes."

According to the report, the first instances of the unified ledger concept are likely to be application-specific in scope. For instance, one ledger could aim at improving securities settlement, whilst another could facilitate trade finance in supply chains, however, all transactions would rely on similar elements: the use of CBDCs to give

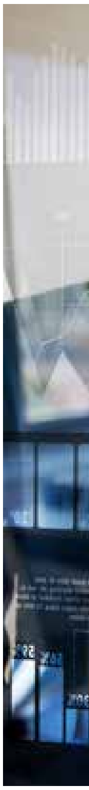
A unified ledger transforms the way that intermediaries interact to serve end users. Through programmability and the platform's ability to bundle transactions (composability), a unified ledger allows sequences of financial transactions to be automated and seamlessly integrated. **THIS REDUCES THE NEED FOR MANUAL INTERVENTIONS AND RECONCILIATIONS** that arise from the traditional separation of messaging, clearing and settlement, thereby eliminating delays and uncertainty.

some finality in terms of settlement; and the inclusion of only the relevant intermediaries and assets to ensure data privacy. The scope of a ledger will determine the players that must be involved in the governance arrangements.

Hyun explains further about the mechanics of this latest endeavour by the global financial overseer. "When we say unified ledger, we don't mean a single ledger; what we mean is a ledger that binds different elements. The unified ledger will knit together all the different elements and only those elements. So, if you're interested in securities transactions, what you would need is a CBDC for settlement, tokenised deposits to allow people to pay and receive, and tokenised versions of the securities themselves.

"Tokenisation has been explored in some private sector initiatives, but they are limited by the fact that it is pursued by a private institution or a consortium. It doesn't actually involve central bank money and if you don't have central bank money, you cannot have the final settlement that will give you the settlement finality to that transaction.

"The beauty of the unified ledger is that you've got central bank money in tokenised form – an example is a CBDC – which lives



on the same platform as other forms of tokenised money, like tokenised deposits issued by commercial banks. It also would have tokenised securities, which are programmable digital representations that are the counterpart to real securities registered in securities depositories.

"It (the unified ledger) is what brings everything together onto one programmable platform. You can execute related transactions [and] overcome the information incentive problems that have been the bane of a lot of applications of digital money."

SMOOTHER TRADE FINANCE

He elaborates: "[One] example that we deal with in some length in some chapters is supply chain finance. Now this is a well-known thorny issue in economics…and below is a very concrete example of a buyer-versus-seller type of incentive problem.

"Upstream suppliers, who tend to be smaller medium-sized enterprises (SMEs), have a great deal of difficulty integrating themselves into the financial system in a way that makes the supply chain work smoothly. What typically happens is that there is an anchor buyer – a big firm – and they need some intermediate input in order to produce their final goods. This intermediate input could come from an SME, it could come from another country, or it could be far away. It requires time for the production to take place, it needs time for the goods to be transported, and that upstream buyer, in turn, could be reliant on yet higher upstream buyers. It is a long chain.

"For the anchor buyer," says Hyun, "ideally, they would like to only pay once the goods are delivered. If you are the upstream supplier and a small firm, you're not flush with cash and would like to get some credit based on this."

"Here's a field that's rife with fraud," Hyun continues. "If you are an unscrupulous firm, you could approach two banks with the same order that you have received and get two lines of credit. There is no way of checking. It gets even more complicated. Suppose you ship it but…there is a storm and the goods are lost. What do you do then? For all these reasons, credit is very expensive [for the SME], if you get it at all. This is a classic example in economics where you have got an incentive problem because once you have the money, you may not want to put in the effort; then you have got information problems: you don't know how these things are actually arranged, you don't know who the upstream suppliers are, is it really a genuine firm?

"The ledger comes in to resolve all of these pieces. You can put everything together on one ledger as it is transparent. You can say, 'Let us advance a small payment to the upstream supplier first to get the production going,' and then there could be some sort of milestones that you keep track of. For example, you can rely on its global positioning system or the Internet of Things device and say, "Once the ship crosses the horn of Africa, then we will pay out the next tranche of the loan," or "Once the ship is in the proximity to the final buyer, then we will lower the interest rate."

What's the potential upside to the implementation of a unified ledger?

Although Hyun admits that no one can really put a tag on this because "we don't know how much of this is not happening because of incentive and information problems", the existence of this level of interoperability will most certainly promote financial inclusion and level the playing field for economic actors.

Uniting the elements of tokenised deposits, tokenised assets, and CBDCs onto one platform would yield long-term benefits which far outweigh the short-term costs arising from investment, coordination efforts, and the pain of adopting to new standards and procedures.

WHAT SEAMLESS LOOKS LIKE

Instead of the creation of 'one ledger to rule them all', the preferred approach is for incremental changes to existing systems. This can be achieved through either of these innovations:

+ **Blockchain oracles.** These are third parties that enter data onto the unified ledger so that they can be directly referenced by smart contracts.

- **Application Programming Interfaces (APIs).** An intermediary software that allows two applications to talk to each other, creating a network of networks.

The latter could bring about a unified ledger faster, cheaper, and with less coordination.

The BIS reports: "Depending on the needs of each jurisdiction, multiple ledgers, each with a specific use case, could coexist. APIs could connect these ledgers to each other and existing systems. Over time, they could incorporate new functions or merge as overlaps in scope expand. The scope of a unified ledger would also determine the parties involved in each ledger's governance arrangements."

However, there will be pain points arising from quick fixes built on top of legacy systems. Hyun emphasises: "There will be a limit to how complex it can be. Each layer needs to take into account its compatibility with the layers below. It is complex and it limits what can be done in terms of programmability. At some point, it might even be better to migrate to a new financial market infrastructure, a brand new one that can start on a clean slate."

Tokenisation represents a significant opportunity, but it seems that finance is still at a crossroads when it comes to the financial architecture that will best serve the needs of the future.

What cannot be denied is that any redesign of governance for new financial market infrastructures – including payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories – should adhere to the standards that are clearly laid out in the *Principles for Financial Market Infrastructures* (**Figure 1**), a key document issued by the BIS' Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), which is essential to strengthening and preserving financial stability.

When read in tandem with other key documents such as the Financial Stability Board's *Key Standards for Sound Financial Systems* and the *CPMI-IOSCO's Application of the Principles for Financial Market Infrastructures to Stablecoin Arrangements*, it's clear that although international standards can accommodate innovations in financial governance, the real acid test will be how each jurisdiction operationalises these principles to ensure the twin goals of financial stability and financial innovation are concurrently met. ✱

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

Principles for Financial Market Infrastructures (FMIs)	
Principle 1	Legal basis
Principle 2	Governance
Principle 3	Framework for the comprehensive management of risks
Principle 4	Credit risk
Principle 5	Collateral
Principle 6	Margin
Principle 7	Liquidity risk
Principle 8	Settlement finality
Principle 9	Money settlements
Principle 10	Physical deliveries
Principle 11	Central securities depositories
Principle 12	Exchange-of-value settlement systems
Principle 13	Participant-default rules and procedures
Principle 14	Segregation and portability
Principle 15	General business risk
Principle 16	Custody and investment risks
Principle 17	Operational risks
Principle 18	Access and participation requirements
Principle 19	Tiered participation arrangements
Principle 20	FMI links
Principle 21	Efficiency and effectiveness
Principle 22	Communication procedures and standards
Principle 23	Disclosure of rules, key procedures, and market data
Principle 24	Disclosure of market data by trade repositories

Responsibilities of central banks, market regulators, and other relevant authorities for FMIs	
Responsibility A	Regulation, supervision, and oversight of FMIs
Responsibility B	Regulatory, supervisory, and oversight powers and resources
Responsibility C	Disclosure of policies with respect to FMIs
Responsibility D	Application of the principles for FMIs
Responsibility E	Cooperation with other authorities

Figure 1 *Principles for Financial Market Infrastructures: Overview of Principles and Responsibilities*, CPMI-IOSCO, April 2012.

OBJECTIVITY AND INDEPENDENCE

By Bob Souster

The threats to objectivity in making independent / unbiased judgement calls.

Both the Malaysian Code on Corporate Governance and the Asian Institute of Chartered Bankers (AICB) Code of Professional Conduct refer to objectivity and independence. This article explains the importance and significance of these terms and explores some of the challenges that banks face when applying these important qualities.

The intended outcome of Principle A of the Malaysian Code on Corporate Governance states:

> **'Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights'.**

It also states that:

> **'An effective board should include the right group of people, with an appropriate mix of skills, knowledge and experience and independent elements that fit the company's objectives and strategic goals'.**

The AICB Code of Professional Conduct includes objectivity as one of its six principles, defined as follows:

> **'Objectivity: Members shall act impartially and not allow self-interest, bias or conflicts of interest to influence business decisions or judgements.'**

While the Malaysian Code of Corporate Governance focuses on how companies are directed and controlled, the AICB Code of Professional Conduct is binding on members of the Institute.

Objectivity and independence are distinctive concepts, but views differ on how they relate to one another. Some use the terms interchangeably, which may depend on the context in which they are used. However, according to Mike Jacka, writing in a 2023 article for *Internal Auditor,* "Independence is a sub-set of objectivity. Yes, independence is crucial to the work we do. But it is only one of the aspects of objectivity we must consider". However, both terms are highly relevant to professionals, irrespective of their fields of expertise.

The key terms in the AICB definition are self-interest, bias, and conflicts of interest. If an individual applies any of these in forming a judgement then their ability to be objective may be compromised.

+ **Self-interest** arises when there is a conflict between their personal interests and those of stakeholders, who may include customers, colleagues or other stakeholders. An oft-cited example of this arose during the global financial crisis when some bankers were accused of mis-selling products and services in order to generate lucrative bonuses based on sales performance.

+ **Bias** is exhibited when an individual has a personal preference which influences their judgement or decisions. Most people would admit to some bias in relation to their personal or business lives, but biases become material when they influence judgements concerning strategic options and choices. For example, one major European supermarket chain admitted that the board's insistence on continuing to operate physical stores and not develop online services resulted in them being five years behind its competitors, which created significant problems when the Covid-19 pandemic forced many customers into online shopping.

+ **Conflicts of interest** arise when a professional undertakes services for two or more people whose interests are in conflict, or when the professional's own interests are in conflict with those of a party with whom they are dealing.

The latter is, of course, an example of self-interest.

Several professional bodies in the field of accountancy also regard undue influence as a threat to objectivity. For example, the International Federation of Accountants (IFAC) includes undue influence in its definition of objectivity alongside bias and conflicts of interest. Undue influence may occur when a person's influence is such that it can sway the judgement of a professional. It can occur when the influence comes from a respected person or one in a position of actual or perceived authority.

In its code and guidelines, IFAC goes on to describe five threats to objectivity of which professionals should be aware and be prepared to mitigate. These are:

Self-interest, as described above.

Self-review, which may inhibit a professional from properly evaluating the results of a previous judgement (such as their own input into a decision or process).

Advocacy, through which the professional promotes the interests of a party to the point of compromising their own objectivity.

Familiarity, arising from having a long-term close relationship with a client or other stakeholder that may lead to having a more sympathetic view of their interests (this is one of the reasons why the Malaysian Code on Corporate Governance states that directors should serve on a board for no longer than nine years, as the ability to remain truly independent diminishes over time).

Intimidation, through which the professional may be deterred from exercising truly objective judgement due to actual or perceived pressure from another person or organisation.

While these threats were codified by accountancy bodies, all are extremely relevant in the banking industry. For example, an internal auditor could be asked to audit a team with which they worked in the recent past and might even have developed some of the team's procedures and processes. Likewise, a corporate banker may be asked to conduct a credit assessment on a client whose initial public offering was handled by the bank. Historically, many financial institutions have fostered close relationships with other companies and this may result in both familiarity threat and intimidation threat.

These factors are important at all levels of banking. Just as all directors of a bank (not just non-executive directors) should be prepared to exercise independent judgement, employees and agents at operational level may be confronted by situations in which their objectivity is challenged. Examples from the past include employees short-cutting (or ignoring) customer due diligence procedures because they know the customer well and lines of credit being approved based on reciprocal business arrangements with powerful or influential persons.

In particular, conflicts of interest can never be eliminated entirely, but best practice suggests that conflicts should be managed appropriately, with adequate safeguards developed and implemented to minimise their potential adverse effects.

For many people in banking, the global financial crisis is a distant memory, but new problems emerge as old ones recede and are consigned to the history books. The demise of Silicon Valley Bank and the forced takeover of Credit Suisse by UBS arose from those organisations taking unsound decisions or making uninformed strategic choices. At the highest levels of organisations, individuals and small groups of individuals take decisions which are driven and backed by their own knowledge, skills and experience, but an increasingly complex environment coupled with an accelerating pace of change will almost inevitably result in decision takers requiring the support of more external experts, some of them highly specialised.

How can we make sound, objective decisions about the future when we have little idea of how the external environment will change? A good example of this is blockchain technology, which is in its infancy in conventional banking but an established feature of cryptocurrency markets. Three years ago, blockchain was introduced into the syllabus of a professional examination offered by a European institute. The two main tuition providers were asked to include content on blockchain in their teaching materials. While both adopted similar approaches to explaining how blockchain works, one set of materials focused heavily on the benefits that blockchain would bring while the other emphasised the problems that would be created. In like manner, regulators have similar issues to confront when adapting the regulatory environment for developments that cannot be regulated in conventional ways.

With the development of Sustainable Development Goals and the introduction of the Principles for Responsible Banking, how can directors and executives approach decisions that they want to be consistent with environmental, social, and governance commitments without engaging an army of technical advisers, specialists, and academic subject experts? A simple answer is, of course, that decision-takers will continue to make professional judgements as objectively as possible and make important 'calls' in good faith. ✱

> Familiarity, arising from having a long-term close relationship with a client or other stakeholder that may lead to **HAVING A MORE SYMPATHETIC VIEW OF THEIR INTERESTS** (this is one of the reasons why the Malaysian Code on Corporate Governance states that directors should serve on a board for no longer than nine years, as the ability to remain truly independent diminishes over time).

■ *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 has worked extensively on the Chartered Banker MBA programme at Bangor University, Wales, since its inception, serving as both a Module Director and, currently, as a Moderator for 'Ethics, Regulation and Compliance' and 'Financial Institutions' Risk Management.'*

DECARBONISING THE BANKING SECTOR

How Green Finance is Paving the Pathway for Institutions to Achieve their Net-zero Targets

By Dr Chee Wei Yen

Navigating the complexities of green financing in order to achieve decarbonisation and environmental sustainability.

As the world confronts the escalating climate crisis, the imperative for all sectors to reduce their carbon footprints has never been more pressing. The banking sector, with its vast influence and resources is no different. Being uniquely positioned to drive the transition to a low-carbon economy, banks play a pivotal role in achieving global net-zero targets such as limiting global temperature rise to 1.5°C as set out during the 2015 Paris Agreement and the climate financing commitments detailed in the 2021 Glasgow Climate Pact. Central to this transformation is green finance – a set of financial practices and instruments specifically designed to support environmental sustainability. Through the incorporation of green finance into their individual portfolios, the banking sector can in turn tackle its most carbon intensive component – financed emissions – which account for 95% of its total carbon footprint. This article will explore how green finance could pave the way for financial institutions to achieve net zero, highlighting its mechanisms, benefits, and the challenges that need to be addressed to make this critical transition a reality.

UNDERSTANDING DECARBONISATION IN THE BANKING SECTOR

As the crucial role of banks in financing the global transition away from carbon-emitting activities gains greater recognition, stakeholders are increasingly pressuring banks to address their environmental impact. This demand is not only about responsibility but also profitability; banks that demonstrate due diligence and a commitment to environmental accountability often enhance their reputation and financial performance. This notion of profitability from environmental commitments and aligning a bank's portfolio with net-zero targets is further supported in the 2022 study by Bain & Company, *Bank's Great Carbon Challenge,* which highlighted that early pioneers of sustainable investments and practices would see an estimated profit growth of around 25%–30% by 2050 (**Figure 1**).

Additionally, one key initiative that has spurred the banking sector's transition towards carbon neutrality was the

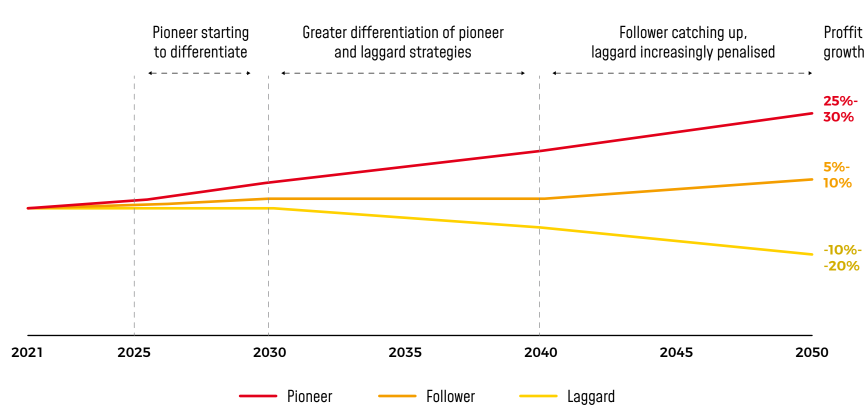


Figure 1 Profit Growth Index for a Pioneer Bank
Source: IPCC; GFANZ; annual reports; Bain analysis

formation of the Net-Zero Banking Alliance (NZBA) launched in 2021 by the United Nations Environment Programme Finance Initiative. Formed as a part of the broader Glasgow Financial Alliance for Net Zero, the NZBA includes over 144 banks from 44 countries, with its members accumulating a total asset value of USD74 trillion, representing 41% of global banking assets. The inception of the NZBA has also instilled core values of transparency and accountability among its members through committing to the alliance's six principles of responsible banking, ensuring a consistent and credible approach to achieving these ambitious goals. This initiative has also led to significant transformations within the financial sector, galvanising a global consortium of banks to align their lending and investment portfolios with net-zero targets, with 46% of the world's leading banks committing to become net-zero organisations.

However, decarbonising the banking sector isn't straightforward, as it necessitates a two-pronged approach: reducing operational emissions and limiting the carbon footprint of financed activities. The complexities surrounding decarbonising the banking sector is seen in a 2022 study by Accenture, who found that despite the overwhelming pledges to carbon neutrality, an estimated 12% of banking institutions are on track to meet their Scope 1 & Scope 2 targets in 2050, with even less, at 5%, predicted to achieve Scope 3 decarbonisation. This is where green finance could play a crucial role, providing the tools and frameworks needed to drive widespread transition by offering innovative financial instruments and incentives that align with climate goals. Through green finance, banks can achieve decarbonisation targets while fostering sustainable economic growth and enhancing their market position.

DECARBONISING THE LENDING AND INVESTMENT PORTFOLIOS OF THE BANKING SECTOR

Aligning the banking sector with global climate change mitigation goals involves

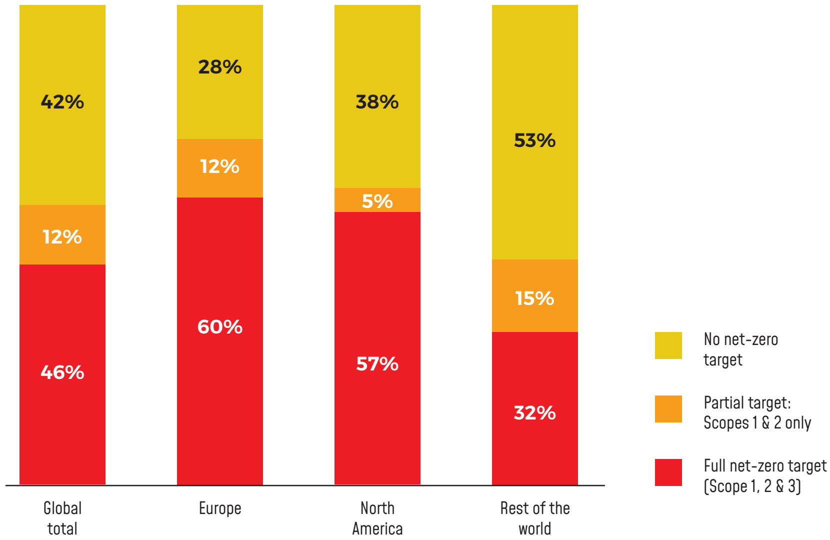


Figure 2 Net-zero commitments by major global banks
Source: Accenture's 2022 report titled 'Banking for Net Zero'.

This is where green finance could play a crucial role, providing the tools and frameworks needed to drive widespread transition by offering innovative financial instruments and incentives that align with climate goals. Through green finance, banks can achieve decarbonisation targets while **FOSTERING SUSTAINABLE ECONOMIC GROWTH** and enhancing their market position.

a strategic focus on reducing the carbon footprint of lending and investment portfolios. The Partnership for Carbon Accounting Financials (PCAF) provides an essential framework that guides banks in systematically measuring and disclosing the greenhouse gas (GHG) emissions associated with their financing activities. By adopting the PCAF standard, banks gain the capability to transparently measure, report, and reduce emissions linked to their portfolios, enhancing their contribution to environmental sustainability. Notably, financial institutions are actively advancing their efforts in decarbonising financed emissions, with several leading banks making significant headway. For instance, Maybank has set ambitious targets to achieve carbon neutrality in its operations by 2030 and is actively aligning its financing activities to reduce emissions, in accordance with PCAF standards. In its latest Environmental Report 2023, the bank disclosed that the carbon emissions from its financed projects have been reduced from 25.7 million tonnes of carbon dioxide equivalent (tCO2e) to 24.6 million tCO2e since 2021. This proactive approach underlines Maybank's dedication to sustainable banking practices and positions it as a leader in the industry's transition towards environmental sustainability.

The PCAF framework is structured into two comprehensive parts: Part A and Part B. Part A describes the general methodology for GHG accounting applicable across all financial products. It offers a uniform approach to emission calculation and reporting, ensuring consistency in how banks approach carbon accounting. This includes guidance on defining the scope of emissions, data collection techniques, calculation methods, and the specifics of emission reporting. Part B expands on this by addressing the specific challenges associated with diverse asset classes, such as mortgages, commercial real estate, corporate loans, and bonds. This part is particularly crucial for banks as it delves into the unique aspects of various financial instruments, providing tailored strategies for effective carbon management in each category. Utilising the PCAF standards enables banks to not only meet regulatory requirements and investor expectations for sustainability but also positions them as leaders in the shift towards a low-carbon economy. This commitment to rigorous carbon accounting and reduction through PCAF's guidelines demonstrates a bank's proactive stance on environmental stewardship and risk management, aligning business operations with the broader global agenda for sustainable development.

THE SURGE OF GREEN FINANCE & ITS ROLE IN DECARBONISING THE BANKING SECTOR

Having first been introduced in 1997 following the Kyoto Protocol, green financing wasn't adopted into mainstream banking until the early 2000s when the European Investment Bank issued the first ever green bond in 2007, historically marking the beginning of green finance. Since then, spurred on by numerous legislations and a growing investor preference for sustainable practices, the field has expanded significantly. Green finance now encompasses green bonds and loans, ESG integration, and climate risk assessments. Notably, the market valuation of green bonds and loans aimed at financing environmentally positive projects has surged to an estimated USD1.05 trillion by 2024. ESG investments have also grown, with ESG assets expected to exceed USD50 trillion by 2025. This monumental shift in investor preferences highlights the financial sector's prioritisation of environmental considerations and underscores the vital role of green finance in addressing climate challenges. In the first half of 2023 alone, the issuance of green bonds globally reached a record USD314 billion. Banks like HSBC are also contributing, committing to provide USD100 billion in sustainable financing by 2025. Incorporating environmental, social, and governance (ESG) criteria into investment decisions ensures that banks' financial activities align with sustainability goals. This approach not only reduces direct operational emissions – by adopting green building practices and energy-efficient tecnologies – but also curbs the carbon footprint of their financed activities. With sustainable investments now accounting for nearly one-third of all assets under

Since then, spurred on by numerous legislations and a growing investor preference for sustainable practices, the field has expanded significantly. **GREEN FINANCE NOW ENCOMPASSES GREEN BONDS AND LOANS,** ESG integration, and climate risk assessments. Notably, the market valuation of green bonds and loans aimed at financing environmentally positive projects has surged to an estimated USD1.05 trillion by 2024.

management globally, green finance is proving to be a powerful tool in the banking sector's transition to a low-carbon economy, ultimately helping to achieve net-zero emissions.

CHALLENGES AND BARRIERS TO DECARBONISATION THROUGH GREEN FINANCE

Decarbonising the banking sector through green financing faces several significant challenges. Regulatory and policy barriers present one of the foremost obstacles. Different regions have varying regulations and standards for green finance, making it difficult to create a unified approach. The lack of harmonised methodologies for measuring and reporting emissions, particularly Scope 3 emissions, complicates efforts to align with international climate targets. Financial and operational constraints further hinder progress. High upfront costs for green projects can be prohibitive, especially for banks in developing countries with limited financial resources. Additionally, the risk of stranded assets – investments that may lose value as the economy transitions to low-carbon – poses a significant financial risk, necessitating careful capital allocation. Data and transparency issues exacerbate these challenges. Accurate and comprehensive data on environmental impact is crucial for setting targets and tracking progress, yet many banks struggle with significant data limitations. According to the International Banking Federation and Deloitte report, *Banking on Climate Neutrality,* financed emissions represent around 75% of banks' carbon footprints but are notoriously difficult to measure accurately. The lack of reliable data can lead to greenwashing, where banks overstate their environmental achievements. Addressing these challenges requires a collaborative effort to standardise regulations, provide financial incentives, and improve data collection and transparency to ensure effective decarbonisation of the banking sector.

Financial and operational constraints further hinder progress. High upfront costs for green projects can be prohibitive, especially for banks in developing countries with limited financial resources. Additionally, the risk of stranded assets – investments that may lose value as the economy transitions to low-carbon – **POSES A SIGNIFICANT FINANCIAL RISK**, necessitating careful capital allocation. Data and transparency issues exacerbate these challenges.

STRATEGIES TO OVERCOME CHALLENGES

Overcoming the challenges to effective decarbonisation of the banking sector through green financing requires targeted strategies addressing regulatory and policy barriers, financial and operational constraints, and data and transparency issues. Advocating for harmonised global standards and policies, such as the European Union's Sustainable Finance Disclosure Regulation helps mitigate regulatory barriers, which mandates transparency in sustainability-related disclosures for financial market participants. For example, the European Investment Bank has led by example, becoming the world's first 'climate bank' by aligning all its financing activities with the Paris Agreement. Financial and operational constraints, including high upfront costs and limited green finance expertise, can be tackled through public-private partnerships and capacity-building initiatives. The Asian Development Bank has demonstrated this by mobilising over USD6 billion in climate financing annually, supporting renewable energy projects across Asia. Additionally, innovative financial instruments like green bonds and sustainability-linked loans can provide the necessary capital for green projects. Data and transparency issues necessitate the development of robust frameworks, such as the Task Force on Climate-related Financial Disclosures, are crucial, with over 1,500 organisations adopting it, including JPMorgan Chase, which has committed to aligning its financing activities with the Paris Agreement. By implementing these strategies and learning from successful case studies, banks can navigate the complexities of green finance and drive meaningful decarbonisation. ✱

■ *Dr Chee Wei Yen is an Executive Director with Deloitte and she holds a PhD in Finance from Lincoln University.*


AICB
ASIAN INSTITUTE OF CHARTERED BANKERS
Gain a competitive advantage with the Chartered Banker status
Find out more at www.aicb.org.my

Banking's Nine Lives

By Angela SP Yap

In the unrivalled push for global financial stability, how many more chances will we have to get it right?

Price tag: USD14 trillion.

That's what financial crises have collectively cost the world over the past two decades, according to the International Monetary Fund (IMF).

In its latest *Global Financial Stability* report in April 2024, the international financial institution warns that although near-term global financial stability risks have receded, its internal growth-at-risk framework points to expectations that global disinflation is entering its 'last mile'.

"Stalling disinflation," it reports, "could surprise investors, leading to a repricing of assets and a resurgence of financial market volatility." For context, readers may wish to revisit the background to this discussion in *Inflation: Why We Should All Take 'Small Steps in a Dark Room'* from *Banking Insight*'s June 2022 edition.

The question is whether we've moved past too-big-to-fail. Judging by last year's Credit Suisse creditor run and the failures at three US banks – Silicon Valley Bank, Signature Bank, and First Republic Bank, which represented a combined USD440 billion of assets to become the second, third, and fourth biggest bank resolutions since the Great Depression – the answer is a clear 'no'.

TAIL RISK

It is clear that the prescriptive panaceas of a post-2008 Basel regime, one that is centred on capital adequacy and other mostly quantitative standards, are no longer adequate to contain the risks arising from, first, the profile of newer banks; and second, banking's rapidly changing landscape from embedded finance to the challenges of cryptocurrency. **Figure 1** illustrates this, highlighting how institutions in 2023 experienced larger and faster bank runs compared to their counterparts during the global financial crisis.

Whilst the system has been fortified by supervisory oversight and enhanced liquidity requirements, the latest runs disprove some deep-rooted and widely accepted beliefs that have driven much of banking supervision and design in recent decades. These require a rethink.

In the case of SVB, the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve both made exceptions. Citing concerns of systemic failure, the FDIC announced that it would guarantee all deposits at SVB, going beyond the standard USD250,000 insurance limit, whilst the Fed issued an emergency USD25 billion 'backstop' loan facility and eased its collateral requirements on loans to banks to ensure liquidity.

Far from being too big to fail, at the time of its collapse, SVB's systematic risk profile was assigned as Category IV based on its total assets which totalled just USD211.8 billion in its last financial report in 2022. In comparison, global systematically important banks in the US are all designated as Category I. This is proof that, under specific environments and circumstances, even a relatively small bank could be a source of systemic instability. It is also likely that the basis of the US categorisation, based on the Fed's Tailoring Rule which is devised on a narrow set of systemic risk indicators, requires re-evaluation under the present banking landscape.

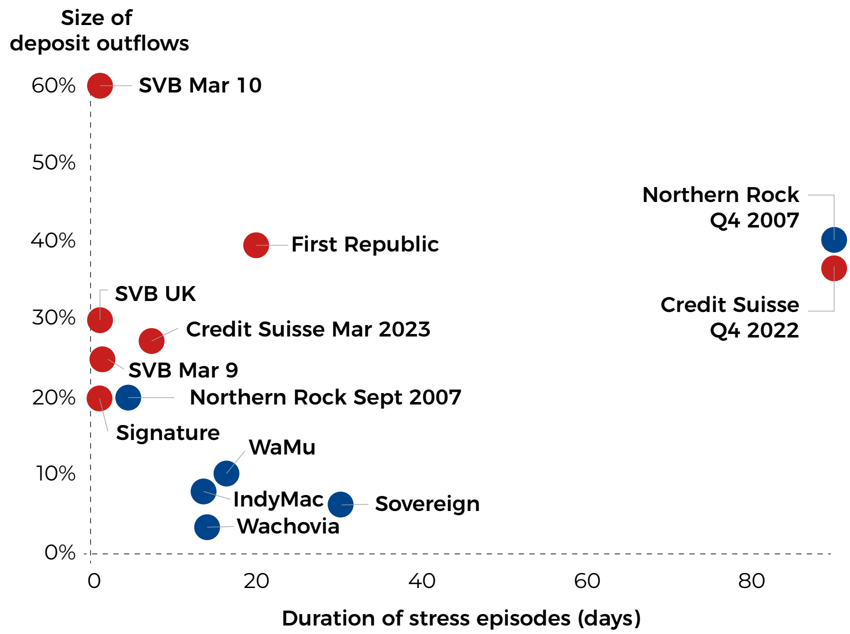


Figure 1
Source: IMF, October 2023 Global Financial Stability Report
Note: IndyMac = Independent National Mortgage Corporation; SVB = Silicon Valley Bank; WaMu = Washington Mutual.

HOME TO ROOST

Exceptions to the rule bring real consequences. In order to retain depositors' confidence in the banking system, the FDIC exception to insure 100% of deposits will likely raise longer-term costs for the broader industry in the form of a premium or 'tax' for this overextended deposit insurance coverage.

In its latest *2023 Resolution Report: Applying Lessons Learnt,* which tracks the progress of banks undertaking resolution-related work, the Financial Stability Board (FSB) outlined key priorities ahead of the next crisis to avoid the ripple effect that comes from a bank failure, including the need to reinforce its Key Attributes in order to increase financial resilience and crisis preparedness:

- The 2023 bank failures reinforce the need to maintain momentum and advance the work on bank resolvability and to avoid complacency.
- Banks need to have sufficient sources of funding and internal liquidity resources and be prepared to mobilise collateral in resolution as legal, regulatory, or operational obstacles to mobilising collateral or liquidity across borders could impede an effective resolution.
- While public sector backstop funding should only be used as a last resort, it is important for banks to be able to access public sector funding to ensure sufficient liquidity and restore confidence in a failed bank, subject to strict conditions to minimise moral hazard risks and recover any losses incurred.

"Making banks resolvable is a key component of the regulatory reform programme enacted in response to the crisis. A resolvable bank is one that is 'safe to fail': **IT CAN FAIL AND BE RESOLVED WITHOUT COST** to the taxpayer and without significant disruption to the financial markets or the economy at large."

UK

Bank resolvability is the next curve that banks must navigate as part of greater financial resilience. In his article, *A Resolvable Bank,* Dr Thomas F Huertas, Senior Fellow at the Center for Financial Studies in Frankfurt, gets to the crux of why it is crucial we get this right before the next crisis hits:

"Making banks resolvable is a key component of the regulatory reform programme enacted in response to the crisis. A resolvable bank is one that is 'safe to fail': it can fail and be resolved without cost to the taxpayer and without significant disruption to the financial markets or the economy at large."

Resolvability preparations are well underway in various jurisdictions. The UK's resolution authority, the Bank of England (BoE), published the first resolvability assessment of the eight major UK banks in 2022 and describes the exercise as "a spectrum, not a binary judgement, and therefore the Bank has not made a pass-or-fail assessment."

Its Resolvability Assessment Framework (RAF) is less prescriptive. It was designed to set expectations in the event of a crisis or failure and includes the BoE's own actions to maintain market stability, i.e. the BoE will issue a public statement for resolvability of firms with more than GBP50 billion in retail deposits.

The RAF also outlines three outcomes in order to support a resolution if they fail: having adequate financial resources in the context of resolution; being able to continue to do business through resolution and restructuring; coordinating and communicating effectively internally and with the authorities and markets so that resolution and subsequent restructuring are orderly.

The RAF also outlines three outcomes in order to support a resolution if they fail: having adequate financial resources in the context of resolution; being able to continue to do business through resolution and restructuring; coordinating and communicating effectively internally and with the authorities and markets so that **RESOLUTION AND SUBSEQUENT RESTRUCTURING ARE ORDERLY.**

The RAF for the eight major UK banks is conducted every two years, however, its timing is also important as it has the potential to sway markets. With general elections taking place on 4 July this year, publication of the results from the second RAF, which was due by 14 June, has been pushed back to August instead.

CHINA

Monitoring systemic risk and addressing vulnerabilities in the banking sector is significantly different in the People's Republic of China. The government holds controlling stakes in five of China's largest commercial banks, which in total account for more than 50% of the nation's banking system assets.

The new and still-in-the-works Financial Stability Law, which was first drafted in December 2022 and has since undergone several major changes, is directed towards mitigating systemic shocks and expected to be finalised this year. This comes amidst a real estate downturn and rising credit risk within smaller banks.

Its design includes a financial stability guarantee fund which is reported to be worth hundreds of billions of yuan, a funding backstop that will see uninterrupted emergency funding to

smaller banks in order to preserve systemic stability.

According to the 2023 draft, the State Council can instruct the People's Bank of China to provide direct liquidity support to the financial stability guarantee fund, minimising the use of public funds in its replenishment. Financial institutions must also pledge eligible collateral to draw down from the fund.

The law is also expected to introduce a resolution regime for systematically important financial institutions.

STAY OR STRAY?

In recent times, much of the banking sector has managed to steer its way out of difficult or dangerous situations, akin to a cat's nine lives. Yet, an ancient proverb explains: "A cat has nine lives. For three he plays, for three he strays, and the last three he stays." It reminds us that it is possible to use up a life by staying as well as straying.

The history of banking is fraught with strategies that have gone belly up because firms strayed from the narrow

CONNECTING THE DOTS

The European Bank for Reconstruction and Development's independent evaluation report published in January 2024 sheds light on the tapestry of efforts aimed towards fostering resilience in the macroeconomic fabric. The overview *Connecting the Dots: Evidence that Drives Change* outlines seven key evaluation insights which emerged from its extensive review of over 100 independent evaluation reports published by international financial institutions since 2007, during both crises and stable periods in financial history. It hopes that these strategic and operational imperatives would be of assistance to private-sector financial institutions that are seeking to unlock the full potential of financial stability reforms currently undertaken by prudential authorities.

The seven key evaluation insights are summarised below:

> STRATEGIC LEVEL

- **Applying a holistic approach in integrating financial sector development.** This is most likely to set a solid foundation for a robust financial sector as evaluation evidence suggests that financial sector development is not a singular regulatory challenge but a dynamic interplay of policies. It cautions against a myopic focus on privatisation as an end in itself, urging a balanced perspective that emphasises well-managed banks with aligned incentives. Additionally, strengthening financial inclusion as a channel for fostering inclusive growth and mitigating volatility in the financial sector is important. It urges a proactive stance where the financial sector's policy interactions are considered within a broader macroeconomic framework. The cautionary tales of underregulated access to borrowing in foreign currencies, highlighted by historical crises, emphasise the need for prudence in financial regulations.
- **Measuring progress and strategic responses to crises in the financial sector.** To effectively respond to financial crises, evaluation evidence suggests a gradual approach that is built on early preparedness and anticipatory measures is the most viable route. This builds flexible safety nets that can most effectively respond to systemic shocks. Evaluation evidence calls for early preparedness to respond to crises by drawing from lessons of previous financial crises, for instance, the preparedness of Asia during the global financial crisis of 2007-2008 – its resilience is attributed to how the region learned and applied lessons garnered from the 1997 Asian financial crisis. It emphasises the need for proactive engagement during stable times, urging a shift from primarily reactive responses.
- **Managing currency risks and avoiding the pitfalls of over-reliance on foreign currency.** Hedging and local currency loans are critical to managing currency risks and avoiding the pitfalls of over-reliance on foreign currency that can lead to financial sector fragility. This was particularly evident during the global financial crisis when countries such as Ukraine, Hungary, and Baltic nations, faced direct negative effects on their economies due to the excessive dependence of their banking systems on foreign currency. This cautionary tale points to the importance of diversification.

path…or stayed on the well-trodden for too long. Just as the UK and China models to financial resilience differ, there can be no one-size-fits-all approach to stability.

Mapped against the current risks arising from cybersecurity threat actors, the rise of cryptocurrency versus digital currency, and the push towards embedded finance, what's crucial is that robust resilience measures be put in place now, while there is still time and space to ring-fence. Its design should be, as all great things are, free from ideological bias and in the best interest of citizens. ✱

■ *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.*

- **Building capacity for better risk management and non-performing loan (NPL) disposition.** A programmatic response to managing rising banking risks, emphasising the need to avert a systemic crisis that could impede economic growth. For instance, in one Asian Development Bank programme, it was revealed that the targeted key reforms aimed at NPL reduction and enhanced regulatory oversight of governance and risk management practices contributed to strengthening and stabilising the banking industry. The multifaceted approach underscores the importance of a comprehensive strategy that addresses various facets of risk within the banking sector.

> OPERATIONAL LEVEL

- **Enhancing country-level diagnostics are pivotal in discerning financial vulnerabilities and mitigating the risk of financial instability.** These diagnostics play an essential role in fostering financial sector development and contributing to economic growth. However, it is acknowledged that even comprehensive diagnostics, including stress tests, cannot guarantee financial crises will be avoided every time. Advocates for more frequent and in-depth financial sector surveillance, particularly focusing on the largest systemic financial sectors, as a critical measure in preventing global crises.
- **Tailoring policy dialogue and investment tools for financial stability restoration.** It is important to develop and implement cutting-edge financial instruments to address specific challenges that are related to crisis response, including international financial institutions' cross-border support to foreign banks as well as adapting financial products to evolving circumstances and crises.
- **Synergising efforts among international financial institutions and collaborating on financial stability.** The exploration of innovations in disaster risk financing, for instance, through catastrophe bonds and other financial instruments that underscore the potential for shared solutions in reinforcing fiscal and financial adjustability and strength amidst disasters. There is the importance of balancing short-term crisis mitigation and long-term resilience building, particularly in social protection mechanisms, which must be looked at. Transparent reporting frameworks and harmonised monitoring are encouraged to ensure adequate funding and tailored support during a crisis, thus potentially having a healing effect on financial stability. The lack of cooperation among multilaterals at the start of the pandemic, for instance, is cited as a potential risk area that could arise again during future crises.

AI IN THE BANKING SECTOR

By William Kiong Wai Lun

NEW USES FOR AI IMPROVES EFFICIENCY IN THE BANKING SECTOR.

Banks today are facing a lot of pressure to stay up-to-date and competitive due to economic challenges and the rise of digital banking platforms that are attracting more customers with new propositions. Traditionally, these heavily regulated institutions haven't been the quickest to adopt new technologies, but now they really need to step up. They have to not only improve their usual services but also bring in new technologies to cut costs and improve the way they serve customers, which helps them stand out from the competition.

One key technology making its way into many banks is artificial intelligence (AI), particularly Generative AI. This technology has the potential to dramatically increase productivity, tailor customer journeys, and allow banks to concentrate on value creation.

In the past, banks have relied on rule-based tools and basic statistical methods for activities such as monitoring and authorising transactions, which often misses out on new types of fraud and money laundering techniques. But now, banks have come a long way in using AI and machine learning in operations, to scrutinise financial transactions in greater detail. This helps them spot fraud more accurately with fewer mistakes, which makes monitoring transactions more efficient. Banks are also using AI to spot suspicious patterns and connections that might not be obvious to human analysts. For example, most banks today use artificial neural networks to predict illegal actions by bad actors by identifying hidden links between customers and employees, which greatly improves their ability to prevent crimes and protect valuable assets.

Despite these advances, the banking industry is still early in its journey of using AI. They are moving forward carefully because

In the past, banks have relied on rule-based tools and basic statistical methods for activities such as **MONITORING AND AUTHORISING TRANSACTIONS, WHICH OFTEN MISSES OUT ON NEW TYPES OF FRAUD AND MONEY LAUNDERING TECHNIQUES.** But now, banks have come a long way in using AI and machine learning in operations, to scrutinise financial transactions in greater detail.

they need to follow strict rules. Banks are watching how other sectors like healthcare and telecom use AI before fully using it themselves. Right now, most banks are not ready to use AI for customer-facing services and it might take at least a year before they do. Bank leaders are setting up test beds and starting pilot projects to evaluate the technology's capabilities and limitations. Despite an overall cautious industry approach, mainly because of regulatory and security issues, some banks are ahead of others in operationalising AI, slowly starting to use AI across its value chain to capitalise on emerging opportunities.

Here's what's new in AI within the banking sector:

OCBC DEPLOYS ARRAY OF GEN AI APPS

OCBC has introduced a range of Gen AI applications to enhance productivity and streamline operations across its global workforce:

+ **OCBC GPT:** A Gen AI chatbot deployed within OCBC's private Microsoft Azure environment, integrated into the Microsoft Teams platform used by its 30,000 employees. This tool assists with tasks such as writing investment research reports, translating content, and drafting customer responses, helping OCBC employees complete their tasks about 50% faster than before.
+ **OCBC Wingman:** A coding assistant that provides over 1,000 developers the ability to auto-generate, debug, and improve computer codes. Built from an open-source model and deployed in less than two weeks, Wingman now handles approximately 30,000 requests daily, effectively increasing developer productivity by 20%-30%. It has been updated based on user feedback to include drop-down menus for common tasks like writing tests.
+ **OCBC Whisper:** This speech-to-text technology is used in OCBC contact centres to transcribe and summarise calls in real-time. It also analyses sales calls to identify potential anomalies in the sales process, contributing to enhanced agent performance and personalised development programmes.
+ **OCBC Buddy:** An internal knowledge base chatbot that provides quick access to information on bank policies, medical claims, and annual leave, among other topics. It searches through over 150,000 pages of OCBC's internal documents and is used around 30,000 times monthly. Additionally, it can record and transcribe face-to-face meetings, immediately emailing the transcription to the meeting owner.
+ **Document AI:** This search tool streamlines the extraction and summarisation of key information from internal documents, reducing the time needed to read each document from 30 minutes to just one minute. It is primarily used by employees handling various financial, risk, and environmental, social, and governance documents.

> Despite an overall cautious industry approach, mainly because of regulatory and security issues, **SOME BANKS ARE AHEAD OF OTHERS IN OPERATIONALISING AI**, slowly starting to use AI across its value chain to capitalise on emerging opportunities.

MIZUHO PARTNERS WITH FUJITSU TO IMPROVE OPERATIONS WITH AI

Mizuho Bank is pioneering the use of Gen AI to optimise its system maintenance and development. In partnership with Fujitsu, the bank is leveraging the Fujitsu AI Platform combined with Fujitsu's engineering expertise to enhance the quality and resilience of its systems. This collaboration focuses on using AI to automatically detect errors and omissions in system design plans and audit processes. Additionally, the initiative aims to develop techniques for automatically generating test specifications and source codes from

system design plans using Gen AI.

To further harness the potential of AI, Mizuho has deployed Gen AI tools across its 45,000 staff in core lending and brokerage units nationwide. This rollout includes the Wiz series of applications designed to streamline complex and time-intensive processes:

- **Wiz Chat:** A chatbot that allows employees to personalise and generate content in response to customer queries. This tool helps staff bypass the traditional need to consult an in-house support desk by providing direct access to over 30,000 pages of administrative procedures, frequently asked questions (FAQs), and guides.
- **Wiz Search:** This tool supports employees with business operations queries, enabling them to quickly find and apply detailed procedural information on how to approach complicated customer cases and proceed with service provision.
- **Wiz Create:** Focused on enhancing the efficiency of preparing credit approval documents, Wiz Create allows sales staff to generate customised approval materials in a single click. By integrating financial statements and interview records, this tool drastically reduces the preparation time from 1-2 hours to approximately 10 minutes per case, while also ensuring a consistent quality standard in the documentation.

WELLS FARGO TEAMS UP WITH GOOGLE'S PaLM 2

Wells Fargo is leveraging Google's advanced AI technologies to power its virtual assistant, Fargo, aiming to improve customer service and regulatory compliance. The bank utilises Dialogflow, Google's conversational AI platform, to enable Fargo to handle a wide array of customer inquiries through voice and text in its mobile application. Additionally, Fargo incorporates Google's PaLM 2, enhancing its ability to clarify what information clients must provide to regulators and assisting with everyday banking queries. Since its launch in March 2023, Fargo has managed 20 million interactions with 2.7 interactions per session – on tasks such as paying bills, sending money, and searching transactions – and is expected to achieve an annual interaction rate of 100 million.

Fargo is designed to support a variety of banking functions, such as providing insights into spending patterns, checking credit scores, processing bill payments, and offering detailed transaction information. According to

Additionally, Fargo incorporates Google's PaLM 2, enhancing its ability to clarify what information clients must provide to regulators and assisting with everyday banking queries. Since its launch in March 2023, **FARGO HAS MANAGED 20 MILLION INTERACTIONS WITH 2.7 INTERACTIONS PER SESSION** – on tasks such as paying bills, sending money, and searching transactions – and is expected to achieve an annual interaction rate of 100 million.

chief investment officer Chintan Mehta, Fargo is on track to sustain a 100 million interaction run rate per year.

Furthermore, Wells Fargo integrates large language model (LLM) technology into its Livesync product, which aids customers in goal setting and planning, offering tailored financial advice. This strategic use of Gen AI underscores Wells Fargo's commitment to enhancing its digital services and customer interaction capabilities through innovative technology.

Wells Fargo also deployed other applications that use open-source LLMs, including Meta's Llama 2 model, for internal uses and has built an AI platform Tachyon for multi-model applications.

ADA: ADVANCING DBS WITH AI

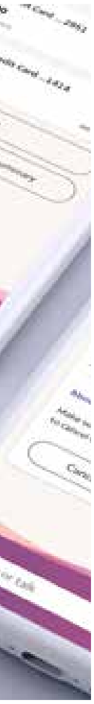
At the core of DBS's AI initiatives is ADA, a self-service data platform that consolidates bank data to enhance discoverability, quality, governance, and security. ALAN, an AI protocol platform, integrates with ADA to enable widespread AI use, significantly reducing the time to develop AI models – from 15 months to as little as two weeks. This integration supports data scientists in rapidly deploying AI solutions to enhance operations and decision-making. Other AI implementations include:

- **DBS NAV Planner:** This financial and retirement planning tool is equipped with an AI-driven recommendation engine, known as the "Make Your Money Work Harder" digital advisor, that recommends the right investment products based on individual customer profiles covering financial goals, risk tolerance, investment preferences, and current financial situation. Additional safeguards are in place for customers with a 'zero' risk profile or negative cash flow, directing them towards safer financial solutions or steps to improve their financial health.
- **Jobs Intelligence Maestro (JIM):** Partnering with impress.ai, DBS launched a virtual recruiter, revolutionising high-volume hiring processes particularly for high-demand roles like wealth planning managers and graduate associates. JIM automates resume reviews, pre-screening queries, and scores online assessments, efficiently shortlisting candidates. It operates as a concierge, guiding candidates through the application across multiple platforms in several languages including English, Bahasa Indonesia, Simplified Chinese, and Traditional Chinese. JIM can answer FAQs with a 97% success rate and redefining the application process to be more seamless and engaging. Since its pilot, JIM has significantly improved recruitment metrics: screening over 10,000 candidates, identifying over 880 successful hires across Asia, reducing hiring time by 75% or 40 hours per month, and lowering candidate attrition from 15% to 3%.

UOB PILOTS MICROSOFT COPILOT AT SCALE

UOB is the first Singaporean bank to implement Microsoft 365 Copilot across various business functions, involving 300 employees from branches, customer service, technology, and

Furthermore, Wells Fargo integrates large language model (LLM) technology into its **LIVESYNC PRODUCT, WHICH AIDS CUSTOMERS IN GOAL SETTING AND PLANNING, OFFERING TAILORED FINANCIAL ADVICE.** This strategic use of Gen AI underscores Wells Fargo's commitment to enhancing its digital services and customer interaction capabilities through innovative technology.



operations. This tool integrates with Microsoft applications like Outlook, Word, PowerPoint, Excel, and Teams, leveraging UOB's extensive data from documents, emails, chats, and meeting notes to boost productivity, accessibility, and collaboration.

Three key benefits for employees:

+ **Enhanced Communication:** Client-facing employees can use Copilot to craft clear, professional messages tailored to each customer interaction. They can repurpose existing materials to build engaging presentations for meetings with potential customers.
+ **Greater Productivity:** Copilot can easily summarise long documents and emails threads, quickly transform raw data and documents into visualised charts, and routinely deliver concise summaries and action points of meetings in Teams.
+ **Higher Accessibility:** Copilot makes it easy for employees to locate and reference key information within the bank knowledge base, further reducing response time to customers and improving customer satisfaction. It smartly pulls relevant data from various documents or emails based on what the employee is working on, improving overall work efficiency.

Guided by the Monetary Authority of Singapore's (MAS) FEAT principles – Fairness, Ethics, Accountability, and Transparency – UOB ensures that its AI deployment adheres to ethical standards and regulatory requirements. These principles ensure that AI-driven decisions must be fair, accurate, ethical, accountable, and transparent, aligning with UOB's commitment to responsible AI usage.

BANKS OF TOMORROW ARE DRIVEN BY AI

As Gen AI continues to act as a powerful lever for growth in the banking sector, its role in driving cost reductions and revenue increases cannot be understated. According to Accenture, banks can expect to see a 9% to 12% reduction in mid- and back-office costs due to a 7% to 10% increase in productivity in corporate functions. Furthermore, Gen AI could enhance the time spent on client interactions and advice – which make up about 80% of banking revenue – by 17%, potentially leading to a 9% increase in revenue.

In response, banks are actively recruiting data scientists, engineers, software developers, and other AI specialists, even as they reduce headcount in other areas. Due to the high costs associated with training Gen AI models, many banks are opting to use commercial large language models hosted on public clouds instead of developing their own. This approach not only saves on costs but also mitigates the risk of relying too heavily on a single AI vendor. Diversification is crucial, leading to many banks preferring a multi-cloud, multi-model provider strategy.

To capitalise on AI, banks must transition from a legacy architecture and operating model to an automation and cloud-first strategy. Building the core technology and data capabilities upon a highly automated, hybrid cloud infrastructure is essential to gain competitive and differentiating capabilities. Leaders should focus their transformation on developing robust application programming interface strategy and streaming architecture, implementing lightweight core platforms, building modern data and analytics capabilities on cloud infrastructure while ensuring the availability of the right skills and talent required to remain competitive and agile in a market where finding the right talent for AI roles is becoming increasingly challenging. ✱

■ *William Kiong is a Senior Analyst at Twimbit, a leading Singapore-based research and technology firm dedicated to driving innovation. Specialising in disruptive technology research, William collaborates closely with organisations to identify and capitalise on opportunities within emerging tech trends. Twimbit's mission is to empower companies to innovate and deliver exceptional experiences.*

Why the Convergence of IT and OT is more than just Technology

By Jaco Benadie

The integration has profound implications that will shape the future of organisations.

Digital transformation is revolutionizing industries by unravelling unparalleled opportunities for efficiency and innovation. One of the significant shifts leading this revolution is IT/OT convergence, which is the integration of Information Technology (IT) systems used for data-centric tasks with Operational Technology (OT) systems used for monitoring and controlling physical devices and processes. This integration significantly impacts the operational technology asset management lifecycle. However, the convergence of IT and OT spans far beyond a simple technical integration – it is a strategic, operational, and cultural change that holds the potential to shape the future of organisations.

IT/OT CONVERGENCE: MORE THAN JUST TECHNOLOGY

While the IT/OT convergence has a major technological component, it is not purely technical. The effective integration of IT systems with OT systems involves more than just rolling out new technology and hoping things work smoothly. It is a strategic business decision that requires a carefully planned and executed transformation programme. This programme typically encompasses changes in strategy, business processes, skills, and culture to successfully leverage the power of both IT and OT.

The effective integration of IT systems with OT systems involves more than just rolling out new technology and hoping things work smoothly. It is a **STRATEGIC BUSINESS DECISION THAT REQUIRES A CAREFULLY PLANNED AND EXECUTED TRANSFORMATION PROGRAMME.** This programme typically encompasses changes in strategy, business processes, skills, and culture to successfully leverage the power of both IT and OT.

A STRATEGIC TRANSFORMATION

Rather than approaching it as a mere technology project, IT/OT convergence should be regarded as a strategic transformation that aligns with the organisation's overall business objectives. Decisions around IT/OT convergence should align with the company's strategy, and the potential benefits of convergence - such as increased throughput, improved safety, and greater visibility into operations - should be clearly identified and linked to strategic objectives.

OPERATIONAL ALIGNMENT

Operationally, the convergence of IT and OT often necessitates changes to processes and workflows to effectively leverage the newly integrated environment and ensure seamless information flows. There must be standardisations or modifications in the processes for maintaining systems, managing changes, responding to incidents, and ensuring the continuity of operations. Both IT and OT teams need to understand each other's workflows, procedures, and protocols, and adapt to each other's operational needs.

SKILL SETS AND CULTURAL SYNERGY

Human factors also play significant roles in IT/OT convergence. Culturally, IT and OT have traditionally had different work cultures, attitudes to risk, and ways of working. Bridging this cultural divide requires clear communication, education, and change management.

In terms of skills, IT/OT convergence often requires a new blend of skills, or 'purple people', who understand both the IT and OT worlds. The organisation may also need to upskill and reskill existing staff or hire new personnel with the requisite skills.

For a successful strategic IT/OT convergence, certain key success factors should be considered:

+ **Effective leadership** with a clear vision aligns the IT/OT convergence with the organisation's strategic objectives and guides the transformation journey;
+ **Fostering a collaborative culture** bridges the cultural divide and encourages mutual understanding between the IT and OT teams;
+ **Skills development and training** are crucial to equip the workforce with the necessary skills for a smooth transition;
+ **Harnessing data integration** and analytics transforms raw data into actionable insights to drive efficiency and decision-making;
+ **Robust cybersecurity** controls protect the integrated system from potential cyber threats;
+ **Flexible and scalable infrastructure** ensures adaptability to evolving technologies and growth;
+ **Compliance with regulatory standards** prevents potential violations and penalties; and
+ **Effective change management,** involving communication, training, and the addressing of resistance to change, drives a smoother transformation.

As we move further into the digital age, IT and OT convergence is becoming less of an option and more of a requirement for companies that wish to remain competitive. However, it is important to recognise this transformation as being more than just a technical project. By recognizing the strategic, operational, and human aspects of IT/OT convergence, businesses can more effectively navigate this transformation, enjoying the benefits of improved efficiency, visibility, and decision-making that comes along with a coherent IT/OT environment. By doing so, their future as robust, resilient, and innovative businesses, which are ready to face the exciting challenges of tomorrow, is ensured. ✱

■ *Jaco Benadie is the EY ASEAN Cybersecurity Energy Leader and OT Cybersecurity Competency Lead.*

A DELICATE EQUILIBRIUM

By Chartered Banker, UK

While digital know-how remains an extremely important aspect of almost every sector, it's indisputable that there's much more to the financial services skills mix needed today and tomorrow than tech insight.

If most of us were asked to close our eyes and picture what job roles would look like in the future, the chances are they would resemble something from the 2002 tech-noir film *Minority Report*. Think the likes of gesture-controlled computer interfaces and ubiquitous large-scale digital displays.

While there's no denying that this is the direction that we're heading in – and fast – this way of thinking might greatly underestimate the necessity for certain mindset and attitude-related skills that will keep customer-service-centric sectors – such as financial services (FS) – afloat.

In fact, Claire Tunley, Chief Executive, Financial Services Skills Commission (FSSC), is firmly of the opinion that within FS, the future is far from a complete focus on tech and digital. "It's about the behaviours and capabilities that sit beneath those," she says. "These are absolutely necessary in order to be able to apply the relevant tech."

BEHAVIOURS THAT UNDERPIN SUCCESS

Tunley comments on a recently launched FSSC report called *People + Technology*. "It's all about how skills can unlock value for financial services," she says. "We spent a lot of time thinking about the title. I think it was Reid Hoffman (American internet entrepreneur and co-founder of LinkedIn) who said, "It's not people or technology, it's people plus technology".

She continues: "We've been on this journey for a while, but what we've always done is work with firms to understand where their skills needs are. Now, that took a bit of time because we had to ask firms to forecast their skills and improve how they're looking at their future skills needs, which we've done using some specific tools. But what we've come out with is a set of 13 future skills – seven technical skills and six behaviours – and what is interesting is that the behaviours have very much been prioritised as much as the technical skills."

The vital technical skills that came out on top were data analysis, digital literacy, software development, cybersecurity, and machine learning (ML). Meanwhile, the core human skills firms are prioritising were empathy, adaptability, creative thinking, and coaching.

Tunley explains that some skills were added at later dates. "In the first phase, we had teamwork, relationship management, and adaptability," she recalls. "These all came from our members, which is important. They told us that these behaviours underpin success in their work – and this includes ML or artificial intelligence (AI), or customer journeys and user experience.

"Coaching and creative thinking were added a year later because companies were telling us that more was needed in these spaces – that they needed to think creatively and have more innovation."

She states that all of the skills can be applied in different ways to different roles and across different themes. "So, for example, if you're thinking about green finance and the race to net zero, relationship management comes out strongly alongside the likes of data analytics because if you think about bringing customers and clients on that very specific journey, that relationship management expertise is vital. What firms have been telling us is that there's a bit of a gap here and, as such, they need to invest in that behaviour.

"There is a challenge, though, in the fact that the sector is so focused on tech. It's so prevalent and that's not going away. We need to build skills in all of these areas, and we actually need to integrate the capabilities and understand the expertise in terms of human behaviours.

"There's a piece of research that we did with executive search company Odgers Berndtson, one of our advisory group members," Tunley continues. "It's still really relevant even 18 months later.

"It looks at what the skills gaps are at board or C-suite level. It's really interesting. Obviously, tech skills were up there, but crucially, so were behaviours like empathy."

A TRIAD OF COMPETENCIES

Clare Buxton, Partner, Heidrick & Struggles, an executive search firm, explains how she and her colleagues approach looking for leaders in FS. "What we're always looking for is an unwavering focus on the customer, the ability to innovate, technical understanding, and commercial understanding. But it's also vital to be able to juggle all of these pieces at the same time.

"In fact, one executive in a client organisation described this to me as a triad of competencies – the commercial abilities, the focus on the customer, and the technological understanding. It's about trying to find executives that really speak to all three of those."

Tunley talks about a not-too-dissimilar approach. "For the report that we recently launched, we interviewed 45 senior leaders and then conducted some analytics around their answers. The result was a Venn diagram.

"There are technical capabilities, financial services expertise – because let's not forget, there's a lot of deep expertise in the FS sector – along with behavioural skills and behaviours. Where these three circles intersect is the sweet spot.

"There is a need to drive towards that because we no longer work in a way where one department does X, and another does Y. That's just not the case now.

"Everything needs to dovetail together because we don't operate in isolation any more. Instead, there needs to be purpose around realising where a business needs to grow, develop, and build that depth of skills and expertise. That integration is where the success will be."

AGILITY AND ABILITY

In a 2023 Accenture Financial Services global study of nearly 33,000 banking customers spanning 18 markets, 49% of respondents indicated that customer service drives loyalty. Therefore, by knowing the customer and engaging with them accordingly, it's thought that financial institutions can optimise interactions that result in increased customer satisfaction and wallet share, subsequently decreasing customer churn.

Buxton believes that key to this is perfecting a delicate equilibrium. "It's about trying to balance subject matter expertise with a real eye on the customer and an underlying understanding of technology – because that is just so fundamental to the way banking is going."

She says that when they assess leaders, they do so based on experience and expertise. "We're looking at how they lead today, what their track record is like, what their leadership style is, and how they are impacting their current organisation.

"It's hard to take into account all these aspects, but we've developed many tools and we think we do a good job of this. It's also about agility and the future. We are not just looking for where they've been, but we are also looking for their ability to respond to the unknown and react to whatever might be thrown our way in 2024 and beyond.

"Then there is the cultural aspect as well, which is where the purpose piece comes in. We are having to assess talent around not just what they have done and where they were, but also what they've done since then to upskill themselves, how agile they are, how curious they are, and how much they are seeking out new opportunities as well as responding to old ones."

THE BENEFITS OF SKILLS FRAMEWORKS

In terms of tools, Tunley refers to a Future Skills framework, which includes proficiency levels, that the FSSC has pioneered with NatWest. "Taking relationship management as an example, there is a breakdown of what's good within relationship management behaviour. We have four domains: understanding customer needs, building trust, communication, and partnership. Of course, some of these will cross over into others. They don't all stand in isolation.

"Then we've identified detailed proficiency levels, one to five and what can be done at each level. At level one, people demonstrate they can address simple queries and draw basic conclusions – and this goes all the way up to level five, which includes using industry knowledge to identify changes in the market that will impact on customer needs. Firms are using this framework to assess where they need to be upskilled.

"They might, for example, identify a role that needs to be more about relationship management and therefore needs people with level-four proficiency. And they might need to be a level three on cybersecurity or ML, too. And that might lead them on to realise that they have level-three people who can be progressed. So, firms can be really specific about where that development needs to be."

She says that this removes some uncertainty and guesswork. "Because if you ask someone, 'what does a relationship management skill look like?', you'll get different answers. We developed this with our members and we've tested it with them so that we know that this works.

"What has also happened is external organisations like chartered bodies – such as the Chartered Banker Institute – and colleges have been developing courses off the back of this. They know what the learning outcomes they're aiming for are because we've defined them – and then they can actually move towards delivery.

"This work is ongoing, too," continues Tunley. "We're constantly asking firms, 'Is this still relevant? Is anything new popping up? Is there anything that is in here that we need to remove because it's no longer applicable? How do we keep this up to date?' And they're able to say that X is important to them and what they're going to keep developing in terms of skills.

"Of course, the 13 future skills that we prioritise are not the only skills people need to work in the sector, but they are the ones that firms have told us about and as such they are the ones that are priorities for us. We can see that there are acute skills shortages or that there's a growing gap – and that they are where we need to put our focus. That doesn't mean to say the other ones are not relevant, of course.

"I think there are areas of FS knowledge and expertise where firms are realising that they will lose talent – especially around some very detailed, complex areas of knowledge within, for example, pensions. There might be a few hundred people in the country that have an in-depth understanding of this area, and half of them are going to retire in the next five years.

"That is a skills challenge of a different order. But through our work, making firms think about that now, means that they can do something about it." ✱

■ *This article previously appeared in the Chartered Banker magazine, UK, Issue 1 2024 edition.*

ARTIFICIAL INTELLIGENCE AND FINANCIAL SERVICES: THE OPPORTUNITIES AND IMPACTS ACCORDING TO THE FSSC

FS is likely to be the sector that experiences the largest transformation from AI, given its high volume, tech-based and data-driven nature and its penetration to this point.

Potential enhancements to aspects of the FS sector could include:

- rapid assessment of data – speeding up the generation of insights to enhance decision-making, marketing, etc;
- enhanced capacity to analyse data and insights, e.g. on customer behaviours to provide more personalised products, pricing, and risk management;
- ability to improve software and tech solutions;
- rapid analysis of customer feedback; and
- potential to improve regulatory reporting and compliance.

The integration of AI tools and insights will change the tasks the sector requires people to undertake and the skills they need to deliver. The shift will create a culture that teams humans with AI. The skills that will be required for this include:

- critical thinking;
- empathy; and
- problem-solving.

FIGHT OR FLIGHT? MANAGING EMOTIONS AT WORK

By Dr Amanda Salter

Ten tips to turn the tide in difficult conversations.

What type of manager are you? Do you shy away from fraught situations? Or do you band together with your team when trouble comes knocking at the door?

According to a 2022 Myers Briggs study, managers spend over four hours a week dealing with conflict on average. The main reasons for workplace conflict were found to be poor communication, the lack of role clarity, heavy workloads, and personality clashes.

THE COST OF WORKPLACE CONFLICT

In its simplest definition, conflict happens when two or more people have interests or goals that appear to be incompatible. As a leader you are right to be concerned about conflict – unfair or unethical behaviour, distress, disruption, and disagreement will all impact day-to-day work, increase stress, and distract people from bringing their best selves to work.

Workplace conflict comes with a hefty price tag. Few studies have been done to quantify the exact cost of workplace conflict in Asia-Pacific nations, but most research agree that the costs of conflict are the sum total of decreased work performance, increased staff leave taken, increased time and money spent on addressing conflict, and higher staff turnover.

It is possible to infer the cost of workplace conflict by examining the costs of work-related stress. A 2020 research study by Siu Oi Leng et al, *Occupational Stress and its Economic Cost in Hong Kong: The Role of Positive Emotions,* reports that the total cost of work-related stress in Hong Kong ranged from HKD4.81 billion to HKD7.09 billion (RM2.89 billion to RM4.26 billion) per annum.

Conflict management is therefore a critical skill for managers.

FIVE CONFLICT MANAGEMENT STYLES

To deal with conflict when it inevitably occurs, savvy managers need to be aware of the different ways in which their people can react. The Thomas-Kilmann Conflict Management model is a well-known framework that sets out five conflict management styles that people tend to adopt: competing, avoiding, accommodating, collaborating, and compromising (see **Figure 1**). Depending on your culture and personality, one of these will often be your 'default' mode of operation, which may or may not be the best way to handle things.

CULTURAL DIFFERENCES

There is a cultural angle to conflict management in Asia as East and West are said to lean in different directions. It is a broad stereotype that Eastern cultures are 'collectivist' in nature, whereas Western cultures are 'individualist'. Collectivist cultures lean towards compromising, accommodating, and avoiding, whereas individualist cultures lean more towards competing.

There is a cultural angle to conflict management in Asia as East and West are said to lean in different directions. It is a broad stereotype that Eastern cultures are 'collectivist' in nature, whereas Western cultures are 'individualist'. **COLLECTIVIST CULTURES LEAN TOWARDS COMPROMISING, ACCOMMODATING, AND AVOIDING,** whereas individualist cultures lean more towards competing.

Nevertheless, it would be a mistake to treat Asia as one homogenous unit. There are distinct differences reported in preferred conflict resolution styles between Asian cultures, although findings vary and sometimes clash across studies.

According to research by Kim Tae-Yeol et al titled *Conflict Management Styles: The Differences among the Chinese, Japanese, and Koreans,* which was published in the *International Journal of Conflict Management,* Koreans are more likely to 'compromise' when in conflict with their supervisors, whereas Japanese are more likely to 'accommodate'.

Another study found that Chinese people treat relationships as a major factor to consider, placing high value on the concept of interpersonal harmony when resolving conflict. According to material published by Harvard Law School, South Indians tend to prefer collaborating and compromising,

Figure 1 The Thomas-Kilmann Conflict Management Model
Source: Kenneth Thomas and Ralph Kilmann, 1974; graphic by BiteSize Learning.

which is often achieved through direct confrontation and negotiation. In yet another study, Malaysians, Indonesians, and Arabs are reported to prefer collaborating, in contrast with Japanese, Chinese, and Koreans who favour avoiding.

Wheresoever the truth ultimately lies, for banks with multicultural teams working together, both Western and Eastern colleagues need to be aware that such differences exist. Teams must be equipped to apply cultural sensitivity, especially in situations of intercultural conflict. For example, the concept of 'saving face' is very important in Chinese culture and Western colleagues may need specific training in this area if they are to handle critical negotiation moments well.

TIPS TO DEFUSE AND DE-ESCALATE

Here are my top 10 tips for managing conflict at work.

01 Check team temperature

It may be tempting to ignore a team member's poor timekeeping, sharp tongue, or work avoidance, but these behaviours may, in fact, be the cause of stress for other colleagues. Managers need to keep their finger on the pulse of their team's emotional state. Create opportunities to have informal one-to-one conversations with your team members. You need to quickly identify any simmering tension early, before it has a chance to fester and boil over.

02 Set the rulebook

Set sensible ground rules that will guide team conduct and minimise conflict. Doing this from the outset means fewer things will go awry. If a situation does blow up, everyone will know how they are expected to respond. One good ground rule for teams is to always separate the problem from the person. Avoid shaming or blaming the person, or saying that they are wrong. Instead, focus on the problem and the impact of what was said or done.

03 Call out unacceptable behaviours

As a leader, your team looks to you to set the culture and standard for acceptable or unacceptable behaviour. You need to be courageous and swift to challenge inappropriate behaviour, such as a sexist remark or an insulting comment. Spell out the behaviours that are not tolerated. It goes without saying that you should always model good behaviour yourself.

04 Know yourself

Be self-aware and recognise your own default conflict style, its relative strengths and weaknesses, and when best to deploy it. Develop the skills you need to remain flexible and take a different approach where it's warranted. Don't run from conflict by default, even if this may feel like the easiest thing to do.

Leaders also need to take a lifelong approach to learning. We can't see our own blind spots, and at some point, we are bound to become a source of stress for one of our colleagues. Actively solicit constructive feedback from your team, including your direct reports. To do this, they will need to feel safe enough to give you their honest opinion on the areas you need to work on without fear of retaliation or negative consequences.

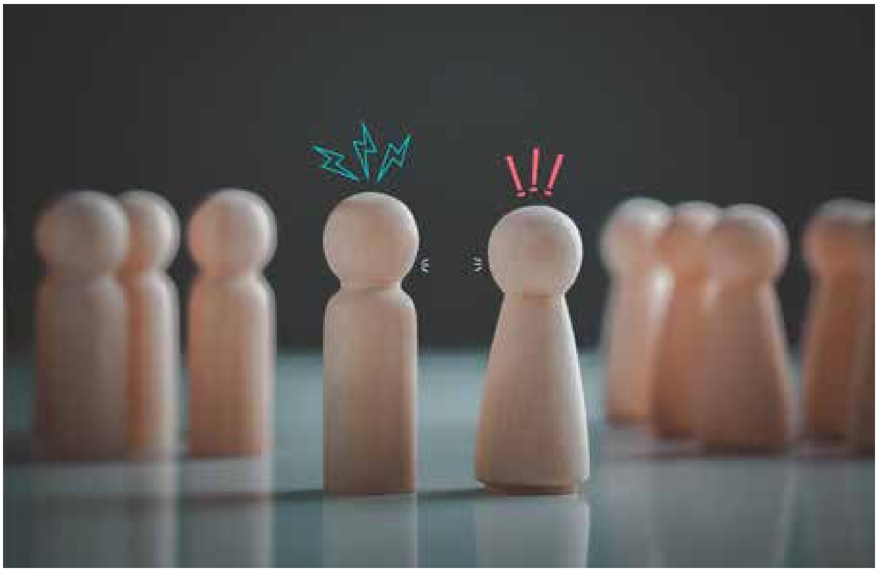
05 Brush up on skills

In addition to understanding your own style, familiarise yourself with the full range of other conflict management styles, the scenarios where they are most appropriately applied, and the goals, actions, and agenda of each one. This gives you an edge in moments of conflict, enabling you to understand and anticipate other people's behaviours and respond quickly without being taken by surprise.

Just as you may need some brushing up in this area, so might your teams. Ensure they are trained in conflict management to the competency that's needed. Don't forget all the other required critical soft skills, such as active listening, empathy, and negotiation.

06 Treat formal processes as a last resort

Do your bit to de-escalate and informally resolve issues that fall within your purview. You should become the backstop that ensures issues don't go any further than they should. Formal performance management should always be your last resort; once things get to this stage, people become more firmly entrenched in their positions, the stakes get higher, and everything becomes more difficult to resolve for all parties. You'll need to make a judgment call on where escalation to formal action needs to be taken – this could include incidences of harassment, bullying, or discrimination.



07 Be impartial

As a leader you can't afford to be seen to have favourites. Favouring certain individuals over others is a recipe for conflict itself. Be evidence based – gather input from multiple sources to inform your judgment and don't just go with your gut. Teams may need or expect you to act as a mediator, so be prepared to step in as an impartial referee. Avoid taking sides and you'll earn the loyalty, trust, and respect of your teams when you have to swoop in to resolve conflict.

08 Beef up the EQ

Learn how to recognise and talk about emotions clearly and directly. Emotional quotient (EQ) is just as important as intelligence quotient. The failure to acknowledge and discuss feelings can derail conflict resolution before it even begins. A higher EQ enables you to better understand, interpret, and respond to other people's emotions. You'll be able to regulate your own feelings, communicate more effectively, and stay calm in stressful situations. People with higher EQ can also build stronger and more meaningful relationships with each other, which helps to defuse conflict more quickly.

09 Build psychological safety

In a psychologically safe workplace, employees will feel that they can speak up, express concerns, and ask each other the difficult questions. No one will feel that they need to cover their tracks or worry that a co-worker might throw them under the proverbial bus if conflict happens.

Take regular opportunities to invite dissenting views. This gives the strong signal that it's ok to have a different opinion. Teams need to feel that it's ok to deliver bad news and to admit when they have made a mistake. If someone does confess something along these lines, be mindful of your own response. Don't play the blame game. Instead, ask them what they have learned through their experience. Higher psychological safety leads to higher engagement and motivation, and better decision-making overall. It's also a key ingredient to smoother conflict resolution.

10 Recover well

Despite your best efforts, the worst can still happen from time to time. A colleague can have a meltdown during a particularly stressful meeting. A chain of emails can suddenly escalate into a blazing inferno. An angry team member can run around the organisation wreaking havoc during one-to-one water cooler conversations.

If a high-drama incident happens, remain calm and in control of your emotions. Call out unacceptable behaviours, be impartial, and apply your EQ to help each party understand how their position is being perceived by the other. If the situation continues to escalate, ask the warring parties to step away from each other and cool off. A bit of time and distance can work wonders. Everyone can then come back to the table with a more level head.

Support each party to reflect on the incidents leading up to the explosion and work out the true cause of their reaction. Is there a factual misunderstanding? What feelings are at play? Was their perception of their own identity threatened? Curiosity, kindness, and compassion will bring clarity and empathy back into the discussion. To bring things to a positive conclusion, you can brainstorm improvements to the current way of working or ideas to prevent the same thing from happening in future. As a leader you can also facilitate an apology at the right moment.

By helping your teams to resolve conflict, you build resilience to handle future conflicts. The outcome that is reached should be the best for the office, not just for one employee. It may seem an unattainable utopia, but this is possible with hard work, careful facilitation, and commitment from You, the Leader. ✱

If a high-drama incident happens, remain calm and in control of your emotions. Call out unacceptable behaviours, be impartial, and apply your EQ to **HELP EACH PARTY UNDERSTAND HOW THEIR POSITION IS BEING PERCEIVED BY THE OTHER.** If the situation continues to escalate, ask the warring parties to step away from each other and cool off.

■ *Dr Amanda Salter is Associate Director at Akasaa, a boutique content development and consulting firm. She has delivered award-winning customer experience strategies for the Fortune 500 and been an Agile practitioner for over a decade. Previously with Accenture's London office, Dr Salter holds a PhD in Human Centred Web Design; BSc (Hons) Computing Science, First Class; and is a certified member of the UK Market Research Society and Association for Qualitative Research.*

EMBEDDED FINANCE: RISKS & REWARDS

By Julia Chong

CAN BANKS FIND THE SWEET SPOT BETWEEN INNOVATION AND SECURITY?

Embedded finance has emerged as a critical component in today's financial ecosystem.

As recently as 2022, many viewed the relationship between banks and fintech (financial technology) with trepidation, with newswires bearing headlines like "Banks beware, Amazon and Walmart are cracking the code for finance". What has come to pass, however, is a symbiotic relationship, one where embedded propositions between financial and nonfinancial institutions have created rapid and significant growth for both parties.

Consulting firm EY estimates that the global embedded finance market size is set to grow 130% from USD264 billion in 2021 to USD606 billion in 2025. The upside for fintech is that they can proffer banking products and services faster and with minimal regulatory burden; for banks proper, it translates to new revenue streams, insightful customer data, and a wider omnichannel brand footprint. Users gain satisfaction from a seamless banking experience.

One example is the Belgium real estate market where customers can search for their dream home, simulate, then submit a loan application…and voila! Johan and Jeanne are now proud owners of an Antwerp home by the canal.

CAPTURING GROWTH

This illustrates the allure of embedded finance, and how the integration of financial products and services with nonfinancial platforms or services has transformed the expectations of consumers. Examples include paying utility bills direct through your local council app or getting instant approval to purchase that latest sofa through a buy-now-pay-later (BNPL) scheme when shopping online. The idea behind embedded finance is to create a frictionless user experience, open up new revenue streams, or boost established ones for both financial and nonfinancial players.

A multitude of use cases have spawned under the vast umbrella of embedded finance, also known as 'banking as a service' (BaaS), which can be loosely classified into the following types of products and services:

+ **Embedded banking:** This refers to application programming interface (API) integrations by third-party companies who embed banking products, such as debit cards and multicurrency account options, as part of their platform or service and leverage off a licenced bank's regulated infrastructure.
+ **Embedded payments:** Incorporation of payment options for users within a software or platform, enabling transactions without the need for an external payment gateway.
+ **Embedded credit:** Provision of credit lines within a digital platform, such as BNPL schemes, which give users near-instant liquidity after they clear the necessary checks using onboarding tools such as e-Know Your Client.
+ **Embedded insurance:** Integration of insurance offerings within various products or services, such as travel insurance for travellers booking their air tickets.
+ **Embedded wealth:** Investment and financial planning tools within existing digital ecosystems using artificial intelligence, including roboadvisory services.

This illustrates the allure of embedded finance, and how the integration of financial products and services with **NONFINANCIAL PLATFORMS OR SERVICES HAS TRANSFORMED THE EXPECTATIONS OF CONSUMERS.** Examples include paying utility bills direct through your local council app or getting instant approval to purchase that latest sofa through a buy-now-pay-later (BNPL) scheme when shopping online.

COMPLACENCY NOT AN OPTION

While the opportunities are promising, the security of these financial technologies remains a paramount concern. The ability to foresee and adapt to new and emerging risks in this space will determine who wins or loses in the road ahead.

Earlier this year, the US banking regulator, the Office of the Comptroller of the Currency (OCC), stated that it should be the responsibility of banks to actively manage the risks arising from their partnerships with fintech.

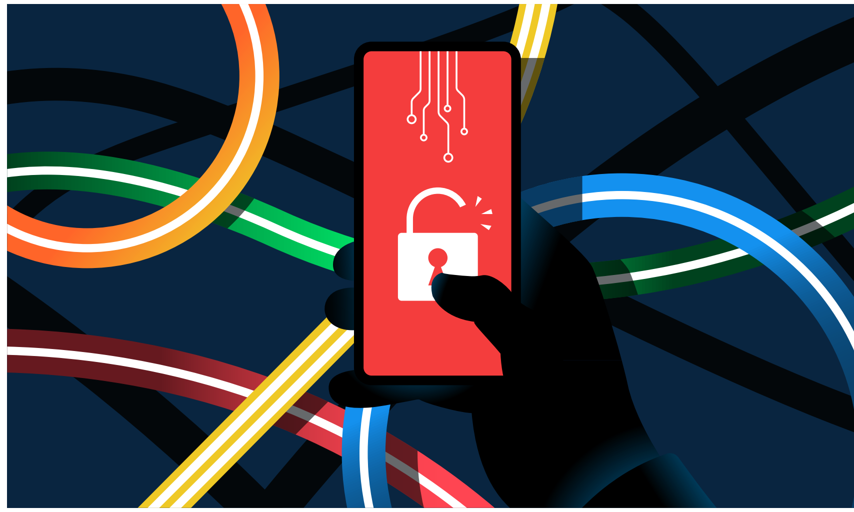
The comments accompany a litany of consent orders issued by another regulatory agency, the Federal Deposit Insurance Corporation, imposing heightened requirements to banks' third-party risk management programmes via its BaaS partnerships, including:

- Ensuring that the bank's procedures, data, and systems related to third-party relationships and bank activities conducted through third-party relationships include clear lines of authority and responsibility for monitoring adherence to applicable bank procedures, effective risk assessment, timely and accurate reporting, the development of procedures to ensure compliance with applicable laws and regulations, and satisfactory monitoring of implementation and adherence to bank procedures, applicable laws and regulations;
- Requiring that the board ensures that the bank has reviewed and assessed whether the components of its third-party relationship programme are appropriate for the size of the bank, and the nature, scope, complexity, and risk of the bank's third-party relationships and related bank activities. The board should also satisfactorily ensure that these bank activities are conducted in a safe and sound manner and in compliance with applicable laws and regulations; and
- Requiring the bank to complete a consumer compliance risk assessment for each third-party relationship conducting and/or performing a bank activity.

Speaking at a talk at Vanderbilt University, the OCC's Acting Comptroller Michael Hsu's hardline stance was: "We will not lower our standards, create a special regime, or take an overly expansive view of banking to entice new entrants or in the hope of bringing a particular activity into the bank regulatory perimeter."

In May 2024, the Basel Committee on Banking Supervision (BCBS) raised concerns about the growth of cloud computing technologies using third parties – artificial intelligence, distributed ledgers, and open banking systems.

At risk is the impact on operational resilience and increased fault points that come with greater connectivity between



banks and nonfinancial firms.

Although existing rules and legislature are in place to protect vulnerable consumers against potential harm, many banks do not currently have the requisite infrastructure to mitigate or monitor third-party risks in a partnership model like BaaS. The BCBS states that where necessary, it will consider whether additional standards or guidance are needed to mitigate risks and vulnerabilities.

Management consulting firm PwC outlines in a May 2023 paper, *Managing Risks in the Transition to Integrated Financial Services*, that "as the conversation shifts away from pure risk and resilience to value preservation – and eventually to the value created through revenues from the embedded finance market – complacency is not an option."

In other words, what seems to be a competitive edge today could easily be a knife's edge tomorrow.

"For instance, banks that occupy a utility role within ecosystems – as a licensed partner or a liquidity provider – may be left with highly regulated and capital-intensive activities that yield little in the way of customer data and returns. Smaller banks and retailers may struggle to establish themselves in the market as consolidation becomes more widespread in the face of industry headwinds. For their part, consolidation of the largest players – including 'too big to fail' banks and big-tech companies – could create an insurmountable competitive advantage within ecosystems that lock customers into a handful of embedded finance providers.

"As strategic leaders tool up to operationalise embedded finance," the firm writes, "they need to recognise and confront these broader market risks head-on if they are to compete in a shifting economic landscape."

> "As strategic leaders tool up to operationalise embedded finance," the firm writes, "**THEY NEED TO RECOGNISE AND CONFRONT THESE BROADER MARKET RISKS** head-on if they are to compete in a shifting economic landscape."

Although there is no hard-and-fast rule on how financial institutions can future-proof their partnerships with fintech, the Embedded Finance Risk Framework (see page 59) sets out some best practice to consider.

As banks stake their claim in this ever-changing landscape of finance, they must be mindful that the burden of regulatory compliance in every embedded finance collaboration falls squarely on their shoulders. At the first hint of a misdemeanour, prudential authorities will make them their first port of call. ✱

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

PwC's Embedded Finance Risk Framework

The consulting firm outlines these five mission-critical elements for banks to consider and shore up defences.

RISK	DEFINITION	ACTION
Interoperability	Risks associated with the connection and communication between fundamental components that enable embedded finance, e.g. technologies such as APIs, microservices, private cloud; and operational resilience, such as incident response and disaster recovery.	Financial institutions need to update their technology stack and take steps towards open-ended architecture by building up their digital capabilities and talent, whilst enhancing their risk management. The same is true for product-led fintechs not accustomed to incorporating risk practices into their operations to the extent that is required for embedded finance governance and delivery. New entrants that demonstrate a credible risk management function, tailored to handle unique and emerging operational and compliance risks, will be winners within competitive markets.
Data containment	Data security, privacy, and control issues regarding fractional data use and ownership, which is often at odds with consumer and client expectations of seamlessness in their interactions and transactions.	The proliferation of APIs requires strong inventory and change management, as well as documentation controls, to mitigate data leakage and risks. When the right protections are in place, financial institutions can access customer information beyond financial data, including purchasing behaviours and preferences, which can be used to tailor new products and services, as well as empower cross-selling opportunities across ecosystem partners.
Complex partnerships	Risks stemming from the unique nature and complexity of embedded finance partnerships, such as one-to-many, shared liability, and third-, fourth- and fifth-party relationships among providers, vendors, and financial institutions.	It is necessary for the bank to understand how fintechs manage risks and obligations in an effective manner, without just transferring the underlying risks back to them. Fintechs need access to the bank's technology stack, and they must also understand how any supporting services are being performed, such as credit underwriting, Know-Your-Customer, and transaction monitoring.
Vulnerable customers	Customer-specific concerns arising from partnerships between financially regulated and non-regulated institutions, including the increased use of data harvesting, profiling and monetisation, duty of care, marketing, cross-selling, and customer retention and loyalty.	Embedded finance applications allow non-banking organisations in virtually any industry to break into financial services without taking on the significant regulatory burden associated with the sector. This creates a unique risk around customer ownership for all parties, and particularly for incumbent financial organisations. An embedded finance venture should pre-emptively consider customer ownership when its products are purchased by giving partners sufficient rights to the customer relationship to make it worthwhile for them too.
Distributed risks	The exponential increase in risk transfer within complex embedded finance ecosystems – reinforcing the need to develop an effective risk management approach for distributed risk and shifting liabilities.	Implementing risk management frameworks and operationalising periodic third-party risk assessment programmes can help identify distributed risks among the various vendor parties. Instituting identity and access management policies, including zero-trust and least-privilege access control, can avert severe consequences such as data theft, denial of service attacks and malware injection attacks, to name a few. Well-known practices, such as transference, avoidance, and acceptance, are still appropriate to help mitigate risks, but it is crucial to consistently challenge historical organisational biases and experiences — especially as distributed risks evolve with the growing adoption of embedded finance.

Source: Adapted from PwC, *Managing Risks in the Transition to Integrated Financial Services,* May 2023.

LEADING FROM THE TOP

By Chartered Banker, UK

FROM SOCIAL RESPONSIBILITY TO PROTECTING CUSTOMERS – THERE'S NO SHORTAGE OF ELEMENTS OF THE ETHICS LANDSCAPE IN BANKING.

The 'trolley problem', 'ticking time bomb', and 'lying doctor' are all fairly well-known examples of moral dilemmas – whereby individuals are presented with a scenario and a choice between two or more options – each of which has both positive and negative consequences. The aim of these is to explore the moral reasoning around decision-making.

In Plato's *Republic*, meanwhile, we have the story of the Ring of Gyges. When given a ring, a shepherd named Gyges becomes invisible and anonymous. Through his invisibility he seduces a queen, kills her king, and takes over the kingdom. The argument is made that invisibility and anonymity are the only barriers between a just and an unjust person. It also states that we would all be unjust if we had a cloak of anonymity.

"The Greeks asked this question about being invisible," says Chris Cowton, Emeritus Professor of Financial Ethics, the University of Huddersfield, which amounts to, 'Would you be ethical if you couldn't get caught?' It's an ancient question and it's one that can be applied to banks. Do they act ethically today purely because they don't want to get hit by the regulator and upset the market? Or are they doing it at least in part owing to the fact that it's the right thing to do – because it fits with the kind of bank they want to be and the culture they want to have?"

In order to examine this question in depth, it's important to take a step back and look at where we were with regards to ethics and banking, and where we are now.

SCANDALS, TECH, AND COMPETITION

Samar Yanni, Assistant Director and Head of Membership & Professional Standards, Chartered Institute for Securities & Investment (CISI), explains that over the past few years, there's been a greater focus on the ethical landscape in banking. "This has been driven by regulatory changes and public scrutiny as well as advancements in technology," she says. "The emphasis

There have also been a few cases in the public domain that came under public and regulatory scrutiny, following on from high-profile financial scandals. Additionally, the rise of technological advancements, such as **AI (ARTIFICIAL INTELLIGENCE), DIGITAL BANKING, AND FINTECHS HAVE ALSO HIGHLIGHTED NEW ETHICAL CONSIDERATIONS.**

on sustainability and introduction of Sustainable Finance Disclosure Reporting (SFDR), meanwhile, are also adding to the already complex landscape.

"There have also been a few cases in the public domain that came under public and regulatory scrutiny, following on from high-profile financial scandals. Additionally, the rise of technological advancements, such as AI (artificial intelligence), digital banking, and fintechs have also highlighted new ethical considerations.

"Interestingly, as the ethical landscape in financial services becomes more complex, we've started to see a rise in disciplinary cases being communicated to us at the CISI, with a 33% increase in cases declared in 2023 compared with 2022." Cowton looks further back in order to assess where else this focus might have come from. "The ethical culture of banks took a hit prior to the [2008] financial crisis, and that was obviously driven by a number of factors. These included stock market expectations, competition, and what boards were interested in. Everything had become much more about selling."

FRIENDLY ADVISERS OR SALESPEOPLE?

He explains that, in his opinion, there are two current characteristics of banking that really matter. "One is regulation, the other is the nature of the product banks sell. But because of what it is that they sell, people can't easily evaluate them and we don't have a tradition in this country of people being willing to pay for financial advice. So, coming up to the financial crisis, people tended to think that the bank was their friendly adviser. What they didn't realise was that there were strong targets behind what they were being spoken to about."

Cowton says that today, banks are being managed like other big organisations. "But what happens with FS (financial service) products really matters. If I have, for example, the wrong insurance policy – it really matters. If I've invested in the wrong sort of pension – it really matters.

"Conversely, if I buy a burger and I don't like it, it doesn't really matter. I might eat it, I might not – but I'm probably not going to go back to the place I bought it again. I'll put it down to experience, but a lot of what banks sell are so-called credence goods: even after you've bought something, you don't know whether it's a good product or not.

"But since the financial crisis, banks have taken a good look at themselves. They've understood that some of the systems and procedures that they had in place weren't actually appropriate when it came to dealing with vulnerable customers. So, as a result, they rethought some of their systems – the ones that a lot of us predicted would end in tears –and because of this, they aren't as exploitative as they once were. But this doesn't mean that they suddenly became values-based organisations, of course."

Yanni turns her attention to the role that the Financial Conduct Authority (FCA) has played in shaping and enforcing ethical standards within financial services. "The FCA has defined accountability and responsibility," she explains. "For example, the individual conduct rules and the Senior Managers and Certification Regime (SM&CR) place a greater onus on firms and individuals to act with integrity, skill, care and diligence, and treat customers fairly. The Consumer Duty, which came into force in 2023, sets clearer and higher standards and expectations to treat customers fairly.

What we find in organisations is that when people are doing something for the sake of doing it, all ethical intelligence disappears. This is because **THEY'RE NOT TRAINED TO THINK AND THEY'RE NOT GIVEN DISCRETION.** We know that most things go wrong ethically not because people are deliberately 'naughty' but because they didn't even notice what was happening.

"The rules and requirements have been put in place to support banks in achieving the right outcomes, which means putting the client first and delivering suitable services," she continues. "There are also rules and requirements to guide firms on best practice. Similarly, the CISI provides a range of resources to help members and firms."

THE MILLION-DOLLAR QUESTION

Cowton believes that, crucially, most banks have done some thinking about their own purpose. "This might attract recruits and it might make people more confident in the bank," he says. "It has probably helped them think through some of their issues. Of course, the danger is if the purpose piece turns out just to be window dressing.

"On top of all this, we now have the FCA's Consumer Duty. Does that help embed ethics in banks? I think that's the million-dollar question. I personally have my doubts."

He states that a large part of the problem is that banks are allowed to handle Consumer Duty in the way they think is appropriate. "We have to consider if the current regulation encourages banks to think of Consumer Duty in the right way," he points out. "If it doesn't, then it's going to be very hard to embed ethics in the relationship between a bank and its customer.

"Unless there is intelligent regulation of Consumer Duty, it will descend into box-ticking and it won't accomplish its aims and this will be another nail in the coffin of ethics-based behaviour in the banking industry.

"What we find in organisations is that when people are doing something for the sake of doing it, all ethical

intelligence disappears. This is because they're not trained to think and they're not given discretion. We know that most things go wrong ethically not because people are deliberately 'naughty' but because they didn't even notice what was happening."

With regards to the likes of Consumer Duty, Tanya Retter, Executive Director of Education, Chartered Banker Institute, stresses the need for leaders to understand the playgrounds within which they are operating. "This means having strong support – from the regulators, the board and the teams – that enables people to understand certain frameworks and therefore operate the right way within them.

"When a new piece of regulation comes in or there's a concern that's been raised through a review, having the right people in place to deliver against that outcome is really important, and knowing what frameworks and systems to put in place is crucial, too."

THE NORTH STAR

Cowton's fear is that without this intelligent regulation, the opportunities for a bank to truly have an ethics-based – rather than a rule-driven – culture are limited.

"This is why it's really got to start with the board," he says. "The board has conversations with the regulators, both official and unofficial and via various channels, and it's the board that decides what kind of organisation it wants to be."

They also have to translate and communicate because one person can't make all the difference – it takes a whole body of people to do so. Leaders, therefore, **HAVE TO BE ABLE TO ACHIEVE THAT ORGANISATIONAL CHANGE AND SUSTAIN IT** long after they've gone. The cultural way of operating has to be something that comes from the DNA of the people within the company.

Retter believes that while the board decides the purpose – the north star – of the organisation, it's leadership that will ultimately embed and sustain it. "The board absolutely will support the strategy, but when it comes to fulfilling it, that's down to their leaders. These are the people who are actually supporting their teams, driving the right behaviours and implementing and executing the strategy through various frameworks, systems, and processes. So, they need to have the right skills and an understanding of what it is they need to do and how they need to do it."

Crucial to this, Retter believes, is their ability to story tell and narrate. "A leader's ability to bring to life a vision is critical. They need to be able to transcend different audiences depending on how senior their teams are and depending on whether they have flat structures or not.

"They also have to translate and communicate because one person can't make all the difference – it takes a whole body of people to do so. Leaders, therefore, have to be able to achieve that organisational change and sustain it long after they've gone. The cultural way of operating has to be something that comes from the DNA of the people within the company."

Retter stresses the need for critical thinking and an appreciation for continuous development. "Leaders need to be capable of questioning what organisational concepts mean for them and their teams, and how they can make sure they are supporting individuals with regards to attitudes to always-on learning and growth mindsets – as well as how they can all be ahead of the curve."

"As an institute," she continues, "we're proud of the fact that we support people at every stage of their banking career – whether members are in front-line or functional teams. We support them through a variety of different qualifications, educational content, and continuing professional development (CPD) that enables them to progress and hone some of the skills that will help them be professional, responsible bankers."

HONEST REFLECTION

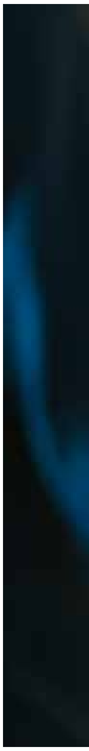
Cowton recalls a two-day roundtable consultation process he was involved in with senior banking figures and regulators not long after the financial crisis. "I asked the question, 'What is banking for?'" he says. "And what was really interesting was that most of them said that they take small short-term deposits and transform them into longer-term loans, which is traditional financial intermediation.

"My next question was, 'What about the rest of it? Everything that got you into trouble?,' and the response I received was essentially that they just didn't know what use it was, but everyone else was doing it and they didn't feel able to be the odd ones out.

"But what we've seen recently is banks taking a step back and asking themselves what they are actually here for," he continues. "Today, most of the UK-based clearers have some sort of expression of that. It might not have seeped through yet, but it's at least embedded in systems. And, of course, one of the factors that has changed in the past 50 or 60 years is that you can actually drive a bank from the centre in a way that couldn't be done in the 1960s. Back then, the local branch was its own kingdom."

What are the next steps in this space, according to Yanni? "Developing an understanding and awareness of non-financial misconduct is essential to avoiding falling short, which could result in disciplinary cases.

"At the CISI, we put great emphasis on supporting our members in achieving the highest ethical standards. One way we do this is via a requirement for new members to complete a module on integrity and ethics and a commitment to undergo a number of CPD hours on integrity and ethics on an annual basis. We also deliver an Annual Integrity Event, where a panel discusses various dilemmas and members can vote on the most ethical resolutions. Finally, we publish ethical dilemmas under the title *Grey Matters* in the digital and print editions of our member magazine, *The Review*."



The rules and requirements have been put in place to support **BANKS IN ACHIEVING THE RIGHT OUTCOMES,** i.e. putting the client first and delivering suitable services. There are also rules and requirements to guide firms on best practice and, similarly, the CISI provides a range of resources to help members and firms.

THE RIPPLE EFFECTS OF CHANGE

Yanni stresses that while building a positive culture internally at banks is absolutely vital when it comes to ethics, it is by no means an instantaneous process. "It can't be achieved overnight," she says. "It takes time and the small changes have the ripple effect of creating larger ones. Small incremental changes will enable firms and banks to build a more positive ethical workplace, where the behaviours expected by the regulator, customers, and colleagues are embedded into the culture.

"The rules and requirements have been put in place to support banks in achieving the right outcomes, i.e. putting the client first and delivering suitable services. There are also rules and requirements to guide firms on best practice and, similarly, the CISI provides a range of resources to help members and firms."

Cowton, meanwhile, points out that the UK Corporate Governance Code requires the board to have a view on its corporate culture. "This means that board members have to be able to

state what kind of culture they want in their organisation" he explains. "They also have to be assured about how management will try to implement the various tools that might help the organisation achieve and maintain that culture.

"Cultural management is really difficult," he continues. "What kind of culture do banks want? and particularly, do they want a mere compliance culture or something more than that? Have they done some real thinking around purpose and how they feed codes of ethics – and there are some good codes of ethics in place – into the organisation? Key here are training, communication, tone from the top and role modelling by middle management. It's also about making it relevant. Banks might have espoused values – but what are the words and what do they mean for us here, in this part of the bank?"

SNIFFING THE CULTURE

Yanni agrees: "Ensuring that ethical values and commitments are correctly cascaded throughout an organisation starts at the top, with senior leaders modelling the expected behaviour.

"It's also vital that organisations do everything they can to embed a positive work culture – one that enables honest, open, and transparent conversations," she continues. "This will, in turn, enable individuals to speak up and raise concerns where needed, learn from mistakes, and continue to build on the ethical behaviours. Finally, it's essential that companies develop training, regular monitoring and have the right policies in place."

Cowton adds: "People often worry about measuring culture. But it is possible to get a handle on it. You can define your own numbers and there are various indicators you can use around where you currently are and where you want to get to over time.

"Sometimes, however, it can be much simpler than that. You can often walk into an organisation and even without being there very long you can somehow sniff the culture – it's instinctive and intuitive. From the outside, a lot of banks will look and seem the same – but as soon as you walk inside, even if it's just into one particular department, you can get a sense if something is off."

IMPROVING PUBLIC PERCEPTION

Cowton is very much of the opinion that the signals people receive when they first join an organisation are worth serious consideration. "This is especially important around what really matters internally and what people get promoted for," he says. "A common problem is that the people who are candidates to become big players are the ones who have stunning numbers. But later, it becomes apparent just how they achieved these numbers.

"Management needs to control the messaging about what really matters and this can be in terms of performance appraisal and in promotion criteria. It can be how the culture feels day to day.

"When it comes to recruitment, it's one thing to have fantastic messaging about the kind of organisation you are, how all are welcome and that purpose matters. But if people don't see that when they join, they'll rightly think they were sold a false narrative.

"Microcultures and subcultures will of course exist," he continues, "and some of these will depend on the function that people are in. But there should be some underlying values that somehow make it seem different."

Yanni concludes: "To succeed, banks need individuals who are open to communicating, learning, and developing themselves and others continuously. While the goals remain the same, we have seen the expectations and deliverables change over the years. With the introduction of hybrid working, there is a greater focus on building trust and, in turn, ethical behaviour.

"What's more, the public perception of bankers in the UK is considerably lower than it is for other professionals. Improving the ethical behaviour of financial services providers is essential for continuing to build consumer trust and confidence in the profession." ✱

■ *This article previously appeared in the Chartered Banker magazine, UK, Issue 1 2024 edition.*

When It Comes to Statistics, Boring is No Longer the Benchmark

By Julia Chong

Communicating statistical data is now top-of-mind for central banks.

In 2000, Deputy Governor Mervyn King shouted from the proverbial financial rooftop: "Our ambition at the Bank of England is to be boring." Such high ambitions have since taken a U-turn.

In the past, the existence of national statistics organisations – whether housed within government agencies like central banks or under multilateral organisations like the United Nations – was lauded as a virtue unto itself; having a dedicated unit churning out voluminous data was indicative of a mature financial system, never mind if the statistical basis for their decisions remained largely ignored by the general public. This, however, is no longer the case.

In recent times, there has been a concerted effort by central banks to step up and step out of their comfort zone. Central banks, who are both users and producers of statistics, are in a unique position to steer expectations and the economy through the use of key financial figures. It strengthens credibility and minimises uncertainty when the public understands the statistical basis and reasoning put forth by regulators, leading to its course of action. It engenders trust in the system.

The Bank of International Settlements' (BIS) recently published paper, *Communication on Central Bank Statistics: Unlocking the Next Level,* highlights that "the communication of statistics remains a constant challenge, reflecting in particular the difficulties posed by new information sources, the increasing need for granular insights and the competition of alternative, sometimes poor-quality data. Fortunately, central banks appear well positioned, building on well-established credibility, visibility and trusted independence… A key objective is to foster user engagement with, and understanding of, central bank statistics."

Here is how:

+ **A dedicated statistical communication function.** This is typically set up to address both internal and external users. Success will often depend on defining clear priorities and objectives and on ensuring good cooperation with subject matter experts as well as with the main communication department of the central bank. Moreover, there is merit in following a structured approach to designing a comprehensive framework comprising all the various building blocks that constitute the "communication ecosystem" – e.g. the related information sources, audiences, channels and required multidisciplinary skills.

+ **No 'one-size-fits-all' approach.** To be effective, communication should reach out to and engage with different groups, consider their distinct needs and be tailored to their various levels of sophistication and knowledge. Central bank statisticians are indeed already following different approaches when communicating statistical information, depending on the specific user groups considered (such as the general public, researchers, students, journalists). Moreover, central banks are also developing new communication channels in order to reach out to the broadest possible audience. This calls for making the most of the wealth of data they have available, including granular data, and for using all media opportunities, especially social media.

+ **Leveraging innovation.** This is to enhance their statistical dissemination methods and address the most pressing challenges. For instance, they are developing single "open source" data portals to strengthen their communication, by making data more accessible and enhancing users' experience. They are exploring new ways to share very granular information without compromising confidentiality. They are also mobilising techniques based on artificial intelligence (AI) to support a wide range of tasks, from identifying user types to offering customised solutions that are tailored to specific user needs and degrees of literacy. In particular, the recent progress observed in the field of natural language processing and large language models is providing important and promising new opportunities to strengthen central banks' statistical communication.

Central banks, who are both users and producers of statistics, are in a unique position to steer expectations and the economy through the use of key financial figures. **IT STRENGTHENS CREDIBILITY AND MINIMISES UNCERTAINTY** when the public understands the statistical basis and reasoning put forth by regulators, leading to its course of action. It engenders trust in the system.

PUTTING IT INTO ACTION

There are numerous initiatives to communicate and reach out to a broader audience, signalling that they, together with the times, are changing.

Fostering engagement with data users – both within and outside the walls of the organisation – is now an explicit objective of an increasing number of regulators. Some house a dedicated communications unit within the statistical department, whilst others opt to coordinate the statistical communication function between the statistics and corporate communication departments. What is important is the acknowledgement that there is no one-size-fits-all solution.

For instance, the authors of the BIS paper – Luis de Carvalho Campos, Ligia Maria Nunes, Mafalda Sousa Trincao, and Bruno Tissot – detail the experience of *Danmarks Nationalbank* in developing the statistical communication function and expand on the Danish central bank's key considerations. It is worth noting that the trajectory of the *Danmarks'* experience, which is summarised below, closely mirrors that of other central banks' statistics departments that have established communication-focused teams:

- **Prioritise communication:** A key starting point is to recognise that producing statistics is not sufficient if their value is unknown. This calls for a cultural shift within the institution and a willingness to allocate more resources to the dissemination of statistical information, hire staff with specific competencies and ensure that everyone understands the importance of communication.
- **Set up a visible function in charge of statistical communication:** Each of the divisions producing statistics should not be left alone to manage the dissemination of their data. There is merit in establishing a common unit in charge, for instance, of responding to users' incoming inquiries and organising communication activities.
- **Favour internal mobility:** Facilitating the transition of statistical experts to the statistical communication function is essential to promote synergies and staff development. This requires adequate training, in particular in written and visual communication.
- **Define clear communication objectives:** Statistics departments should carefully analyse user feedback to identify information needs and adapt their communication accordingly. This also calls for flexibly adjusting to an environment often characterised by uncertain and changing customer preferences.
- **Develop a matrix organisational structure to ensure that subject matter experts are working together with the communication function:** The key is that staff in specific statistics areas (e.g. monetary statistics, external sector statistics) are associated with the various communication initiatives, for instance when working on the presentation of the data in a user-friendly way. Collaboration should also involve other internal stakeholders, such as economists in research and policy departments (especially for producing analytical content) as well as experts in the main communication unit of the central bank (which is also increasingly relying on internal data analytical capacities). This collaboration can be facilitated by the design of a well-defined governance framework that clarifies the various processes and responsibilities involved, for instance, for the production of press releases.

HOW TO BUILD A FRAMEWORK

There is an increasingly deeper appreciation of the need to 'help users think with data'. This entails reaching out to a whole new demographic consisting of semi- and non-professional users. It is a marked shift away from the days when statistics were jargon-filled, visually blah, and seemingly irrelevant to the general public.

A subset of regulators have also adopted a customer-experience-centric approach to communications by streamlining consumers of statistical data into four types of user personas – unskilled users, skilled users, students, and economists.

The European Central Bank's (ECB) statistical data warehouse was built

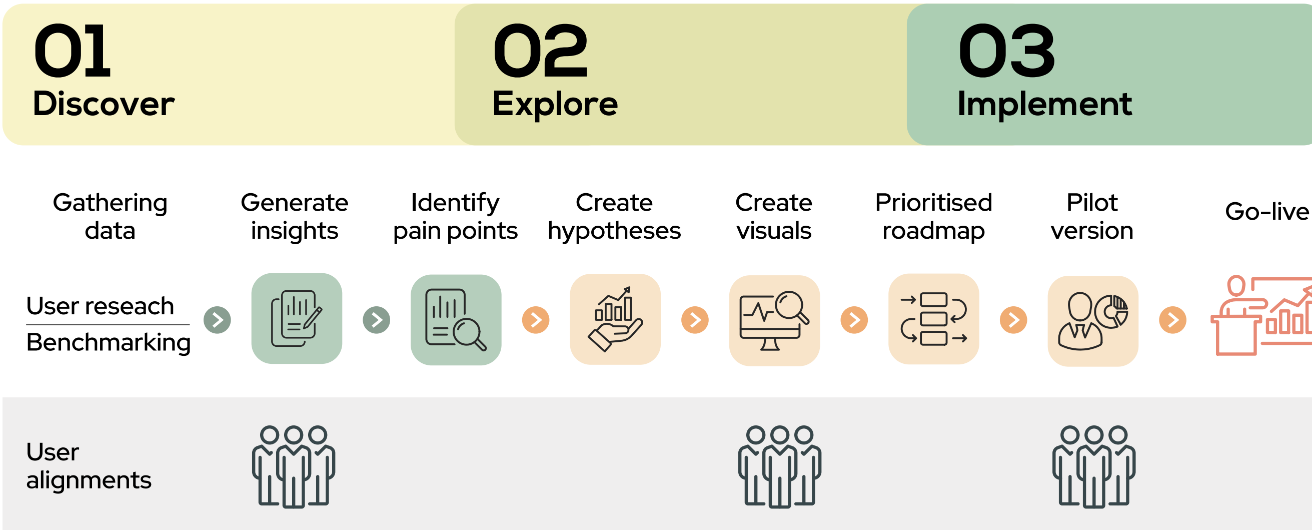


Figure 1: *Background: Project Approach and Deliverables,* ECB, 2022.

in 2006. Catering to over one million users globally, it was primarily used by professionals and in need of major overhauls to meet the expectations of modern users. With over 44 in-depth interviews with professional, semi- and non-professional users, the ECB was able to identify user pain points and the new requirements they envisioned. Coupled with a benchmarking exercise of 20 other data portals, these insights assisted the supra-national regulator's revamp of a new ECB data portal which went live to the public at the end of 2022. No longer presenting just populated data in columns and rows, the new portal included interactive features such as dashboards, time series and comparisons, explainers and insights presented with downloadable visuals, including embedded features for other webpages.

Figure 1 outlines the framework adopted by the ECB which was presented by Klára Bakk Simon in 2022 at the Irving Fisher Committee on Central Bank Statistics-Banco de Portugal Conference on Statistical Communication.

The hope is to see greater trickle-down effect in the use of economic and financial information in society. It also feeds into the financial inclusion goals of many regulators such as Bank Negara Malaysia, whose strategic push to improve economic literacy across the board, caters to a more diverse audience than in the past.

QUALITY DATA IN A FLASH

In recent years, the shift towards artificial intelligence (AI) in finance has chased to the surface some questions on its reliability, one of which is data quality.

Here's how Jim Tebrake, Deputy Director of the Statistics Department at the International Monetary Fund (IMF), simplified one of the main challenges faced by 'numbers people' and their experience with generative AI:

"When ChatGPT came out about a year and a half ago, I think I, like many of you, decided, "I'm going to check this thing out". So, I put a bunch of prompts in there and I saw what it gave back. I was quite impressed; I mean, these were quite insightful responses I was getting.

"Then I thought, "Okay, I'm going to see if ChatGPT can give me data". So I said, "Can I have the US GDP estimates from 1990 to 2022 in a table format worthy of a table I could give to my boss. I watched the screen and magically this beautiful table appeared before my eyes, well-formatted, something I could just print off, give my boss, go home and say "Hey, job well done". I was elated.

"But that elation turned to disappointment when I looked at the numbers. I said, "Ah, that's not quite the US GDP, in fact, I think that's Canada's GDP and France's GDP." Something was amiss but I couldn't quite give up on this idea that this tool could be so useful in helping people access data.

"We engaged EPAM, a world-renowned IT provider, to build our platform. So I put the question to them: "Can we use AI to allow users to talk to the IMF data in their language, but you have to guarantee me that every number that they get back is 100% accurate; no hallucination."

"What they developed is something that we call StatGPT…At the base level, it allows you to talk to your data, it allows you to discover your data, to gather your data, to transform your data, to learn about your data. I think this has a huge potential to open up the access to official statistics across the world."

Although the IMF has recently quieted down somewhat on this project, it is a testament to how statistics of themselves are no longer enough. It is imperative that statistics owners broaden their footprint and support information users by showing them how to use them, the infinite stories that numbers tell, and why some decisions lead to better outcomes than others. *

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

HAPPIER BY THE MINUTE

By Dr Amanda Salter

Five crucial pillars to rev up your employee experience strategy.

Research has shown that an improved employee experience (EX) drives workforce engagement, wellbeing, productivity, and ultimately, overall business performance.

In 2021, Willis Towers Watson reported in its *Employee Experience Survey* that 92% of employers were choosing to prioritise EX – a staggering increase from the pre-pandemic figure of 52%. Despite this, employees don't seem to be getting any happier. A bellwether study by BambooHR found that employee happiness in the United States plummeted 10 times faster in 2023 than in the previous three years. This trend has been dubbed the 'Great Gloom', a worrying follow up to the Great Resignation. It's time to double down on your EX to avoid being pulled into this downward spiral.

For the uninitiated, 'employee experience' is the sum total of all the interactions that happen between an employee and their employer. The savvier amongst us will see the parallels here with the term 'customer experience'. EX covers the full lifecycle of your employees, from the moment they first encounter your organisation, all the way to joining, leaving, and perhaps even rejoining your organisation.

Despite the commonly heard messages from HR consultancies or HR IT platform providers, EX is much broader than just your stance on hybrid working or your ability to provide the latest and greatest technology for your employees. Far-sighted banks need a long-term, employee-centric EX strategy, a 'north star' that will provide focus, guide budget allocation, maximise engagement, and minimise staff churn.

I propose that a great EX strategy has five pillars: people, processes, policies, data, and technology.

1 LOOK AFTER YOUR PEOPLE

There is truth in the cliché, 'your employees are your greatest asset', but many banks struggle to live out this statement, especially in the area of training. According to a PwC study in 2023, less than half (45%) of employees say that their company is upskilling its workers. Some banks are just not keen on training their people. They ask, "What if we spend all this money training someone and they leave?". The flip side of this question is: what if you don't train them and they stay?

Invest in training your people. This also means freeing them up long enough from their day jobs to undertake training. Find out what skills they want to learn. Don't limit people to a single career trajectory and consider offering flexible career pathways that include lateral moves to other teams.

Good leaders are key to your EX. Increasingly, employees are looking for leaders who are more than just bosses. True leaders are purpose-driven, transparent, accountable, and empathetic. They protect their teams from politics, fight for their interests, and prioritise their teams' development. They give credit where credit is due and take the risks on behalf of their teams. As Nelson Mandela said, "It is better to lead from behind and to put others in front, especially when you celebrate victory. You take the frontline when there is danger."

Asia-Pacific leaders and managers need a highly nuanced understanding of what motivates their people. There is a significant spread of diverse motivations and values across the region. This is markedly different to the Americas, Europe, and the Middle East, where 'meaningful work' is by and large the single most important motivational factor. An IBM study, *The Employee Experience Index Around the Globe,* found that in India, 'feedback, recognition, and growth' is just as important as meaningful work. In the Philippines, it's 'coworker relationships' that are important, whereas in Thailand it's 'empowerment and voice'.

Identifying and harnessing these factors intelligently will help you to drive a more effective EX strategy.

2 OPTIMISE INTERNAL PROCESSES

If your employees are facing error-prone internal processes, multiple handoffs, and slow service delivery on a daily basis, they will not be looking forward to starting work every day.

Optimise your internal back-office processes. **REDUCE THE NUMBER OF HANDOFFS THAT TAKE PLACE BETWEEN TEAMS.** If your entire back office functions like a well-oiled machine, your employees will enjoy increased influence and impact in their work, which in turn improves your EX.

There is also no way that your end customer is getting a good experience either.

Optimise your internal back-office processes. Reduce the number of handoffs that take place between teams. If your entire back office functions like a well-oiled machine, your employees will enjoy increased influence and impact in their work, which in turn improves your EX.

One process that often suffers from poor performance in large banks is recruitment. Applicants will come away from their recruitment experience with a clear impression of how your organisation works (or doesn't). If it takes six weeks for a candidate to get from a job ad to a job offer, you won't be landing the best candidates. Many recruitment teams still struggle to reconcile the poor availability of hiring managers and the bank's need for rigour, with the need to move quickly and respect each candidate as an individual.

There's a monetary benefit to fixing frustrating and inefficient internal processes and systems. Simply take the amount of time your employees spend struggling to get their job done,

multiplied by their annual salary to estimate the potential cost savings. These figures can be scarily high for large, complex banks.

❸ SET (AND UPDATE) YOUR POLICIES

Obviously, your return-to-office policy has a huge impact on your EX, but there's so much more to consider here. Policies have the power to make or break your EX. Positive changes in culture can be reinforced from the top down by creating new policies, like many banks are now doing for diversity, equity, and inclusion. There are also smaller 'mini policies' that can be put in place to improve life for everyone. For example, start all meetings at five minutes past the hour, to give people some breathing space between meetings.

A Future Forums study found that most executives (66%) are designing post-pandemic workforce policies with little to no direct input from employees. Don't make this mistake. When faced with launching a potentially controversial or unpopular policy, take the time to invite employee feedback beforehand. This gives you an early signal about how

new policies are likely to be received and the questions that will be asked. You can then either go into battle prepared, or you can quietly make some changes without needing to do a big climbdown.

If there are company policies that your employees are unhappy about, and you give them no channel to route their concerns, they will vote with their feet. Don't hide behind your policies or use them as roadblocks. If you don't address policy concerns and complaints, you can be sure there will be employees who will try to circumvent them anyway, possibly causing even higher risk to the bank. Remember what life was like before 'bring your own device' became an accepted policy?

❹ COLLECT AND ANALYSE THE RIGHT DATA

The best EX strategy will be specific to your bank and your employees' needs. To develop this level of specificity, you have to have enough detail about what your employees need, what their pain points are, and what has to be fixed across your existing employee experience. If you don't know enough about these things, it's time to find out.

Start with a clear picture of the full range of EX data that you want to collect. A combination of qualitative and quantitative data will give you a rich, contextual picture of your current EX, together with numbers to feed a business case for change. You want scalable and secure data collection mechanisms that anonymise and aggregate quantitative feedback appropriately. Many organisations run an annual employee feedback survey, others choose to collect data on an ongoing basis through a continuous listening programme. Exit interviews can also be a good (but often missed) opportunity to collect candid qualitative feedback. Whatever collection mechanisms you choose, make sure that it's quick and easy for employees to provide their ratings and responses, not onerous and burdensome.

Ideally, you'll want to collect data for both leading and lagging EX indicators. A lagging indicator measures the after-

ASIA-PACIFIC BANKS IN THE EX LEAD

ANZ has implemented an employee listening programme to gather feedback on 25 drivers, including trust in leadership, living company values, trust in management, and work-life balance. These drivers align to five key performance indicators through which the bank measures EX: engagement, well-being, experience versus expectations, intent to stay, and inclusion.

UOB's employee value proposition includes weekly two-day remote working, an additional two hours off during the workday every month for personal matters, and a choice of staggered start work times. Following implementation of this new policy, morale and loyalty increased across the bank, with no negative impact on productivity. UOB ranked second in Asia in *Time* magazine's World's Best Companies 2023.

the-fact outcome of your EX. A high employee leavers' rate is an obvious lagging indicator of poor EX. Leading indicators on the other hand measure the various factors that are likely to result in a lagging indicator. Poor employee participation in company-wide events, low rates of employee referrals for jobs, and poor results from employee feedback surveys can all be leading indicators that predict high numbers of leavers. Tracking these leading indicators gives you foresight and the chance to intervene and change things before you get an undesirable outcome.

Once you have collected your data, consider using tools and techniques from design thinking – such as personas, journey mapping, and ideation – to analyse the findings, create actionable insights, and help you determine the desired changes you want to make to your EX.

5 MEET EXPECTATIONS OF TECHNOLOGY

It's a basic employee expectation that your internal systems will all work together seamlessly. Ensure your internal tech platforms and software (from HR systems to purchasing platforms and the intranet) are all integrated. Otherwise, you'll be contributing detrimentally to point number two (efficiency of your back-office processes).

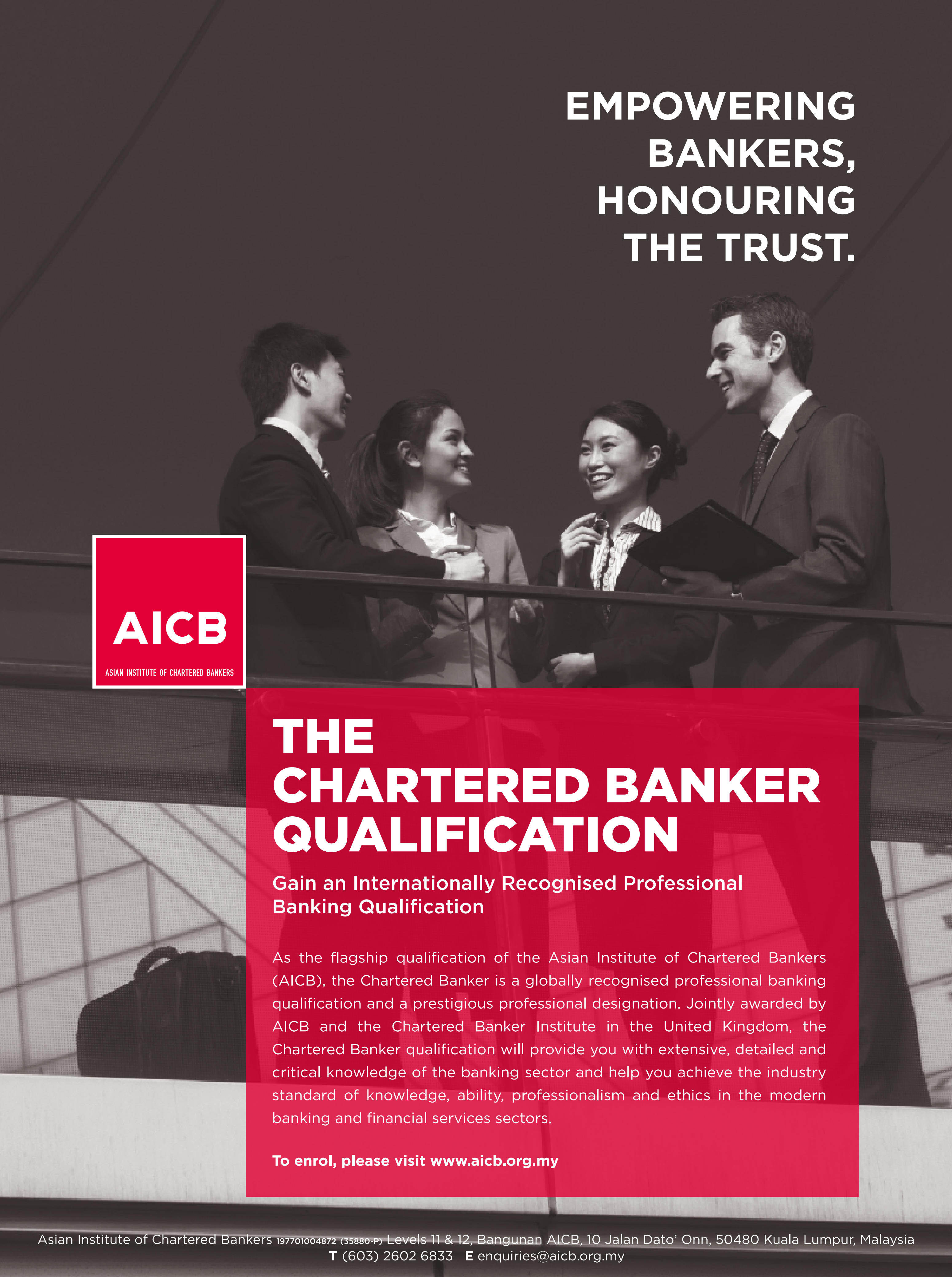
Provide ways for your **EMPLOYEES TO SELF-SERVE THE TECHNOLOGY THEY NEED AND DO THEIR JOBS AT MAXIMUM EFFICIENCY.** Allow exceptions and administrative rights to install safe technology on relevant employees' machines – don't let your IT department lock everything down too tightly. Recover and reduce operational tech – ensure that employee profiles, internal software licenses, technology vendors, and file repositories are audited and consolidated regularly.

Provide ways for your employees to self-serve the technology they need and do their jobs at maximum efficiency. Allow exceptions and administrative rights to install safe technology on relevant employees' machines – don't let your IT department lock everything down too tightly. Recover and reduce operational tech – ensure that employee profiles, internal software licenses, technology vendors, and file repositories are audited and consolidated regularly. There are many technology-related optimisation opportunities hiding in plain sight that can not only simplify life for your employees but also save costs and enhance your bottom line.

A McKinsey 2021 research report shows that employees at companies with good EX are more inclined to surpass work expectations, translating to a 40% higher level of discretionary effort. Forward-thinking banks are those who capitalise on this goodwill effect on productivity. Treat your employees as internal customers who need to be served by your business functions and you can't go far wrong.

If you don't yet have a solid EX strategy, then use these five pillars - people, processes, policies, data and technology – as chapter headings to create a distinctive and directive EX strategy that sets out your bank's vision for the future, focuses your resources, and delineates the strategic judgment calls that you are making for each pillar. This is the first but most critical step in a long-term journey towards improving your bank's position in the EX league. ✱

■ *Dr Amanda Salter is Associate Director at Akasaa, a boutique content development and consulting firm. She has delivered award-winning customer experience strategies for the Fortune 500 and been an Agile practitioner for over a decade. Previously with Accenture's London office, Dr Salter holds a PhD in Human Centred Web Design; BSc (Hons) Computing Science, First Class; and is a certified member of the UK Market Research Society and Association for Qualitative Research.*


EMPOWERING BANKERS, HONOURING THE TRUST.
AICB
ASIAN INSTITUTE OF CHARTERED BANKERS
THE CHARTERED BANKER QUALIFICATION
Gain an Internationally Recognised Professional Banking Qualification
As the flagship qualification of the Asian Institute of Chartered Bankers (AICB), the Chartered Banker is a globally recognised professional banking qualification and a prestigious professional designation. Jointly awarded by AICB and the Chartered Banker Institute in the United Kingdom, the Chartered Banker qualification will provide you with extensive, detailed and critical knowledge of the banking sector and help you achieve the industry standard of knowledge, ability, professionalism and ethics in the modern banking and financial services sectors.
To enrol, please visit www.aicb.org.my
Asian Institute of Chartered Bankers 197701004872 (35880-P) Levels 11 & 12, Bangunan AICB, 10 Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
T (603) 2602 6833 E enquiries@aicb.org.my