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High Ethical Financial Leadership

BANKING INSIGHT

IDEAS FOR LEADERS | JUNE 2025

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Timor-Leste is Open for Business

Central Bank Governor Helder Lopes shares how Asia's youngest nation is taking its best shot yet at financial deepening

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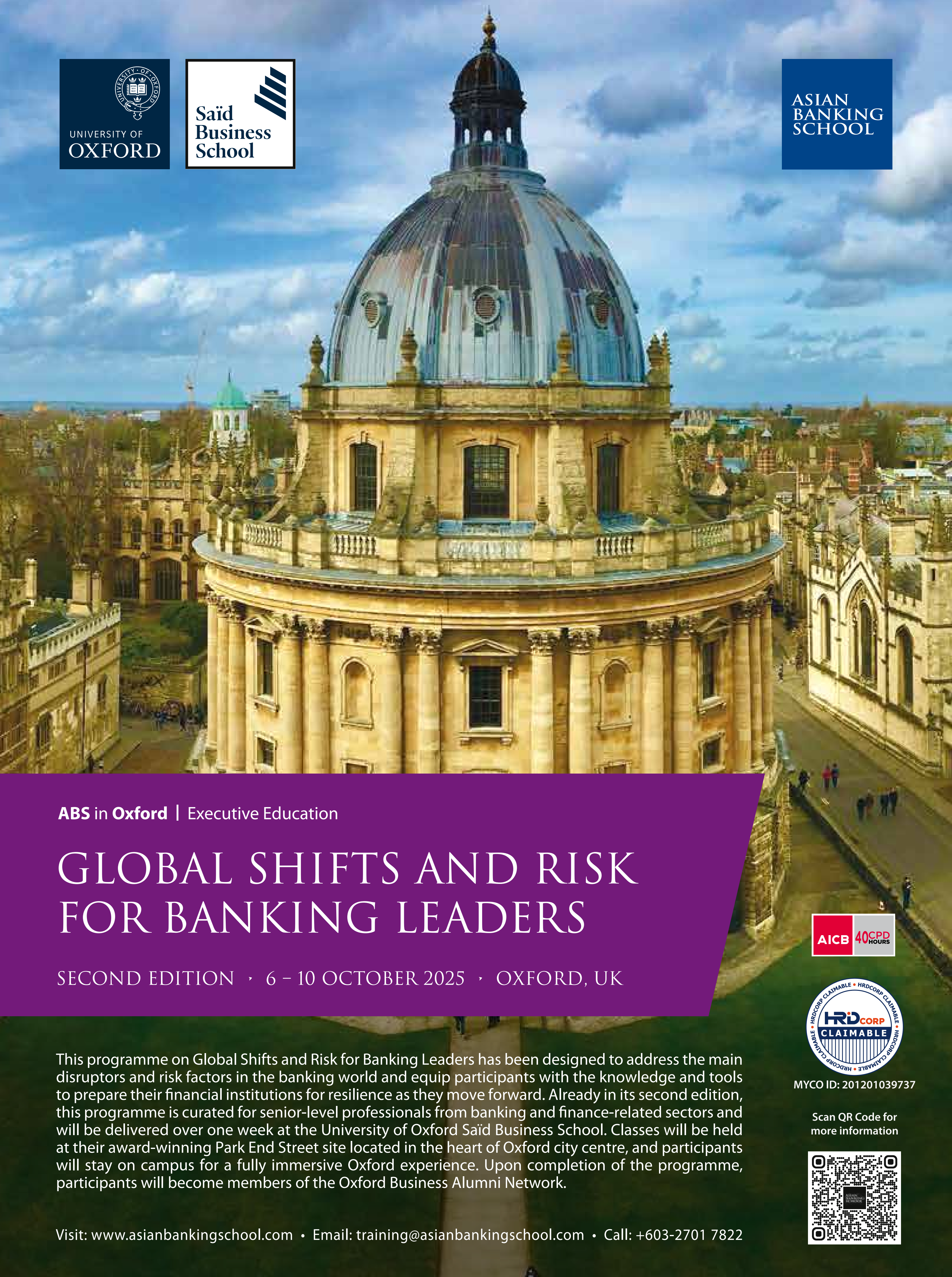
Are We Still Kicking Away the Ladder?

STRENGTHENING OPERATIONAL RESILIENCE AGAINST THE EVOLVING THREAT LANDSCAPE

THE ETHICS OF LENDING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Editor's Note

ASEAN on the Rise

With every issue, we strive to push the boundaries by presenting not just what's top-of-mind for the industry, but also what's on the horizon. We currently stand at a critical turning point in banking and finance.

In this special edition of *Banking Insight*, we spotlight ASEAN and the leading role it is tipped to inherit as geopolitical uncertainties redraw the lines of a new world order.

As the Chair of ASEAN in 2025, Malaysia's dedication to make things happen for the regional bloc is already delivering tangible benefits.

This May, during the 46th ASEAN Summit in Kuala Lumpur, Prime Minister Dato' Seri Anwar Ibrahim concurrently hosted the inaugural ASEAN-Gulf Cooperation Council-China Summit, securing the bloc's centrality through the expansion and diversification of partnerships.

The launch of *ASEAN 2045: Our Shared Future,* a vision document that outlines the strategic thrusts that will underscore the region's development, highlights the transformation that will be championed across climate and sustainability sectors. This includes strengthening the ASEAN Power Grid and dialling up of financing mechanisms in the region's transition to green.

Then, on 27 May 2025, Prime Minister Dato' Seri Anwar Ibrahim announced the upcoming accession of Timor-Leste as the 11th member-state of ASEAN by the Summit in October 2025.

It is thus timely that we hear from Helder Lopes, Governor of the *Banco Central de Timor-Leste,* about the supervisory landscape and arduous work that is taking place in Asia's first sovereign state of the 21st century. In a private interview with Angela SP Yap, the governor, who was in Kuala Lumpur to attend the 12th ASEAN Finance Ministers' and Central Bank Governors' Meeting, opens up about the significance of joining the bloc and the actions Timor-Leste is undertaking to meet its obligations.

The launch of *ASEAN 2045: Our Shared Future*, a vision document that outlines the strategic thrusts that will underscore the region's development, **HIGHLIGHTS THE TRANSFORMATION THAT WILL BE CHAMPIONED ACROSS CLIMATE AND SUSTAINABILITY SECTORS.** This includes strengthening the ASEAN Power Grid and dialling up of financing mechanisms in the region's transition to green.

We are also privileged to feature our most recent fellow inductee, Angus Salim bin Salleh Amran, FCB, who serves as Group Chief Sustainability Officer at RHB Bank Bhd and Vice President of the Financial Markets Association of Malaysia. Sharing insights throughout his decades-long service in the industry, we benefit from learning about his journey towards enhanced financial ethics and the creation of greater socioeconomic prosperity.

Drawing upon regulatory trends in Europe and America, Dr Amanda Salter shares her observations on what is next on the cards as standard-setters such as the Financial Conduct Authority and the Prudential Regulation Authority issue new guidelines surrounding non-financial misconduct and how Asia-Pacific regulators are approaching this in their respective contexts.

Cryptoassets are currently valued at USD3.4 trillion in market capitalisation. This raises both the levels of risk and reward it holds for financial markets. Our story, *Crypto Rules* by Kannan Agarwal, sets out the plurality of regulatory approaches as digital assets enter mainstream financial systems and how crafting a unique Asian response must mean embracing a range of responses.

During this time of geopolitical realignment, banks in ASEAN can truly be at the forefront of change. Through *Banking Insight* and our strategically curated events at the Institute, it is a priority that we prepare our members to thrive in this brave, new world. ✱

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ETHICAL FINANCE ASEAN 2025
Wednesday 19th February 2025

Ethical Finance ASEAN

2025

The AICB and the Global Ethical Finance Initiative (GEFI) hosted the Ethical Finance ASEAN 2025 virtual summit on 19 February 2025, drawing over 2,000 delegates from across the region, including leading government officials, captains of industry, and practitioners. Discussions with 30 international experts centred on the theme of 'Driving Inclusivity and Sustainability', which covered key topics such as inclusive growth, climate finance, green innovation, and ASEAN's global role in economic resilience. In a first for Kuala Lumpur, AICB and GEFI — with the Malaysia International Islamic Financial Centre (MIFC) Leadership Council and MBSB Bank — co-hosted an exclusive pre-summit private session on 18 February 2025: the Ethical Finance ASEAN SDG Hive, a half-day in-person programme addressing the summit's core themes.

AICB GEFI

MyFINTECH WEEK 2025

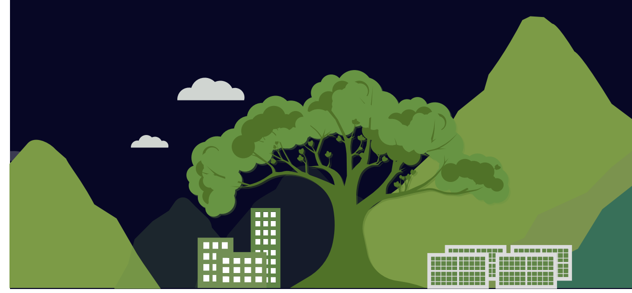
From 4 to 7 August 2025, Kuala Lumpur will host a powerful gathering of global visionaries, regulators, tech pioneers, and financial institutions shaping the digital finance ecosystem.

The premier fintech event is co-organised by Bank Negara Malaysia (BNM), Securities Commission Malaysia, Asian Institute of Chartered Bankers, Fintech Association of Malaysia, and Malaysia Digital Economy Corporation.

The four-day event at the BNM's Sasana Kijang, will feature curated masterclasses, innovation showcases, hackathons, roundtables, and insight-packed sessions on artificial intelligence in banking, digital currencies, regulatory technology, insurance, capital markets, green fintech, and sustainability.

Be part of the conversations shaping policy, innovation, digital transformation, and the future of finance in Asia.

Register now at **myfw2025.com.my**



EMERGING ECONOMIES

Turn the Tides to Stay On Course

Headwinds abound as emerging markets and developing economies step into the second quarter of the 21st century, says the World Bank Group, and a reprioritisation is necessary for countries to continue on their trajectory of growth and development.

Based on data released in its flagship *Global Economic Report* this year, the international financial institution finds that "progress implementing structural reforms in many of these economies has stalled" amid rising global protectionist measures and geopolitical fragmentation.

Key policy interventions can turn the tide for these emerging economies, potentially converting challenges into new opportunities by:

+ **Improving growth prospects in order to boost investment and productivity.** This is achieved through: (i) accelerated investments, particularly in infrastructure; (ii) improved

NEW EU AML CHIEF SETS TONE FOR INTELLIGENCE SHARING

In February 2025, the EU's nascent anti-money laundering (AML) regulatory agency, known as the Anti-Money Laundering Authority or AMLA, appointed veteran Italian central banker, Bruna Szego, as its first Chair. First mooted in 2021, the new Frankfurt-based agency fulfils a dual role as both AML supervisor and data-sharing hub for national financial intelligence units for the EU. Taking over the AML duties of the European Banking Authority, AMLA has been regularly meeting with national supervisors of the 27-country bloc as part of forthcoming overhauls to the supervisory architecture.

In an exclusive interview with compliance portal *ACAMS moneylaundering.com*, Szego said that beginning in 2028, the agency will directly oversee 40 of the economic bloc's riskiest financial institutions as measured by their systemic importance and exposure to illicit finance.

She said: "We should not focus only on few financial sectors, but rather select the financial institutions that bear the highest inherent and residual risk [while] looking at a broader range of sectors…This appears to me more in line with the AMLA framework, and would allow AMLA to have a better grip on risks…and to raise standards more widely."

Taking over the AML duties of the European Banking Authority, AMLA has been regularly meeting with national supervisors of the 27-country bloc as part of forthcoming overhauls to the supervisory architecture.

The move is in sync with the European Banking Authority's recently proposed regulatory technical standards (RTS) related to anti-money laundering and countering financing of terrorism (AML/CFT). The latest four RTS drafts are in the consultation phase until 6 June 2025.

In earlier versions of the RTS, the news portal reported of industry concerns that "large banks would receive the lion's share of the new agency's attention despite the outsized role of smaller lenders, fintechs and cryptocurrency platforms in recent money-laundering scandals." The RTS' final form will standardise and shape how EU institutions are expected to comply with AML/CFT obligations.

business climate to boost private investment growth, spur innovation, and the diffusion of technology; (iii) further action to enhance human capital, setting the stage to boost labour productivity.

+ **Navigating a difficult external environment.** This includes multiple elements, including but not limited to: (i) seeking strategic trade and investment partnerships with rapidly expanding economies and markets, including other developing economies; (ii) tackling high trade costs and low trade efficiency; (iii) pursuing avenues to diversify trade and making wise use of industrial policy; (iv) putting in place policies to protect vulnerable segments of society from adverse effects of trade-related policy changes; and (v) reinvigorating engagement in global trade governance in order to achieve global cooperation and solutions.
+ **Enhancing macroeconomic stability.** Strengthening macroeconomic stability is key in maintaining investor confidence and managing systemic risks. In the past 25 years, accumulated buffers and policy improvements implemented in the period preceding the global financial crisis allowed many of these economies to use countercyclical policies to mitigate its impact. With the sluggish global growth outlook and high risk of external shocks, it is imperative that developing economies strengthen their fiscal cushions and frameworks. Significant and wide-ranging policy reform efforts — drawing on experience gained in many countries — could promote an acceleration of investment that could help reverse the projected decline in potential growth expected in developing economies during the coming years.

Are Cross-border Crypto Flows DeFiying Gravity?

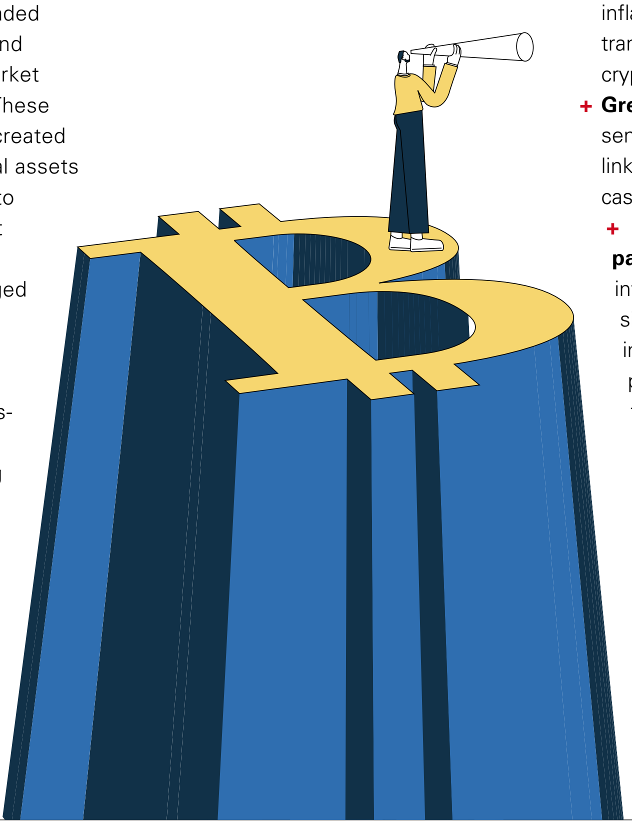
If the Bank for International Settlements' (BIS) latest research is anything to go by, the answer is: it depends.

In *DeFiying Gravity? An Empirical Analysis of Cross-border Bitcoin, Ether and Stablecoin Flows,* released in May, BIS researchers Raphael Auer, Ulf Lewrick, and Jan Paulick investigate the trends and drivers of cross-border cryptocurrency (crypto) transactions in order to shed light on this burgeoning asset class and its impact on financial resilience.

Surveying up to 184 countries from 2017 to 2024, the data set maps the bilateral flows of the two most-traded cryptocurrencies (bitcoin, ether) and the two largest stablecoins by market capitalisation (tether, USD coin). These heterogeneous cryptoassets are created on the blockchain; however, digital assets like bitcoin and ether are subject to price fluctuations as these are not backed against any other external asset, whilst stablecoins are pegged 1:1 to either fiat currency or a commodity such as gold.

Using a gravity framework to identify significant drivers of cross-border crypto flows, the analysis uncovers important differentiating factors affecting the network of directional bilateral flows between countries:

+ **Compared to traditional financial flows** across borders and its determinants, there is a diminishing significance of geographical proximity in crypto flows, particularly for stablecoins, which appear to largely 'defy' these traditional frictions.
+ **Tighter global funding conditions**, known to curtail risk-taking in traditional asset classes, are associated with reduced flows. This indicates increasing interconnectedness between cryptoassets as speculative assets and mainstream finance.



+ **Market-specific risk factors** alongside heightened public awareness of cryptoassets are strong drivers of crypto flows, illustrating cryptoassets' role in speculation.
+ **Our analysis points to cryptoassets** also being used as a transactional medium. This is most apparent for stablecoins and low-value bitcoin payments. Higher opportunity costs of fiat currency usage, such as high inflation, spur bilateral cross-border transactions in both unbacked cryptoassets and stablecoins.
+ **Greater economic activity** within both sender and receiver countries is often linked to increased crypto flows in most cases.
+ **High costs of remittance payments** through traditional financial intermediaries are associated with significantly larger cross-border flows in stablecoins and low-value bitcoin payments from advanced economies to emerging and developing markets.
+ **Capital flow management** measures targeting the reduction of outflows from the sender country and the limitation of inflows into the recipient country have little impact on crypto flows. Indeed, capital flow management may even correlate with an increase in cross-border flows of some cryptoassets, hinting at circumvention.

The paper is an important extension of the literature on international capital flows as the use cases of cryptoassets widens, particularly in emerging and developing economies.

Read our corresponding story, *Crypto Rules,* on page 22, which tackles the changing landscape of regulatory approaches.

Timor-Leste is Open for Business

By Angela SP Yap

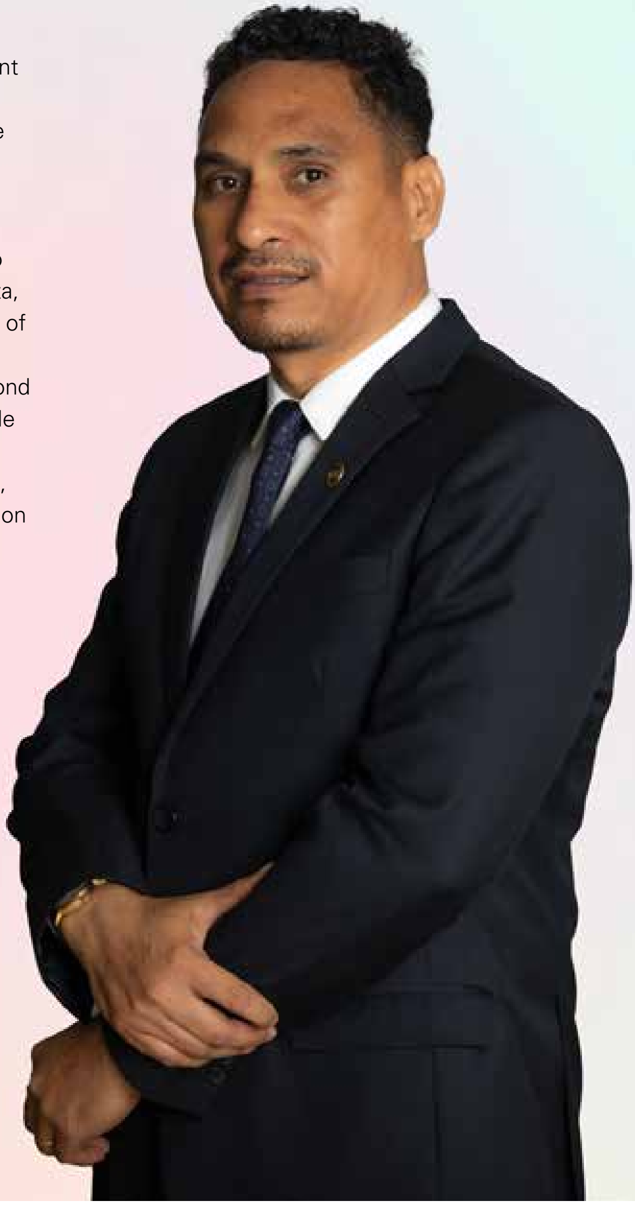
Central Bank Governor Helder Lopes shares how Asia's youngest nation is taking its best shot yet at financial deepening.

In September 2023, following Timor-Leste's parliamentary elections and formation of the current coalition government, Helder Lopes was sworn in by Prime Minister Kay Rala Xanana Gusmão as the nation's second governor of the Central Bank of Timor-Leste or *Banco Central de Timor-Leste* (BCTL). Having spent a majority of his career within the Ministry of Finance, he previously served as the chief economist to the current President of the Republic, José Ramos-Horta, and was elevated from his position as the Vice Minister of Finance to his current office.

A trained economist, Governor Lopes enters the second year of his six-year tenure at the BCTL amidst formidable challenges. From pressing development challenges to unravelling generational issues such as land title reform, the stark realities of central banking in this fledgling nation calls for an unconventional skill set that is a world apart from 'traditional' central banking in more developed economies. It is hands on, gritty, and where the rubber meets the road.

Support from the international community to strengthen institutional capacities in the financial services sector has been strong and steady. In August 2024, the BCTL signed a cooperation agreement with the International Finance Corporation to establish a central bank institute for continuous financial sector skills development in Timor-Leste.

Closer to home, Malaysia, who is the ASEAN Chair for 2025, has been ratcheting up its support for Timor-Leste's accession to the regional bloc. This includes a USD200,000 allocation to the ASEAN Unit under the secretariat in Jakarta to assist in achieving full-member status and training over 300 civil servants under technical cooperation programmes



ranging from finance and diplomacy to agriculture and disaster management.

A culmination of its decades-long support, Malaysia's Prime Minister Dato' Seri Anwar Ibrahim announced on 27 May 2025 that Timor-Leste will become a full member by the 47th Asean Summit in October, subject to the fulfilment of several remaining political, economic, and legal requirements.

The following are excerpts from my 45-minute conversation with Governor Lopes on the central bank's blueprint for Timor-Leste.

Q ***As Asia's youngest nation, the landscape of Timor-Leste is in many ways unique. Map out for us the supervisory landscape under your purview as central bank governor.***

The Central Bank of Timor-Leste has five mandates, four of which are common across most jurisdictions – price stability, managing foreign exchange, supervision and development of the financial services industry for financial stability, and promoting the country's payment landscape.

The BCTL's fifth mandate is to manage the Petroleum Fund, the country's largest fiscal reserve and sovereign wealth fund. My experience within the Finance Ministry, which oversees the management of the Petroleum Fund, and now leading the BCTL, which is responsible for operationalising the Fund's investment policy, is a public office that I intend to execute by ensuring our fiscal policy is measured and sustainable for the future security of Timor-Leste.

Q ***Since taking office, you have set course and taken on some big challenges in order to boost financial depth and inclusion. Have you felt at any point that you are biting off more than you can chew?***

Well, I don't believe that what I have set out as targets is impossible to achieve, however, we must all row in the same direction.

Which is why one of the most crucial matters when I took office was to establish the three strategic priorities that will drive the development of our financial services industry, each matched against its own set of measurable targets.

Firstly, we must expand credit market penetration. With only five banks in the country – four foreign, one domestic and state-owned – the credit extended to businesses, especially SMEs (small- and medium-sized enterprises), is still very low. Our credit-to-GDP ratio is less than 40%, yet we know that there is idle liquidity on these banks' books.

Second, the digitalisation of financial services for enhanced efficiency and inclusivity. To make banking services accessible, we have established minimum requirements and coordinated with banks on the roll out of internet and mobile banking services for retail and wholesale markets.

Thirdly, financial inclusion across the country. This is crucial because the nature of our economy includes a large population employed in the informal economy with many living in the rural areas. Connecting people in the rural areas to basic financial services available in the urban centres is critical towards building a sustainable financial ecosystem.

These three strategic priorities are coupled with broader policy measures needed to boost the business and lending environment of Timor-Leste. It includes improving the regulatory framework; enhancing our financial infrastructure; and accelerating collateralisation measures, such as our land titling reform for citizens, which we advocate the government prioritise in order to develop our national mortgage market.

During the 46th ASEAN Summit in Kuala Lumpur, Malaysia's Prime Minister Dato' Seri Anwar Ibrahim (front row, eighth from right) and Chairman of ASEAN announced Timor-Leste's impending accession to the regional bloc as its 11th member by October 2025. With the prime minister is Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour (front row, seventh from right) and Governor Lopes (second row, far right).

With his team at the Banco Central de Timor-Leste.

Q ***Let's deep dive into each of these strategic priorities. What strategies is the central bank implementing to expand credit market penetration and address the challenges of Timor-Leste's limited banking sector?***

As we are a young nation, bringing credit depth requires that we cultivate a strong relationship with the banks in order to raise the standards of finance and make it accessible to the majority of Timorese.

What we have gathered from our regular consultations is that the banks deem the lending environment to be risky; instead of lending to businesses in the country, they prefer to place the liquidity overseas. There is idle liquidity in the banks comprising of local deposits from our people, monies which are placed overseas instead of being reinvested into the economy of Timor-Leste.

For this, my team and I are working to improve the lending environment for the industry, banks, and other financial institutions, creating a climate where they are managing their liquidity in a way that will create a virtuous cycle of wealth within the economy.

We have approached this in two ways.

The central bank currently imposes a minimum loan-to-deposit ratio (LDR) of 35% to banks in order to stimulate lending. If a bank's LDR falls below the minimum threshold, let's say 25%, it must place the shortfall of 10% in a zero-interest-bearing account held at the central bank.

The objective of the LDR is to inject liquidity into the consumer and SME lending markets. It is a temporary policy imposed to correct what the central bank sees as a major imbalance in the allocation of credit resources within our banking system. To date, almost all banks have met this requirement. The target is to increase the loan-to-GDP ratio from 50% to 75% by the end of my six-year term.

The International Monetary Fund has given us their opinion that this is not a good policy to impose, however, we must pursue policies that are suited to the context of Timor-Leste.

We foresee that once the lending environment improves and financial institutions have adjusted to the reforms that are required for financial deepening and inclusion, the minimum LDR policy will be withdrawn because there is already a balanced and symbiotic relationship between banks and the business community.

Q ***Now that all banks in Timor-Leste have deployed internet and mobile banking solutions, what is the next hill to climb in the digitalisation of financial services?***

Over 90% of Timor-Leste's population currently have access to financial services – either through banks or fintech – while current account ownership stands at close to 65% of our adult population. Within the next few years, we want financial service access to reach at least 95% of our population with a corresponding increase in current account ownership.

The central bank's approach is to achieve this by leveraging technological innovation with strategic partnerships.

We strongly encourage banks to establish agent banks in hard-to-reach rural areas and collaborate with fintech companies to expand financial services in ways that are accessible, affordable, and convenient. Banks can work together with local businesses or fintech companies that are currently operating in Timor-Leste and possess a ready network of agents in order to provide basic financial services to the rural areas.

There are some existing limitations. Our telecommunication infrastructure needs to be enhanced in terms of uptime, range, and network. We would also like to transition from our primarily cash-based society into a cashless economy through the introduction of QR codes, e-payments, and fintech-led transfers. By 2029, we aim for 50% of all financial transactions to be electronic based.

He was sworn in by Timor-Leste Prime Minister Kay Rala Xanana Gusmão (left) on 13 September 2023.

Which is why both financial literacy and digital financial literacy among end-users are of equal importance. Although the financial platform is available, people may not know how to use it, which is why the two must be addressed hand-in-hand.

Q *What financial inclusion strategies is the central bank pursuing and what targets have you set in this area?*

Overcoming the infrastructure hurdles in internet delivery, the central bank and current administration had earlier requested that the banks – working within the constraints and conditions of the country – provide internet and mobile banking on a best-effort basis to people throughout Timor-Leste. Industry players have been supportive of the outreach work needed to improve access to finance and financial literacy. This has paid off and they are now reaping the benefits of this 'investment' in terms of greater adoption of digital financial services and at greater cost efficiency.

The central bank also manages the retail and wholesale payment switches that are currently in place. Our next big project is introducing an instant payment infrastructure, with one of its big elements being the standardised QR code – similar to Malaysia's DuitNow QR – which will allow Timorese to make payments and receive funds from participating banks and e-wallets instantly with just one QR code.

For fintech, we look to two important elements in the services that they provide. The first is the transfer and payment function catering to the underbanked or unbanked segments; their e-wallets are complementary to the savings function of traditional banks. The second is development of a national digital identification (ID) platform to accelerate financial inclusion, allowing use cases such as 'know your customer' and credit profile building to be deployed nationally with minimal friction.

Q *How are you preparing for Timor-Leste's integration into the ASEAN financial system?*

We are very proud to have earned the trust of the ASEAN community and wish to thank Malaysia for supporting our country's aspiration for full membership.

From a regulatory perspective, the upcoming accession to ASEAN incentivises us to put into motion the institutional perspectives, legislative frameworks, and human resources needed to meet the requirements expected by the regional bloc. During our discussions at the recent Central Bank Governors Meeting, ASEAN will be the fourth largest global economy by 2045 and countries will need to deepen economic integration – this will attract more investments into our country and open market access for our 1.3 million population.

Financial integration has been a mainstay of the ASEAN agenda; we are preparing ourselves by raising the bar in order to meet the market where it is at and ensure a level playing field in the financial services industry. This includes regional payment integrations such the cross-border QR code payment interoperability which will benefit key economies in the country from banking and finance to travel and tourism.

The Central Bank of Timor-Leste is preparing itself to join the ASEAN club.

Q *If there is one message you would send out to the world about your country, what would it be?*

[smiles] Timor-Leste welcomes you and we are open for business. ✱

■ *Angela SP Yap is a multi-award-winning social entrepreneur, author, and financial columnist. She is Director and Founder of Akasaa, a strategic consulting and publishing firm with offices in London, Kuala Lumpur, and Sharjah. An ex-strategist with Deloitte and former corporate banker, she has also worked in bond pricing and in international development with the UNDP. Angela holds a BSc (Hons) Economics.*

ARE WE STILL KICKING AWAY THE LADDER?

By Angela SP Yap

A global shake-up is here. Will we seize the opportunity to do things differently?

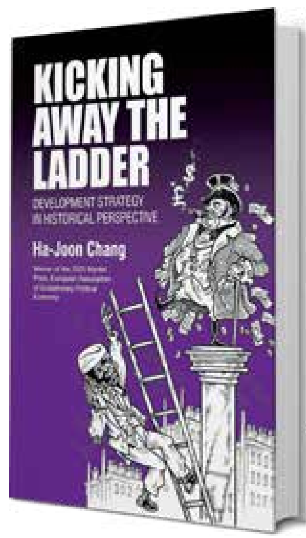
As markets adjust to the chaos of President Trump's sweeping Liberation Day tariffs and the lingering US-China trade war, the rise in geopolitical tensions is shaking up the global economic order.

Economic blocs such as ASEAN and BRICS (comprising Brazil, Russia, India, China, and South Africa) are seizing the opportunity to chart new ways forward in the pursuance of economic progress. It is marked by notable shifts in favour of de-dollarisation as well as a push for a more diversified international financial system that will prioritise the needs of emerging markets and developing countries.

Yet, as the world stands on the precipice of a new way, there is a collective sense that we're not quite ready to make the leap. During times of uncertainty, learning from history is crucial to our understanding of current events, identifying the forces at play, and making informed decisions.

THE LADDER-KICKING METAPHOR

More than 20 years ago, one of the world's leading (and controversial) economists, Ha-Joon Chang, released his work, *Kicking Away the Ladder: The 'Real' History of Free Trade.*



More than 20 years ago, one of the world's leading (and controversial) economists, Ha-Joon Chang, released his work, **KICKING AWAY THE LADDER: THE 'REAL' HISTORY OF FREE TRADE.**

It is a critique of how the world's champions of free trade – the US, Britain – had historically climbed up the economic ladder using protectionist policies. However, upon reaching the economic summit, they then 'kicked away the ladder' for other developing countries by propagating that the use of tariffs, subsidies, monopoly rights – essentially protectionist tools – were 'bad' policies and free trade was the way to go.

The root of this metaphor is traced back to the German economist Friedrich List, who in 1841 wrote: "It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder which he has climbed up, in order to deprive others of the means of climbing up after him."

"…Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade…"

Prof Chang recounts the long history of this trend. For instance, in the 1930s, when the American economy

experienced instability post World War I, the country imposed the Smoot-Hawley tariffs, an intervention that significantly raised tariffs on imported goods in the US as a way in which to protect its domestic economy and raise agricultural prices. It has also influenced the way in which policy-related conditions are devised when nations seek financial assistance from multilateral agencies like the International Monetary Fund and World Bank, conditions which, he expounds, "should be radically changed".

"These conditions should be based on the recognition that many of the policies that are considered bad are not, and that there can be no 'best practice' policy that everyone should use…Allowing the developing countries to adopt the policies (and institutions) that are more suitable to their stages of development and to other conditions they face will enable them to grow faster, as indeed it did during the 1960s and the 1970s."

This view is increasingly being put into practice by emerging economies like Timor-Leste which, despite their heavy reliance on multilateral aid, have pursued financial and economic policies that are contextualised to the Timorese experience and exerted with a measured independence (see *Timor-Leste is Open for Business* on page 9).

Looking at the current state of the world through a historical lens is, as Prof Chang exhorts, necessary because it is "not just a matter of 'getting history right', but also of allowing the developing countries to make informed choices."

It has also influenced the way in which **POLICY-RELATED CONDITIONS ARE DEVISED WHEN NATIONS SEEK FINANCIAL ASSISTANCE** from multilateral agencies like the International Monetary Fund and World Bank, conditions which, he expounds, "should be radically changed".

"This strategic choice," he writes, "should be made in the full knowledge that historically the vast majority of the successful countries used the opposite strategy in order to become rich."

THE US V. REST OF THE WORLD

In the context of today's ongoing tariff and trade war, how do we apply this knowledge and come out winning or, at the very least, **not** holding the short end of the stick?

The answer is in our allies. Economic groups will play a crucial role in the reshaping of this new global order.

ASEAN, with its 655 million population *en route* to becoming the fourth largest market within five years, will become increasingly relevant, not least for its stability and dynamism. As the current ASEAN Chairman Prime Minister Dato' Seri Anwar Ibrahim expressed: "ASEAN must always bear in mind that centrality (the concept that the bloc plays a central role in shaping the regional institutional and political architecture of the region) is not a right, but a privilege that has to be earned and re-earned in the context of changing contingencies."

Developing economies constitute 86% of the world's population. Asia should seize the opportunity to redesign and rewrite the financial and economic playbook in ways that will secure its future.

It's time we stop kicking away the ladder and invest in building some new ladders of our own. ✱

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AI Dominance *and its* Regulation in ASEAN

By Julia Chong

How a region can embrace its differences and rise to the occasion.

In a recent white paper, the World Economic Forum reports that financial services firms spent USD35 billion on artificial intelligence (AI) in 2023. This figure is set to nearly triple to USD97 billion by 2027 with projected investments across banking, insurance, capital markets, and payments businesses. What these numbers do not reflect are the undercurrents that have propelled its development.

The race for domination of AI technology is intrinsically linked to the geopolitics of the day. In late January 2025, DeepSeek – China's low-cost, open-source, locally developed AI platform – came out of nowhere to unseat deeply held assumptions about the US' dominant position in the technology.

Within hours of the launch of DeepSeek's chatbot version R1, traders on Wall Street began panic-selling big technology stocks such as chipmaker Nvidia, wiping USD1 trillion off the tech-heavy Nasdaq Composite Index by the end of the trading day. This marked the biggest single-day loss in the history of the exchange.

In the weeks that followed, Alibaba and ByteDance released their respective AI models on similarly 'cheap and cheery' budgets, efficiently deploying them on websites, mobile apps, chatbots, and other platforms. This more than buoyed the stock market – the Hang Seng Tech Index is up 37.8% year to date with AI stocks leading the charge.

Based in Hangzhou, DeepSeek's founder, Liang Wenfeng, has been hailed as a national hero for giving China its competitive edge over the US. However, it is unlikely that an entrepreneur like Liang "came out of nowhere" (as several news portals described it) to topple the idea of American supremacy in AI.

TECHNOLOGICAL DOMINANCE

For decades, China has been strategically working to seize pole position in AI development. Its aspirations are expressed in *A New Generation Artificial Intelligence Development Plan,* a landmark document issued in 2017 by the State Council which outlines the principles as well as resources that will be dedicated towards achieving this goal by 2030.

China's AI Blueprint on page 19 summarises the key drivers behind the state's development of this technology and some broad-based targets, which will be of use to those who wish to assess for themselves whether China's trajectory has matched its initial plan in 2017 and gauge if the state will achieve its aspirations within the next five years.

According to a feature by *The Banker* in late March, China has recently called on its companies to become "domestic national champions" of DeepSeek, and as many as 20 banks have heeded this call and applied the technology, albeit conservatively.

Other reports, including advertorials, cite AI use cases at some of the republic's top state-owned and joint-stock banks. The Industrial and Commercial Bank of China's AI-based applications included algorithmic

> "Chinese banks rushed to embrace artificial intelligence but have been disappointed by the results despite making massive investments, **LEADING MANY TO RETHINK AND REFINE THEIR AI STRATEGIES TOWARD MORE SPECIALISED,** scenario-tailored solutions, according to people in the banking and financial technology sectors."

credit advisors and intelligent risk detection; Bank of China deployed DeepSeek R1 to generate its research output; China Construction Bank's in-house engineers built a Model-as-a-Service platform to power everything from credit analysis to knowledge retrieval.

DOES IT PASS MUSTER?

Yet, in recent months, news has begun trickling in that the results of these massive AI-based deployments are falling short of expectations and returns. *Yicai Global*, the English-language arm of the financial news group in Shanghai, wrote: "Chinese banks rushed to embrace artificial intelligence but have been disappointed by the results despite making massive investments, leading many to rethink and refine their AI strategies toward more specialised, scenario-tailored solutions, according to people in the banking and financial technology sectors."

The same news report quotes several C-suites. Meng Qian, Chief Information Officer at the Bank of China, attributed the lacklustre performance of AI-based systems to their limited depth of financial understanding as "financial knowledge makes up only about 5% of pre-training data in foundational models". Hu Debin, Vice President at Bank of Shanghai, cites cost as another burden that disproportionately hits small- and medium-sized banks as large language models (LLMs) like DeepSeek "require substantial capital and manpower from purchase and deployment to maintenance and optimisation" with no guarantee that the model will fulfil its potential.

Academics also shared their views in the *Yicai* report: "[Dr] Fang Yu at CEIBS [China Europe International Business School] said the notion of solving every problem with one monolithic model is clearly flawed, adding that big banks should avoid blindly adopting off-the-shelf LLMs and focus on building smaller, purpose-built models tailored to their unique business needs."

"Zhao Liming, Director of the Digital Finance Centre at Kunming-based Fudian Bank, echoed this view. He suggested that small- and mid-sized banks leverage local data and internal resources to fine-tune their own models for better outcomes."

IMPLICATIONS

The intensifying competition between China and the US for dominance in the AI sphere brings with it global implications:

- **Race for materials and supplies.** This covers a broad spectrum, from securing top tech talent to rare earth materials that are key in the making of AI chips.
- **Regulatory divergence with ripple effects for other jurisdictions.** Whilst the US has approached AI from a user- and/or market-driven

lens, China has taken a more government-controlled stance. We discuss in further detail how this has impacted other jurisdictions and regional blocs.

- **Ethical standards.** Markets are struggling to keep up with the effects of broad-based AI use, including disclosure, privacy, bias, transparency, accountability, and the moral hazards that are constantly arising across all industries.
- **Risks and security.** Weaponisation of AI can both protect as well as undermine security. From AI-coded cyberattacks to intelligence gathering and warfare, there is a necessity for built-in circuit breakers in every AI system to prevent harmful output.

MANY WAYS TO GOVERN

Major regulatory developments have since taken place across several jurisdictions and/or economic blocs.

The European Union's AI Act came into effect on 1 August 2024 with a phased-in approach that began in February 2025 and full compliance scheduled for 2 August 2026. Described as 'ground-breaking' when it was first passed in Parliament, the EU standard sets out a risk-based AI classification system according to its use and the risks each application type pose to users. Different risk levels correspond to either more or less stringent AI compliance requirements.

ASEAN's approach to **GOVERNING AI REFLECTS THE DIVERSITY OF THE REGION AND PRESENTS A COMPELLING CASE** of how it is possible to chart differentiated ways forward and still work together towards regional stability and security.

ASEAN's approach to governing AI reflects the diversity of the region and presents a compelling case of how it is possible to chart differentiated ways forward and still work together towards regional stability and security.

The *ASEAN Guide on AI Governance and Ethics,* a regional framework for responsible AI development and deployment, was endorsed by the ASEAN Digital Ministers in February 2024 in order to build trust in AI by encouraging responsible practices. Its approach is mostly market-driven and recommendations are voluntary. This gives room for each member state to develop national-level AI strategies, regulations and/or guidelines to suit their respective contexts.

Singapore's regulatory response remains light-touch and has been touted to be the middle-ground for standard-setting, a credible and potential way between the US' deregulatory pivot and the EU's high-compliance model. This approach could serve as a model for the rest of Asia Pacific. Although the city-state does not have an overarching legislation governing AI use – opting instead to examine AI use cases through the lens of existing laws such as data protection, intellectual property rights, and consumer affairs – its Model AI Governance Framework aligns with global best practices.

In Malaysia, the National Guidelines on AI Governance and Ethics is the framework leading towards responsible and ethical AI development and deployment. Under the purview of the Ministry of Science, Technology and Innovation, it is a non-binding framework aiming to provide guidance through its seven core principles of fairness; reliability, safety and control; privacy and security; inclusiveness; transparency; accountability; and pursuit of human benefit and happiness. The country's National AI Office was established on 12 December 2024 and is tasked with shaping AI initiatives, policies, governance, and investment strategies, including an action plan from 2026–2030, code of ethics, and public sector guidelines for use.

Indonesia is fast-tracking its AI legislation. This follows the launch of a new sovereign wealth fund, *Daya Anagata Nusantara* or Danantara, by President Prabowo totalling USD900 billion which will be invested in 20 or more high-impact national projects, including into AI technology to develop its own DeepSeek-like platform and the building of an AI centre.

Although in its relative infancy, Vietnam is charting its unique way forward with proposed guidelines that blend the EU's risk-based classification and penalty systems with China's state-led governance and restrictions.

As the world navigates its way through this new technological frontier, the ASEAN process is a prime example of how a region can embrace its differences and rise to the occasion. ✱

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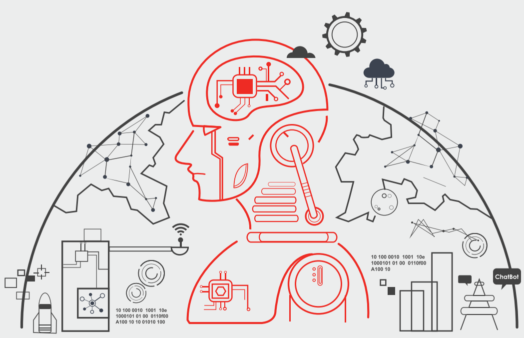
China's AI Blueprint

On 20 July 2017, the *New Generation Artificial Intelligence Development Plan* was issued by China's State Council setting out the blueprint that would chart its development of AI up to 2030. The key points summarised in the excerpts below were originally translated by Stanford University's DigiChina Project, a collaborative effort to understand China's technology policy developments.



CHINA'S 'NEW GENERATION ARTIFICIAL INTELLIGENCE DEVELOPMENT PLAN'

AI development is guided by four basic principles and must be:

> **Technology-led:** deploy forward-looking research to achieve disruptive breakthroughs in the theory, methods, tools and systems for AI that will accelerate China's chances of a first-mover advantage.

> **Systems layout:** formulate a targeted systems development strategy and tap into the advantages of the socialist system to create a collaborative force for major undertakings and linking already-deployed projects in innovation.

> **Market-dominant:** comply with existing market rules and accelerate the commercialisation of AI for a competitive advantage, ensuring that there is a distinction between the roles of government (planning and guidance, policy support, security and guarding, market regulation, etc.) and the private sector.

> **Open-source and open:** advocate the concept of open-source sharing and promote joint innovation and sharing between industry, academia, and production forces. This includes two-way conversion and application for military and civilian scientific technological achievements and innovation resources.

STRATEGIC OBJECTIVES

Targets are set for the following three milestones:

BY 2020

+ Overall technology and application of AI will be in step with globally advanced levels.
+ AI industry will have become a new important economic growth point and technology applications will have become a new way to improve people's livelihoods.
+ China will have actualised progress in a new generation of AI theories and technologies, including big data intelligence, cross-medium intelligence, swarm intelligence, hybrid enhanced intelligence, and autonomous intelligence systems.
+ Achieve important progress in other foundational theories and core technologies; the country will have achieved iconic advances in AI models and methods, core devices, high-end equipment, and foundational software.
+ Cultivated a number of the world's leading AI backbone enterprises, with the scale of AI's core industry exceeding RMB150 billion, and exceeding RMB1 trillion as driven by the scale of related industries.
+ Optimise AI development environment by opening up new applications in important domains, gathering a number of high-level personnel and innovation teams, and initially establishing AI ethical norms, policies, and regulations in some areas.

BY 2025

+ Major breakthroughs in basic theories for AI as it becomes the driving force for China's industrial upgrading and economic transformation.
+ Establish a new generation of AI theories and technology systems.
+ Industry will enter the global high-end value chain, deploying AI in a wide range of applications – medicine, agriculture, national defence, intelligent cities, and more.
+ Core AI industry will exceed RMB400 billion and the scale of AI-related industries will exceed RMB5 trillion.
+ Initial establishment of AI laws and regulations, ethical norms and policy systems, and the formation of AI security assessment and control capabilities.

BY 2030

+ China to become the world's primary AI innovation centre, achieving visible results in intelligent economy and intelligent society applications, and laying an important foundation for becoming a leading innovation nation and an economic power.
+ Formation of more mature new-generation AI theories and technological systems. The country will achieve major breakthroughs and have critical impact in global AI research with a leading position in AI technology.
+ AI should be deepened and expanded into production and livelihood, social governance, national defence construction, and in all aspects of applications, will become an expansive technology with core AI industries exceeding RMB1 trillion and related industries exceeding RMB10 trillion.
+ Establish a number of world-leading AI technology innovation and personnel training centres with comprehensive AI laws and regulations, and an ethical norms and policy system.

THE ETHICS OF LENDING

By Bob Souster

Our three considerations as bankers: what we offer, the terms on which we lend, and to whom we lend.

Lending is a core activity of all banks. It is the main source of income for most retail banks, whether they offer a full suite of lending products or concentrate on specific market segments. Over time, some banks choose to either broaden or narrow their target markets, depending on their own competences and the prospects and market conditions in each area of business. The lending market is far from a free market as there are barriers to entry and lending activities are quite highly regulated. While all lenders operate within the frameworks set by legislation and regulators, there are several ethical dimensions that all professional bankers need to consider. This article examines just some of them.

THE INFORMATION GAP

The demand for loans is a derived demand. Just as individuals apply for credit cards for the convenience it offers when making transactions, those applying for residential mortgages do so because they want a home to live in. In both cases, they want what the product can provide; they do not actually 'want' a debt. To us as bankers, loans are relatively straightforward. They are contractual in nature and are formed by two parties who consent to the terms agreed. To many borrowers, however, these are more complicated than typical day-to-day transactions. Customer only apply for a credit card or mortgage a few times during their lifetime, or perhaps even just once. They are unlikely to express much interest in the detailed terms, provided the product fulfils the end need.

Over time, bankers have narrowed the information gap by improving the quality of information available to customers. Sometimes this was a consequence of hard lessons learned. For example, some of the ethical deficiencies exposed by the global financial crisis were rooted in poor lending practices which contributed to the demise of some banks and other financial institutions. These included failures among subprime lenders in the USA and the collapse of commercial lenders in some European countries. The reduction in risk appetite that followed the crisis resulted in banks adopting more rigorous 'know your customer' regimes as well as ensuring that products and advice supporting the customer relationship were far more transparent than in the past.

Going forward, the information asymmetry challenges will change. Technology has revolutionised the way in which banks deal with customers. It is likely that fewer applicants for credit will actually meet a human at the start of the customer journey or even during the lifetime of the loan. Technology has been used to support the lending process for over 50 years and each innovation has lessened the need for human interaction. Artificial intelligence (AI) may accelerate

Over time, **BANKERS HAVE NARROWED THE INFORMATION GAP BY IMPROVING THE QUALITY OF INFORMATION AVAILABLE TO CUSTOMERS.** Sometimes this was a consequence of hard lessons learned. For example, some of the ethical deficiencies exposed by the global financial crisis were rooted in poor lending practices which contributed to the demise of some banks and other financial institutions.

this trend still further, but in doing so, removes one priceless dimension of the relationship. Ask any child how they know that a parent is angry with them and it is not screaming and shouting but simply 'the look' of irritation that is more communicative than a thousand words. To complete many tasks, a bot can replace the person, but a machine cannot feel or convey emotion.

THE PRODUCTS WE OFFER AND TERMS AGREED

Interest rates are the price of money, but as we all know, there is no single interest rate at any given time. Economists teach us about the 'term structure of interest rates', which explains why there may be many rates of interest in the market. The determinants include the amount of credit sought, the term over which it is to be repaid, the manner of repayment (such as instalments or balloon payment), the purpose of the loan, the creditworthiness of the borrower and multiple factors relating to risk. Conventional economic wisdom regards the last of these factors as highly significant: generally, the greater the risk, the higher the price.

Consider the following example:

A finance company offers loans of up to RM100,000. The representative interest rate is 277.5%. An individual borrowing RM4,000 will pay RM636 for 12 months, representing an interest rate of 140%. The total amount repayable is RM7,632 (the numbers are approximate).

Is this legal, and is it ethical?

Provided the lender is compliant with the regulator's demands relating to sales, conduct and provision of information, of course it is legal. This may not be the case everywhere, as in some countries there is a legislative cap on interest rates. The company, and many advocates of the free market, would also argue that it is ethical: this is clearly an example of a payday lender, whose core business is making relatively small loans to individuals who are struggling to make ends meet (many of which may be old or vulnerable, or both), so to the advocate, higher risk equates with higher return.

Conversely, there is a strong case for labelling this product as unethical. Historically, many payday lenders have targeted low-income groups, clearly understanding that those who borrow are often the most likely to default, resulting in 'rolling over' the loan, perhaps with a new, bigger loan at an even higher rate of interest. While it may not be unethical to lend at high interest rates, it should be regarded as unethical to use this strategy to enslave the customer to an increasing cycle of debt.

One of the great challenges for our industry is the argument that many go to these providers of credit because more conventional ways of obtaining credit have receded. Some have argued that **BANKS HAVE AN ETHICAL RESPONSIBILITY TO PROMOTE FINANCIAL INCLUSION AND ENSURE FAIR ACCESS TO CREDIT**. It is far easier to identify this as an issue, much harder to come up with practical solutions.

Of course, respectable banks do not do this and professional bankers might even regard it as abhorrent, but there are plenty examples of people and organisations that do so, including legal and illegal moneylenders. One of the great challenges for our industry is the argument that many go to these providers of credit because more conventional ways of obtaining credit have receded. Some have argued that banks have an ethical responsibility to promote financial inclusion and ensure fair access to credit. It is far easier to identify this as an issue, much harder to come up with practical solutions.

Another issue, and possibly a bigger one for the future, is the extent to which a market segment may subsidise another. While many banks have reduced the size of their branch networks, there is still a hardcore minority of customers who prefer to bank in person, or in some cases have no option other than to bank in person. They may, for example, handle lots of cash in small businesses and have to make frequent deposits and withdrawals. They may be unable to use the technology necessary to manage their accounts digitally. Whatever the reason, it costs the bank a lot more to provide a personal service than a digital one. Will there come a time when lines are drawn in the sand, and the privilege of visiting a branch and talking to a real person will come at a price that isn't effectively paid for by the digital customer?

Of course, a fundamental ethical principle is fairness. We have to consider not only what we offer and the terms on which we lend, but also to whom do we lend. This is being shaped by multiple forces, including the powerful lobbies that demand diversity, equality and inclusion, as well as our responsibilities for good practices in relation to ESG (environmental, social and governance factors). Banks have legal responsibilities but have to be increasingly mindful of the nation's commitments to the Paris Agreement, the sustainable development goals and ASEAN objectives. Despite numerous powerful international political voices rolling back on these obligations, most of our stakeholders understand the worth of ESG in shaping the future of Malaysian society and indeed the planet. This may result in banks having to make tough choices on the 'to whom we lend' as well as the 'to whom we do not lend' questions. ✱

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CRYPTO RULES

By Kannan Agarwal

Unpacking the mixed bag of regulatory concerns and alternative approaches fuelling crypto supervision.

The race is on as institutional and private investors seek to capitalise on the cryptocurrency craze. One region stands out.

Southeast Asia currently accounts for 60% of global cryptocurrency activity. Market research firm IMARC forecasts a compounded annual growth rate of 8.5% between 2025 and 2033. This growing popularity is based on several unique characteristics of its inhabitants.

Compared to other regional blocs, ASEAN is home to one of the highest internet penetration rates in the world, with a tech-savvy, young population who are quick to adopt digital tools and services. With over 400 million internet users, the average internet penetration rate in each jurisdiction exceeds 73% except in Laos, Myanmar, and Timor-Leste.

The region's cross-border payments for its millions of migrant workers have also contributed to cryptocurrency's rapid adoption. Where inflation runs high, cryptocurrency is used as a store of value and in labour-exporting countries such as the Philippines and Indonesia, bitcoin and stablecoins like tether have become the go-to remittance currency. Crypto exchanges also charge lower transaction fees for global remittances, getting the job done cheaper and faster than banks and their intermediaries.

Such swift growth, however, has come with its fair share of risks and challenges to the current regulatory framework – some new, others more pervasive. The global financial system battles with increased fraud and illicit financing; accounting issues such as inflated balance sheets that could potentially roll back decades of Basel-era reform; incongruent technological and legal frameworks as rules for traditional finance are transposed wholesale to govern digital assets; and increased volatility as well as risks to financial resilience.

In response, seismic shifts have occurred on the regulatory front for the offering, trading, and disposal of cryptoassets. Regulators like the US Securities and Exchange Commission (SEC) have done a dramatic about-turn, whilst others, such as the Hong Kong Monetary Authority (HKMA), have put pedal to the metal.

We round up recent regulatory policies in key jurisdictions to gain a bird's eye view on the diversity of ways standard-setters are approaching the regulation of this burgeoning instrument.

US

This January, the SEC published its Staff Accounting Bulletin No. 122 (SAB 122), a guidance about the obligations of financial institutions involved in custodial cryptoassets. SAB 122 was issued to rescind its predecessor, SAB 121, which was issued less than three years ago under the Biden administration.

Back when it was first issued in March 2022, SAB 121 was panned by crypto industry players as it required US-based founders, finance managers, and crypto custodians to, amongst other measures, apply more stringent accounting standards to cryptocurrencies in their portfolio, including recognising it as a liability with a corresponding asset at fair value.

The SAB 121 guidance specifically states:

"The obligations associated with these (cryptoasset) arrangements involve unique risks and uncertainties not present in arrangements to safeguard assets that are not cryptoassets, including technological, legal, and regulatory risks and uncertainties. Specifically:

Back when it was first issued in March 2022, SAB 121 was panned by crypto industry players as it required US-based founders, **FINANCE MANAGERS, AND CRYPTO CUSTODIANS TO, AMONGST OTHER MEASURES, APPLY MORE STRINGENT ACCOUNTING STANDARDS TO CRYPTOCURRENCIES** in their portfolio, including recognising it as a liability with a corresponding asset at fair value.

Technological risks
there are risks with respect to both safeguarding of assets and rapidly changing cryptoassets in the market that are not present with other arrangements to safeguard assets for third parties.

Legal risks
due to the unique characteristics of the assets and the lack of legal precedent, there are significant legal questions surrounding how such arrangements would be treated in a court proceeding arising from an adverse event (e.g. fraud, loss, theft, or bankruptcy).

Regulatory risks
as compared to many common arrangements to safeguard assets for third parties, there are significantly fewer regulatory requirements for holding cryptoassets for platform users or entities may not be complying with regulatory requirements that do apply, which results in increased risks to investors in these entities."

Critics quickly descended.

Firstly, applying fair-value accounting rules is near-impossible when it comes to valuing volatile cryptoassets. The 12-month price for bitcoin alone has fluctuated between USD51,000 to current highs exceeding USD110,000.

Secondly, financial institutions in custodial services would see artificially inflated balance sheets by recognising cryptocurrencies as both liabilities and assets.

Thirdly, the guidance creates an artificial barrier to entry, disincentivising financial institutions from entering the cryptoasset custody market, thus hindering innovation in the sector.

Fast forward to January 2025: the SEC issues SAB 122, a significant policy move that rescinds SAB 121. Although SAB 122 requires that entities declare the impact of moving from SAB 121 to the new approach, it is a net positive for banks and brokerage houses in two big ways:

+ removal of significant barriers in the provision of custodial services for cryptocurrency; and
+ aligns cryptoasset accounting with established contingency principles in Generally Accepted Accounting Principles and International Financial Reporting Standards, i.e. assessing potential liabilities of digital assets under custody instead of recording it as a liability.

As the Trump administration battles its way through trade tariffs and global strife, cryptocurrency remains one of the few commodities that will likely benefit during this time of increased geopolitical volatility.

EU

The economic bloc's flagship Markets in Crypto-Assets Regulation (MiCAR) was approved on 16 May 2023 and continues to be one of the most comprehensive regulations covering cryptoassets, its issuers, and related service providers under a harmonised regulatory framework.

As with all landmark legislation, critiques have been levelled, one of which is the practicalities of MiCAR in addressing market abuse of cryptoassets. Iris S Barsan's research paper, *Are MiCAR's Market Abuse Rules Useful? A Critical Analysis of the Market Abuse Rules under MiCAR,* highlights one of the most glaring gaps in its implementation:

"One might expect MiCAR's market abuse provisions to reflect the unique characteristics of crypto markets, but surprisingly, they largely mimic MAR's (Market Abuse Regulation) provisions, which apply to abuses involving traditional financial instruments… MiCAR has just seven articles dedicated to market abuse, compared to MAR's 39. Key MAR obligations, such as maintaining insider lists or disclosing managers' transactions, are omitted, which could hinder the ability of crypto market actors to comply with market abuse regulations and prevent prohibited behaviours.

"Moreover, MiCAR does not incorporate a number of exemptions, such as those concerning buy-back programs and stabilisation, legitimate behaviours by insiders and accepted market practices related to market manipulation. This results in MiCAR being stricter than MAR if interpreted autonomously. An interpretation of MiCAR "in light of MAR" might not bridge the existing gap. Such an approach would raise doubts about the need for a separate regulatory regime for cryptoassets. Wouldn't it have been simpler and more effective to extend the scope of MAR to include cryptoassets? Doing so would have provided more regulatory certainty, as MAR's rules are already well known."

Such incongruence is not unique to the EU, but common in all jurisdictions where supervisory oversight looks to regulate a technologically differentiated asset like cryptocurrency using traditional financial laws and governance standards.

CHINA

The People's Bank of China (PBoC) has had a blanket ban on cryptocurrency activity since 2021, declaring that "virtual currency-related business activities are illegal financial activities" and that it "seriously endangers the safety of people's assets".

Workarounds, however, exist as mainland Chinese moved to trade crypto using offshore exchanges and through its special administrative region, Hong Kong, where cryptocurrency activities are legal and regulated under the HKMA.

In recent years, the Chinese courts have ruled that although it is not illegal to own cryptoassets as the law assigns property rights to virtual commodities, entities are barred from trading or investment activities of virtual assets due to its potential disruption to the economy and possible use for illicit activity. Official government sources revealed that in 2023, China sued 3,032 people involved in crypto-related money laundering and blockchain security firm SAFEIS reported that money involved in crypto-related crimes surged 10-fold to RMB430.7 billion.

Local authorities are thus in possession of a stockpile of confiscated digital currencies with no way of unlocking its value.

On 16 April 2025, *Reuters* reported that "senior judges and police, [and] attorneys are debating changes to rules they said will soon change the way confiscated virtual currencies are treated."

The newswire also reports: "[L]ocal governments have been using private companies to sell seized digital coins in exchange for cash to replenish public coffers strained by a slowing economy, according to transaction and court documents seen by *Reuters*.

Such disposals are "a makeshift solution that, strictly speaking, is not fully in line with China's current ban on crypto trading," said Chen Shi, a professor at the Zhongnan University of Economics and Law."

Instead, the government is pushing for greater adoption of its own central bank digital currency (CBDC). In April 2020, the republic moved to trial the digital RMB. Since then, official sources report that as at 31 July 2024, its CBDC has conducted transactions exceeding RMB7.3 trillion across pilot regions with 180 million individual e-wallets on record.

China is also a member of Project mBridge, a global CBDC-based cross-border payments joint venture that achieved minimum viable product stage in mid-2024. Although the Bank for International Settlements controversially pulled out of the project in late November 2024, the HKMA, Bank of Thailand, Central Bank of the United Arab Emirates, and Saudi Central Bank continue to co-lead its development together with other central banks and private institutions as observers.

In April 2025, rumours had circulated amongst unofficial cryptocurrency industry portals that China had linked its digital RMB cross-border payment system to 10 ASEAN countries and six Middle Eastern jurisdictions. The story was later dismissed as fake news after the originating sources were

taken down from websites, none of which were from official central bank sources. The speed at which these original sources were deleted is a barometer of the political, economic, and social sensitivities that surround cryptocurrency management in China.

Read more about CBDCs and cross-border payments in our story, *Financial Fragmentation: How Geopolitical Risks Are Altering Global Payment Flows,* published in the December 2024 issue of *Banking Insight*.

MALAYSIA

Although these are neither legal tender nor payment instruments recognised by the central bank, cryptocurrencies and digital tokens are

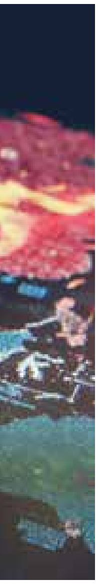
> The due diligence **PROCESS TO OBTAIN REGULATORY APPROVAL IN MALAYSIA IS DESIGNED WITH ESSENTIALLY TWO PRIORITIES IN MIND**: (i) does the operator have the operational capabilities to safeguard investor interests in the event of a shock; (ii) is the operator sufficiently invested in ways that will ensure market integrity.

viewed as securities and subject to the country's existing securities laws.

It is regulated by the Securities Commission Malaysia (SC) under the *Capital Markets and Services (Prescription of Securities) (Digital Currency and Digital Token) Order 2019* which came into effect on 15 January 2019.

Since then, the SC has issued guidelines to standardise the offering and trading of digital assets by way of amendments to existing regulation – such as the *Guidelines on Recognized Markets* which was issued in 2015 and updated to incorporate market players of this new asset class – or through the enactment of new ones to reflect current technologies, namely the *Guidelines on Digital Assets* in 2020.

The due diligence process to obtain regulatory approval in Malaysia is designed with essentially two priorities in mind: (i) does the operator have the operational capabilities to safeguard investor interests in the event of a shock; (ii) is the operator sufficiently invested in ways that will ensure market integrity. The former is a matter of protecting public interest and exemplified in procedures such as 'know your client', anti-money laundering measures, and digital traceability. The latter is to safeguard financial stability and resilience. Approval is contingent on



digital asset service providers proving that they can pass muster on both standards.

Currently, the regulator has approved eight exchange operators (six for digital assets, three for initial exchange offerings), three digital asset custodians, and 21 tradeable digital assets (bitcoin, ethereum, ripple, etc.) in Malaysia.

Additionally, the SC reviews all tradeable digital assets and transparently publishes its findings on whether or not the digital asset is Shariah compliant, a localisation that adds depth and dimension to the banking and crypto landscape. As at May 2025, only 15 tradeable cryptocurrencies are Shariah compliant; the remaining six are under review.

Such localisation of a potentially new asset class is unique and reflects the SC's regulatory neutral approach to capital market development, where 'like product and like services will be regulated similarly regardless of the underlying technology'.

Next up on the SC's radar is to set standards for tokenised products, i.e. digital representation of capital market products – such as tokenised shares, tokenised bonds, and tokenised funds – using distributed ledger technology.

On 6 May 2025, the agency announced that it was seeking written feedback on its proposed framework on tokenised capital market products vide Public Consultation Paper No. 1/2025. The proposal would allow licensed persons and SC-registered recognized market operators to trade in tokenised products issued through approved primary market platforms.

The discord between industry and regulators is well known. Levelled at standard setters is the critique that their guidance and rules stifle the innovation and potential of this rapidly evolving asset. On the other side of the aisle, **REGULATORS CONTINUE TO STRESS THAT THEIR PRIMARY FUNCTION IS TO PROTECT PUBLIC INTEREST** and ensure financial resilience in the current system.

These developments are in sync with the Malaysian government's establishment of the Digital Asset and Artificial Intelligence Advisory Council to drive the country's digital economic growth in line with international best practices and aligned to its context and needs.

Syncretising national philosophy with digital asset governance could add market depth and fresh perspective in ways that are not currently on the global radar for cryptocurrency regulation, including the application of the value-based intermediation strategy for Shariah-compliant products under the purview of Bank Negara Malaysia.

VALUES DRIVE RULES

If there is a takeaway from the current state of cryptocurrency regulation, it is this: there are many ways to govern.

The discord between industry and regulators is well known. Levelled at standard setters is the critique that their guidance and rules stifle the innovation and potential of this rapidly evolving asset. On the other side of the aisle, regulators continue to stress that their primary function is to protect public interest and ensure financial resilience in the current system.

Whether an outright ban on cryptocurrency or more flexible contextualised rules will be *de rigueur* in the future, the plurality of regulatory approaches that are currently at play point to one thing: as digital assets enter mainstream financial systems, regulation must be as dynamic as the product itself. ✱

■ *Kannan Agarwal writes for Akasaa, a strategic consulting and publishing house with offices in the UK, UAE, and Malaysia.*

STRENGTHENING OPERATIONAL RESILIENCE

Against the Evolving Threat Landscape

By Christophe Barel

THE ANSWER IS A BROAD, MULTI-LAYERED, AND PROACTIVE RISK MANAGEMENT STRATEGY.

Cyberthreats are escalating in both scale and sophistication, and AI-driven attacks, ransomware, and phishing schemes are increasingly successful. There was a 15% year-on-year increase in cyberattacks in Asia Pacific (APAC) in 2024, with organisations in the region experiencing an average of 1,963 attacks per week. The financial sector is the fourth-most commonly targeted by ransomware in APAC.

Threat actors have sophisticated tools, allowing even the less skilled to mount effective attacks, and no financial institution (FI) can thwart 100% of them. For this reason, FIs must focus on building a comprehensive resilience strategy that combines strong digital defences that are reinforced by multiple layers of safety nets. This approach ensures they can maintain business continuity while effectively preparing for, adapting to, and recovering from cyber incidents.

OPERATIONAL RESILIENCE: THE BEDROCK OF FINANCIAL INSTITUTIONS' APPROACH TO CYBER RISK AND THREATS

Given the rapidly changing cyber threat landscape, FIs must adopt a proactive approach to resilience — not just to survive attacks but to ensure long-term stability and trust within the financial ecosystem. During a major cyber incident, it is imperative that FIs maintain operational continuity by swiftly isolating vulnerabilities, enhancing monitoring protocols, and communicating transparently with stakeholders to maintain trust — the bedrock of the financial services sector.

Such resilience can be achieved by a commitment to strong infrastructure, systems, frameworks, and organisational culture, with constant review and improvement. Resilience isn't an outcome — it's an activity that has to be conducted every day.

BEST PRACTICES TO ENHANCE OPERATIONAL RESILIENCE

Enhancing operational resilience in FIs begins with a strong foundation in cyber hygiene. Implementing measures such as multi-factor authentication, proactive threat monitoring, timely vulnerability patching, and robust network security controls are essential steps. These practices not only protect critical systems but also ensure compliance with evolving regulatory frameworks across the Asia Pacific region.

Beyond technical safeguards, fostering a culture of cyber awareness is crucial. In the Asia Pacific region, where businesses have been facing a surge in cyberattacks, fostering this awareness is more important than ever. FIs need to conduct continuous training to improve security literacy among employees, implement best practices such as software and system updates, adopt a zero-trust security model, and enforce strong password policies.

In addition to cyber hygiene and employee awareness, FIs must take a holistic view of operational resilience by implementing the following fundamental

Enhancing operational resilience in FIs **BEGINS WITH A STRONG FOUNDATION IN CYBER HYGIENE.** Implementing measures such as multi-factor authentication, proactive threat monitoring, timely vulnerability patching, and robust network security controls are essential steps. These practices not only protect critical systems but also ensure compliance with evolving regulatory frameworks across the Asia Pacific region.

principles, which can provide a starting point to build upon and customise, depending on the institution's size, complexity, and role in the wider financial services ecosystem.

1. **Assess internal and External Factors to Identify Threats**
   - **Understand your critical operations:** Identify business-critical operations and the internal and external systems and processes they depend on.
   - **Understand your risk and threat landscape:** Organisations can map out potential risks by collaborating with cybersecurity teams, information-sharing groups, and government agencies. Maintaining an updated internal inventory of physical and digital assets, threats, and types of events is also integral to effective response planning.

2. **Plan to Protect and Respond**
   - **Develop a risk-based approach to protect critical operations:** Define acceptable risk outcomes aligned with the organisation's risk appetite and set maximum tolerable levels of disruption for key operations. This enables prioritisation of mitigation efforts. One way to develop a risk-based approach is to gain access to cross-border and timely threat intelligence through trusted information-sharing communities. Staying informed about the global threat landscape enables FIs to stay ahead of cross-border threats that may migrate across markets and jurisdictions.
   - **Develop effective response plans to maintain control during crises:** Create response frameworks that clearly outline roles, responsibilities, communication paths, and escalation procedures, incorporating lessons learned from past incidents and exercises.

3. **Take Preemptive Measures**
   - **Participate in exercises:** Regularly simulate cyber incident scenarios to test internal and external response capabilities and ensure crisis protocols are practical, feasible, and up to date. This includes participating in industry-led exercises and public-private collaborative initiatives designed to safeguard the collective financial services sector. These include resilience exercises such as Locked Shields or government-led initiatives such as the Monetary Authority of Singapore and US Treasury's bilateral cybersecurity workshops.
   - **Implement effective governance:** Ensure that enterprise-wide resilience programmes comply with relevant laws, regulations, and standards, with clear oversight structures to drive continual improvement and coordinated action during disruptions.

> In today's evolving threat landscape, where attackers and defenders often have access to the same tools, **FIs NEED A BROAD, MULTI-LAYERED, AND PROACTIVE RISK MANAGEMENT STRATEGY** that ensures cyber preparedness and business continuity amid increasingly complex and inevitable threats.

OPERATIONAL RESILIENCE IS THE BEST RISK MANAGEMENT STRATEGY

In today's evolving threat landscape, where attackers and defenders often have access to the same tools, FIs need a broad, multi-layered, and proactive risk management strategy that ensures cyber preparedness and business continuity amid increasingly complex and inevitable threats.

This strategy goes beyond financial recovery to safeguard operations, maintain trust, and ensure both financial and operational stability in a hostile and evolving digital landscape — where no organisation is immune to cyber risk. ✱

■ *Christophe Barel is the Managing Director for Asia Pacific at FS-ISAC, the member-driven, not-for-profit organisation that advances cybersecurity and resilience in the global financial system, protecting financial institutions and the people they serve. Founded in 1999, the organisation's real-time information-sharing network amplifies the intelligence, knowledge, and practices of its members for the financial sector's collective security and defence.*

A CAUTIONARY TALE FOR BANKS

By Rachael Johnson

Resilience isn't owned by a single function. It's everyone's business.

Over a year since the Change Healthcare cyberattack in the US, Southeast Asia's banking sector is being served its own wake-up call. The inevitability of cyber breaches is no longer in doubt — it's the preparedness, adaptability, and resilience of financial institutions that are being tested.

Recent attacks on third-party providers in Singapore — including TOPPAN Next, which compromised customer statements at DBS Bank and Bank of China — have underscored just how exposed the region's financial institutions are to vendor-based vulnerabilities. While neither banks' core infrastructure was breached, the Monetary Authority of Singapore (MAS) has reiterated the need for banks to strengthen operational oversight and reinforce controls across their digital supply chains.

According to IBM's 2025 X-Force Threat Intelligence Index, Asia-Pacific was the most attacked region globally in 2024, accounting for 34% of observed incidents. Much of this activity has targeted finance, insurance, and transport infrastructure — industries where legacy systems and fragmented security layers create ideal entry points for attackers. While cybersecurity investment has grown across Southeast Asian markets, many of the core challenges — human error, cross-functional silos, and underdeveloped incident response planning — persist.

ACCA members in countries like Singapore, Malaysia, and Indonesia consistently report that internal fraud risks remain underreported, and in some organisations, are culturally sensitive to raise. "There's still a sense that acknowledging vulnerabilities means admitting failure," noted one ACCA member in Singapore. "And that's dangerous because it delays the very conversations we need to be having."

The recent MAS enforcement action against DBS Bank, following multiple service disruptions, was a notable inflection point: operational resilience is no longer a compliance issue — it is now recognised as material financial and reputational risks. Additional capital buffers imposed by the regulator highlight that risk lapses now carry direct consequences.

Meanwhile, banks across the region are also facing internal strain. "We're seeing teams burn out trying to interpret evolving regulatory expectations while also modernising their systems," said another ACCA member in Kuala Lumpur. "There's a limit to how much reactive effort can be sustained without leadership driving more integrated risk planning."

It's here that accountancy and finance professionals have a unique role to play. As stewards of internal control, budget scrutiny, and performance data,

FIVE LESSONS AND GOALS FOR BANKS

PRIORITISE THIRD-PARTY RISK MANAGEMENT. The Change Healthcare incident underscores the vulnerabilities posed by third-party vendors. Banks must rigorously assess and monitor the cybersecurity protocols of all partners to mitigate supply chain risk.

ADOPT ADVANCED AUTHENTICATION MEASURES. Multi-factor authentication across all systems is no longer optional. This basic yet crucial step can thwart unauthorised access and is a frontline defence against breaches.

KEEP UP IN THE CYBERSECURITY ARMS RACE. To counter AI-powered cyber threats, banks must deploy their own AI-based defence mechanisms to detect – and respond – to threats as they happen.

INVOLVE EVERYONE IN INCIDENT RESPONSE PREPAREDNESS. Develop and regularly update comprehensive incident response plans to ensure swift action during cyberattacks. These can minimise the operational and financial hit.

COMBAT HUMAN ERROR WITH CYBER VIGILANCE. Continuous upskilling and staff training awareness programmes can minimise human error, which hackers are always looking to exploit.

Figure 1 **Source:** ACCA

- Economic inflation / recession
- International and geopolitical instability
- Technology / data / cybersecurity
- Talent scarcity / skill gaps / employee retention
- Regulatory / compliance / legal
- Logistics, including supply chain
- Withdrawal of fiscal measures / higher taxation
- Currency, including crypto and digital assets
- Climate change and its social and economic implications
- Misconduct / fraud / reputational damage

they are positioned to bridge the gap between technical cybersecurity priorities and wider business strategies. They can help ensure that risk appetite statements are not only written — but understood and actioned across teams.

Banks in Southeast Asia don't need to be told a breach is inevitable. They know it. What's needed now is a cultural shift — one that promotes shared accountability, values early warning signals, and recognises that resilience isn't owned by a single function. It's everyone's business. ✱

■ *Rachael Johnson is global head of risk management and corporate governance for policy and insights at ACCA, the global trade body for professional accountants. She has been producing thought leadership on risk and governance for over 20 years and her recent focus has been on how accountancy professionals can do more to build organisational resilience in today's fast-changing world. Her work includes the recent report, Risk Cultures in Banking: Where Next?, and the complementary podcast series. She manages ACCA's Global Forum for Governance, Risk and Performance, and its monthly CROs and Heads of Risk lunch and learning sessions. In addition, she sits on the OECD's BIAC committee for corporate governance and ISO's Technical Committee 309 on governance of organisations.*

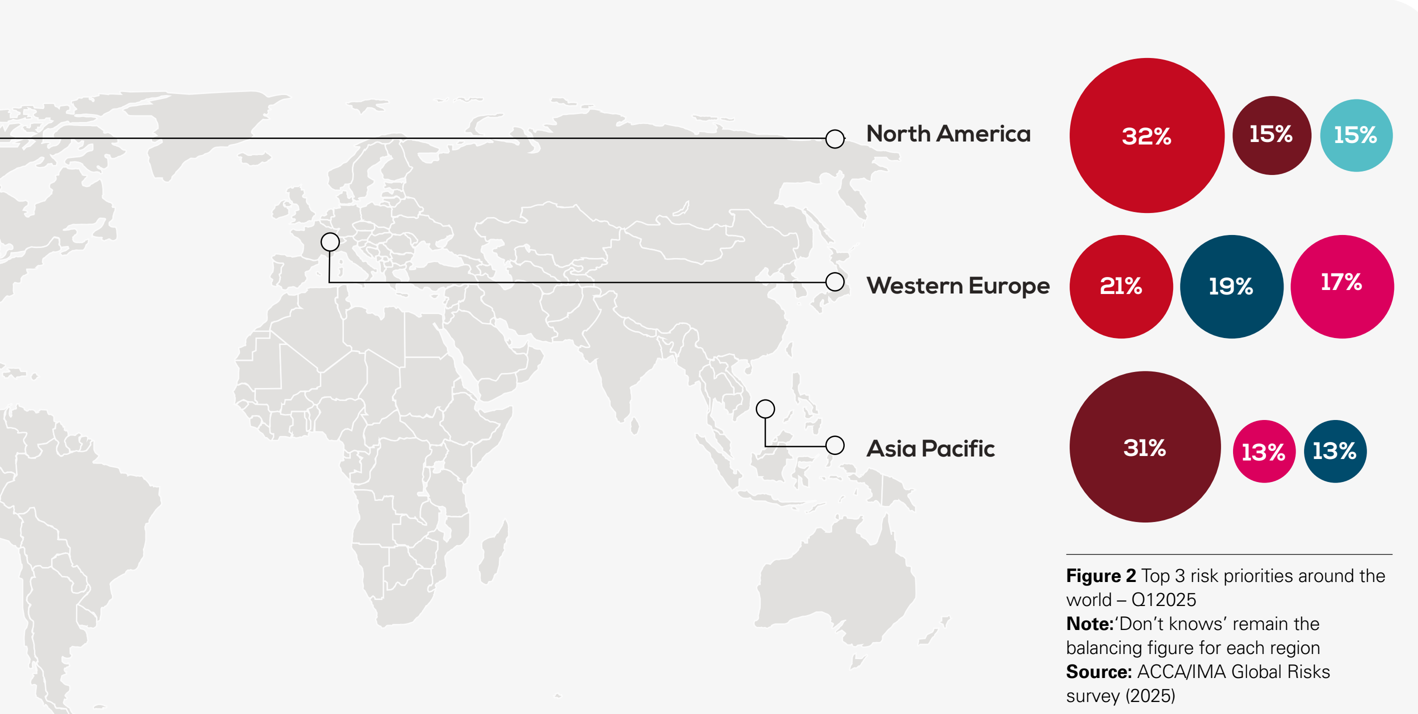


Figure 2 Top 3 risk priorities around the world – Q12025
Note:'Don't knows' remain the balancing figure for each region
Source: ACCA/IMA Global Risks survey (2025)

We call it...	How it works (MO)	How it sounds / looks	Effect (why it works to drop defences)
AI deepfaking	voice/face/writing, of family member or boss	'It's me, I'm out of cash, can you send me some?'	personalised, informal, emotional appeal
Pretexting	present as familiar, insider ('blag')	'How's your mum, is she better now?'	personal, seems I probably know you, just can't quite remember...
Phishing	request 'legitimate' verification, with deadline	'It's Sam from Compliance, can you just quickly help me with...?'	I want to be helpful and I'll defer to (apparent) authority
Whaling	direct note from SM to CFO asks for quick transfer	'I'm on holiday but...'	I want to be helpful and I'll defer to (apparent) authority
Note-gathering	casing the joint: phishing, observe, build up a picture, then impersonate	'I know you're very busy with / planning to... [X, Y, Z – *all quite correctly*], so could you just help me to...'	you know so much about me, you must be a trusted colleague
Baiting	helpful app, left-behind USB device	Try this easy-to-use productivity tool...	that's handy, easy to use
Helpdesk	offers (in-house) tech help or sweepstake / free pen etc	'Dave from IT – could you just key in..'	oh good, better use this help than try to fix it myself
Ransomware	providing 'necessary' help (message / link / app)	'Follow the instructions for upgrade...'	seems necessary, so I'll do it
Tailgating	just walk on in	Person walks in then around, with apparent purpose	fair enough, they're obviously here to do something useful

Figure 3 Deciphering the cultural aspects of cyber risks **Source:** Dr Roger Miles

How Can Banks Close the Feedback Loop?

By Chartered Banker Institute

How can banks scale the regulatory hurdles to meet customer expectations and manage criticism online, all in a timely manner, while contending with their digitally native competitors?

Banks can no longer ignore the social media noise that typifies the matter-of-fact way new generations of customers communicate with brands. Younger audiences especially have increasingly more spending ability that has supercharged both their activity and interactions with banks online.

"As Generation Z comes into working age, we are seeing the first fully digitally native group emerge as critics of the brands they buy from. They resort to online first when they need to speak to someone," explains Juliette Aiken, Chief Marketing Officer, Dotdigital.

Helping brands engage online is an area of expertise for Dotdigital, a cross-channel marketing automation platform that enables marketers to connect with their customers. "As it becomes easier and more natural for customers to complain online, the banking and financial services (FS) sector must be ready to respond," she continues.

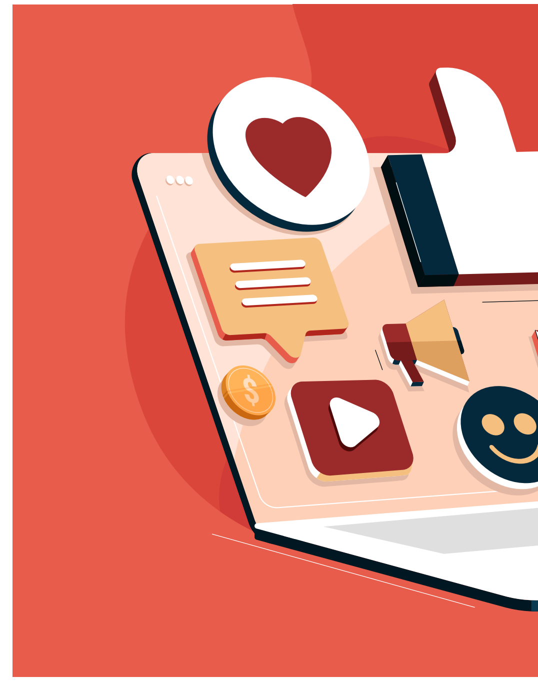
"When digital functionality doesn't work as expected, customers have to revert back to the call centre, **WHICH CAN'T ALWAYS OFFER A SOLUTION TO A DIGITAL ISSUE.** They may face long response times, which fall short of their expectations."

This begs the question: why have complaints become so prevalent over recent years? "Borrowing is not new, but historically people took out loans only for bigger purchases. However, today consumers' credit-card usage is commonplace, and buy-now-pay-later [BNPL] schemes have normalised lending on a greater scale," she says.

Aiken believes this new lending pattern, coinciding with the advent of digital, has likely increased the number of complaints. The growing frequency of transactions continues to generate more customer experiences (CXs), too – some good, others bad. "There are the usual grumbles around financial services, such as fees, charges and security concerns, but the core of the issue is CX," explains Rebecca Stephens, Research Director, Customer Experience, IPSOS.

"When digital functionality doesn't work as expected, customers have to revert back to the call centre, which can't always offer a solution to a digital issue. They may face long response times, which fall short of their expectations," she says. "While some issues may not be serious, there's always a persistent anxiety that surrounds financial matters – a reason why customers may want their problems dealt with quickly."

In less than two decades, consumers have switched from complaining privately to complaining publicly and *en masse*. "Today, customers have fewer alternatives to raising their issues online. Before, you could complain over the counter, receive a human response and move on," explains Ian Davis, Insight



Director, Customer Experience, IPSOS. "However, with fewer branches available, and younger digital natives intuitively spending their time online, where else other than Facebook and TikTok can customers voice their concerns?"

"Most of us are happy to carry out tasks and transactions ourselves digitally if it's easy and straightforward enough – but when the computer says 'no', our patience quickly runs out. The frustration expressed by a customer online, whose banking app isn't responding or who can't contact a real person, may be a cry for help," continues Davis.

Moreover, Stephens underscores the importance of ensuring there is human backup available when needed. "There's nothing more frustrating than trying to explain a complex issue to a bot and receiving automated responses that don't help."

WHY LEGACY BANKS FACE AN UPHILL STRUGGLE

"Digital-native banks are successful at adapting to users' conversational needs partly because their tech stack and internal processes are much more agile than those of their legal counterparts. Traditional banks may be more limited by what they can say, and there might be more risk if they get it wrong. As such, traditional banks have relied on templatised conversations that are now out of tune with current audiences," explains Aiken.

> **"TRADITIONAL BANKS MAY BE SLOWER TO RESPOND** when consumers are increasingly expecting fast and personal responses that deal with their issues quickly." Part of the issue is the slow and reluctant adoption of new, popular channels. "Banks need a mentality shift, and that starts with investing in the right technology."
>
> **Juliette Aiken,**
> Chief Marketing Officer,
> Dotdigital

"Time is another factor," she continues. "Traditional banks may be slower to respond when consumers are increasingly expecting fast and personal responses that deal with their issues quickly."

Part of the issue is the slow and reluctant adoption of new, popular channels. "Banks need a mentality shift, and that starts with investing in the right technology," argues Aiken.

"Indeed, many consumers assume someone will be monitoring complaints and act quickly to respond – especially when they see other brands on social media addressing customer issues almost instantly," explains Davis.

Stephens also underlines the common frustration of having to repeat information previously provided. "Customers shouldn't have to be repeating themselves every time they start using a different channel," she says.

According to *The Guardian*, 6,000 bank branches have closed over the past nine years. For Aiken, there seems to be a mismatch. "The absence of physical banks on the high street hasn't necessarily translated to more of a presence online. It doesn't appear that that resource has been reinvested into online channels," she says.

Although traditional banks hold vast amounts of customer data, their outdated legacy systems may not be designed to handle such a complex volume of information. "While there's an expectation that banks and other providers should be acting smarter with the insights they have, consumers should be aware of the enormity of the challenge banks face and appreciate that fast, seamless interactions may not always be a reality," explains Stephens.

In the data arena, fintechs have the upper hand. "Disruptor banks have newer, agile systems that drive the value of data exchange between businesses and customers, resetting the expectations around CX. Traditional banks must think about what longer-term strategic actions they must take to address problems, fixing pain points to begin with so customers have less to complain about," she concludes.

While receiving a generic response may be frustrating, it may be **DIFFICULT FOR BANKS TO ENGAGE SIMPLY WITH CUSTOMERS ON SOCIAL MEDIA DUE TO THE SENSITIVITY AROUND THE COMPLAINT.** In this instance, standard prompts may be required to take the issue offline and avoid any risk.

EMPOWERING THOSE AT THE SHARP END

Dealing with complaints can be a delicate process that requires empathy, communication and resolution. "It's probably good practice for any industry, but particularly for banking, to ensure that responses aren't filled with industry jargon or terminology that consumers won't understand. Keeping it simple is key, otherwise it may feel dismissive," advises Aiken.

While receiving a generic response may be frustrating, it may be difficult for banks to engage simply with customers on social media due to the sensitivity around the complaint. In this instance, standard prompts may be required to take the issue offline and avoid any risk.

"Customers may raise issues that are genuinely important to them on social, but replying directly in a public forum might not be prudent and could breach confidentiality," argues IPSOS' Davis.

"The problem for banks is that users will see only complaints and not resolutions," he adds.

Aiken believes that, with the right training, teams across the bank can transform negative complaints into positive outcomes. "Can traditional banks empower social teams, content creators or even customer service agents? Can they be better educated and enabled within a changing regulatory landscape so that they can better respond authentically while remaining compliant within the framework they've been given?" asks Aiken.

Davis agrees that enriching the culture of the bank is key. "People must always be empowered to think about how they can continually improve CX."

Today many brands champion proactivity in customer service, however banks are still somewhat reactive. "Expectation-setting can often help remove that frustration while customers wait for a resolution," says Aiken. "It's important to provide clear SLAs [service level agreements] on response times – because you don't want exasperated customers waiting on the line for however long."

One way to proactively deal with complaints is to reduce the volume of existing common frustrations. "At Dotdigital we routinely monitor frequently asked questions or concerns coming through social. Banks can be more proactive by better surfacing that information without a customer having to take time out of their day to speak to someone," explains Aiken.

Improving CX comes down to viewing the journey as holistic. "Banks should think about how they can improve the user experience across channels and manage down the points of failure that cause complaints because they are extremely difficult to counter," says Davis. "For example, banks could provide simple calls to action for feedback across their digital properties, which – compared with lengthy surveys – would require minimal commitment from users."

Stephens agrees that implementing comprehensive, connected CX programmes could help abate complaints. "At IPSOS, we talk to our clients about closing the loop. That means reviewing feedback to set in motion actions to address individual problems. This kind of intervention means that banks could pre-empt a potential issue before it becomes a just cause for raising a complaint."

In the long term, identifying commonalities across all issues can help streamline CX. "Once banks have mapped out the customer journey systematically, and identified points of stress or failure, they can put improvement plans in place to stop problems from reoccurring," says Davis.

PILLARS OF SOCIAL MEDIA STRATEGY: RESOURCE AND RESPONSE

Dedicated facilities within banks are needed to engage with customers on their terms. "Banks need committed teams whose job it is to look at social media and deal with customer complaints. They should think about where customers are going to be. Is it X, Facebook or TikTok?" Davis asks.

Aiken agrees that enablement is required to future-proof practices. "Banks must to give their teams the tools they need to make customer-first decisions that abide by compliance – especially for international banks dealing with multiple governing bodies," explains Aiken.

"Technology is a bank's best friend. It can help identify what the important issues are, enabling teams to follow up and provide resolutions," explains Stephens.

"There's plenty of technology available to help marketing teams stay on top of their social media presence. Appraising tools from a usability standpoint can also help marketers tap into technology in a smarter way, helping them deliver better, faster experiences at scale.

"From an immediacy perspective, live chat is a tool many banks are utilising – and with success, because it gives people that speed of response."

For FS providers, apps already provide a huge opportunity for positive engagement. "Realistically, there is only a handful of apps you use on a regular basis and that are visible on your home screen, your banking app included. So, banks could consider in-app messaging, as long as it's helpful and accurate, and used carefully and sparingly. Customers won't want to be overloaded with what feels like promotional messages," emphasises Aiken.

"There's plenty of technology available to help marketing teams stay on top of their social media presence. **APPRAISING TOOLS FROM A USABILITY STANDPOINT CAN ALSO HELP MARKETERS** tap into technology in a smarter way, helping them deliver better, faster experiences at scale.

Davis concurs that banks should avoid 'salesy' language. Overstepping the mark in such a private environment could appear invasive. "Customers may not appreciate seeing bestselling product recommendations in their banking app," he claims.

That being said, banks may be able to leverage customers' emotional attachment to brands. "Softer marketing that celebrates key milestones can help deepen that relationship with the brand and make customers more forgiving," explains Stephens.

In an increasingly digital world where anonymous interactions with brands have become the norm, adding a human touch can make all the difference to CX.

"Curating an authentic tone of voice and content guidelines that are compliant, without forcing people to be overly formulated in their responses to complaints, can also add personability to customer conversations," highlights Aiken.

MONITOR THE RED FLAGS

Aiken believes that a robust social media strategy is about putting the customer at the centre. "Social listening and sentiment analysis are not new, but perhaps underutilised by banks. There are many tools now that can measure what proportion of engagements are positive, neutral and negative," she says.

Davis concurs that by employing a systematic approach to analysis, banks can better identify where the issues are. "Technology can search for trigger words or particular sentiments that are valuable for social media teams," he says.

Putting actions in place to improve CX, and then tracking interactions to see if there has been an uptick in positive reviews, can also be a good measure of success. "Analysing the language that people are using can provide a more qualitative assessment of how banks are perceived by their customers," suggests Aiken.

Davis asserts: "There are still brands that only measure satisfaction within a number range, benchmarked against a target. However, banks should be taking every opportunity to close the loop with the customer – have people on standby for any alerts while monitoring potential red flags in the quality of customer service."

With generative AI, there is more opportunity to use language processing modules to extract the most valuable feedback. "This is not just identifying whether this comment is good or bad, but what it means and how to act on it," explains Davis.

"At IPSOS, we advocate the double-closed loop – contacting the customer personally, wherever they may be, to find out if the resolution is satisfactory," he adds.

Aiken concludes: "When all is said and done, banking doesn't have to be a faceless industry." ✱

■ *This article previously appeared in Issue 2 2024 of Chartered Banker, UK.*

Non-financial Misconduct: Let's Talk About It

By Dr Amanda Salter

A slate of moves signal how authorities are bent on transforming banking culture.

Tackling non-financial misconduct is neither plain nor simple.

Used to describe inappropriate behaviour within a financial services firm which does not directly relate to its financial business activities, regulators are making it clear that non-financial misconduct is frowned upon and firms have an obligation to eradicate it. This includes bullying, harassment, discrimination, and other inappropriate behaviour that is detrimental to workplace culture and could harm stakeholders.

CULTURE CHANGE

Why is non-financial misconduct an issue for banks whose core functions are financial in nature?

Increasingly, financial regulators are of the view that the lack of integrity is an indicator of poor firm-wide culture. Numerous studies support this assertion that a toxic culture is directly correlated to increased risks of poor decision-making and/or breach of regulatory standards.

In September 2023, the UK Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) jointly issued their *Consultation Paper CP23/20: Diversity and Inclusion in the Financial Sector – Working Together to Drive Change,* which set a direction of travel. The standard setters state their position clearly: "When misconduct such as discrimination also passes unchecked, this can create work environments that are permissive towards further wrongdoing, and in which harm to customers and markets is more likely to occur.

"Additionally, we consider certain

instances of non-financial misconduct to be so serious that confidence in regulatory standards is undermined if we do not take action. Our proposals can play a further role in upholding market integrity by enhancing public confidence in the financial sector."

After the global financial crisis, a time when probity and public perception of banks hit rock bottom, regulators emphasised the need to create a speak-up culture as central to the regulatory overhauls required to restore trust in the sector. Creating a supportive work environment where non-financial misconduct is not tolerated is the next step towards achieving this goal.

This is exemplified in the Basel Committee on Banking Supervision's (BCBS) revised *Core Principles for Effective Banking Supervision* issued last April.

The *Core Principles* are intended to be a living standard that evolves over time in response to emerging risks and trends. For instance, its updated provision on diversity expresses that board members are bound to exercise 'duty of care' and 'duty of loyalty', which includes upholding whistleblowing policies and procedures that protect employees from reprisals or other detrimental treatment.

Clearly, the *Core Principles* support the view that wresting non-financial misconduct begins by changing the tone at the top with a trickle-down effect on firm-wide culture. The *de facto* minimum standard for sound prudential regulation and supervision today includes widening the safety net to encourage individuals to speak up in order to effectively rein in non-financial misconduct.

WHEN ONE SPOILS THE BUNCH

The FCA and the PRA in the UK are slowly defining clear guidelines about non-financial misconduct, utilising every weapon in the locker, but this is a tough battleground with many moving parts.

CP23/20 received numerous responses from firms requesting clearer definitions and examples of terms such as 'bullying', 'harassment', 'disgraceful or morally reprehensible' and 'serious instances'. Further clarification was also requested around where to draw the boundaries between behaviours in personal and private life.

After the global financial crisis, a time when probity and public perception of banks hit rock bottom, regulators emphasised the need to create a speak-up culture as central to the regulatory overhauls required to restore trust in the sector. Creating a supportive work environment where **NON-FINANCIAL MISCONDUCT IS NOT TOLERATED** is the next step towards achieving this goal.

The UK banking industry was expecting new guidelines to land in 2024 to clarify and strengthen expectations around non-financial misconduct, but these were delayed by the need to achieve a proportionate approach that aligns with upcoming employment legislation. Several proposals were axed, including a section on diversity and inclusion. Most recently, regulators have announced that 'next steps' will be set out in the later part of 2025, prompting some to speculate that there might even be another consultation in the offing.

Despite the fluidity and delays to guidelines, regulators continue to strongly signal their commitment to changing the norms and culture at financial institutions.

In a landmark decision of its kind, in 2021, the FCA banned Jon Frensham, an independent financial advisor, from performing any regulated activity as he lacked the integrity to work in financial services after being convicted of sexual

grooming of a minor and failing to inform the FCA of the decision by the Chartered Insurance Institute not to renew his Statement of Professional Standing and to expel him from membership.

More recently, on 17 March 2025, millionaire fund manager Crispin Odey, was slapped with a GBP1.8 million fine and banned by the FCA from working in the UK financial services industry for a lack of integrity. It is a clear-cut instance of abuse of power as alleged by the 13 women who accused the hedge fund titan of harassment, abuse, and fostering a toxic workplace culture *(see Fall of the House of Odey on page 46).*

It is important to note that the FCA investigation and sanction did not focus on Odey's alleged sexual harassment or abuse, but on his attempts to obstruct the internal disciplinary process, including firing the entire executive committee and other breaches of regulatory requirements at his financial firm.

In October 2024, the FCA published the results from a survey about incidents of culture and non-financial misconduct between 2021 and 2023 *(see Strictly Numbers on page 47).* The results, perhaps unsurprisingly, revealed widespread issues. The highest proportion of incidents was classified as bullying and harassment, followed by discrimination and then sexual harassment. In the analysis of this survey, the FCA stated an expectation for firms to discuss non-financial misconduct at the board level, consider steps to improve culture, and address ongoing risks related to non-financial misconduct.

STOP 'ROLLING BAD APPLES'

To what extent might Asia-Pacific reflect the FCA's approach and guidelines? Contextualisation is crucial and it is necessary that the region define its own approaches, methods, and boundaries of non-financial misconduct.

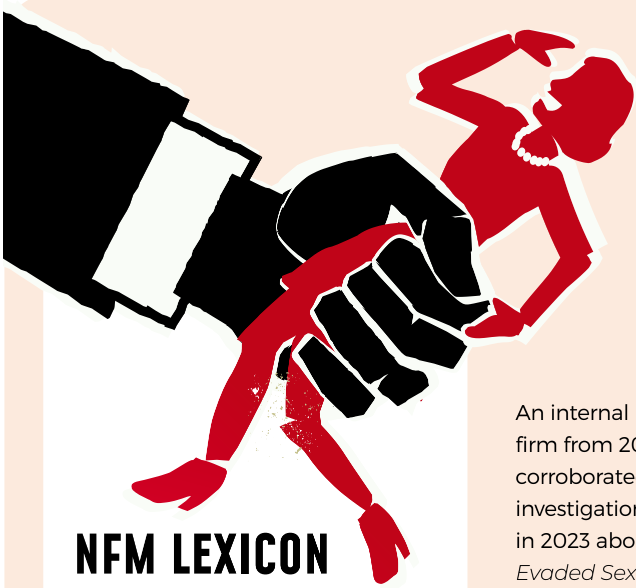
Whilst few regulatory agencies in the region have prioritised this, with most viewing this to be the purview of conduct risk management rather than a firm-wide culture issue, Hong Kong and Singapore are two of the earliest movers.

The highest proportion of incidents was classified as bullying and harassment, followed by discrimination and then sexual harassment. In the analysis of this survey, the FCA stated an expectation for **FIRMS TO DISCUSS NON-FINANCIAL MISCONDUCT AT THE BOARD LEVEL,** consider steps to improve culture, and address ongoing risks related to non-financial misconduct.

In 2021, the Hong Kong Monetary Authority (HKMA) began industry-wide consultation on its Mandatory Reference Checking (MRC) Scheme, which "seeks to address the 'rolling bad apples' phenomenon in the banking sector in Hong Kong, that is, to prevent individuals involved in misconduct from moving from one authorised institution to another, by enhancing the disclosure of the employment history of prospective employees taking up regulated roles among authorised institutions." The HKMA has confirmed that harassment and bullying are considered to be non-financial misconduct that should be reported by firms under the MRC Scheme. Phase 1 came into effect on 2 May 2023; Phase 2 is scheduled for a mid-2025 implementation deadline.

The Monetary Authority of Singapore (MAS) has taken a differentiated approach. Although it does not explicitly regulate non-financial misconduct, the regulator has taken a series of steps since 2021 that gives it broader latitude to take action when it is required.

- Amendments to its *Guidelines on Fit and Proper Criteria* in August 2024 which expand the definition and factors that are relevant to the assessment of a person's honesty, integrity, and reputation.
- Implementation of the new prohibition orders regime, effective 31 July 2024, which gives the MAS powers to prohibit individuals and financial institutions from engaging in regulated activities or managing financial firms if deemed unfit or improper.
- On 12 December 2023, the MAS announced that it will proceed with a mandated reference checks regime requiring financial institutions (FIs) to conduct and respond to reference checks.



NFM LEXICON

> **BULLYING:** Refers to intentional behaviour that is intimidating or malicious. It can involve an abuse or misuse of power that undermines, humiliates, or causes physical or emotional harm to someone. Bullying can be physical, verbal, mental, or digital (cyberbullying).

> **HARASSMENT:** Often similar to bullying, its distinguishing trait is that the behaviour is specifically in connection to someone's age, sex, race, religion, disability, or sexual orientation. It includes sexual harassment which covers unwelcome touching, threats of retaliation for not being sexually cooperative, or making decisions on the basis of sexual advances being accepted or rejected.

> **DISCRIMINATION:** This happens when an employer takes a negative employment action against someone because of a particular characteristic. For example, denying someone a job or promotion, firing, or demoting them. The difference between discrimination and harassment is whether or not an employment action was taken. If someone is subjected to offensive verbal abuse about their race, this is harassment. However, if they are fired because of their race, this is discrimination.

FALL OF THE HOUSE OF ODEY

The highly publicised downfall of Crispin Odey is a cautionary tale. Ex-Harrow schoolboy, Oxford graduate, a reigning hedge fund manager and symbol of British success, he was lauded as a maverick as his company, Odey Asset Management, was one of Europe's then largest hedge fund companies. Publicised friendships with high-ranking politicians such as former British Prime Minister Boris Johnson lent him an aura of untouchability.

An internal inquiry by Odey's firm from 2021, which was later corroborated by an independent investigation by the *Financial Times* in 2023 about *How Crispin Odey Evaded Sexual Assault Allegations for Decades*, uncovered multiple instances of sexual assault by its leader towards female staff. The repeated incidents, unhindered for over 20 years, combined with employees' fear of retaliation and belief that nothing would change, normalised a toxic culture of misogyny at the firm.

The *Financial Times* exposé reported: "This is not the first time Odey, 64, has faced serious misconduct accusations. In 2021, he defended himself against a sexual assault claim made by a female banker in British courts and won. Allegations by *Bloomberg*, *The Sunday Times* and a *Tortoise Media* podcast have done little to hurt his standing. UK regulators still consider Odey 'fit and proper', the standard senior management at financial firms must uphold, and he continues to be quoted in Britain's most influential newspapers.

"Two instances of sexual misconduct took place after his court case ended. The FT found that senior executives at the firm knew about his behaviour but took 16 years to launch a formal investigation into Odey's conduct. In 2021, the company took previously unreported measures to rein Odey in — unsuccessfully. When the firm's executive committee tried a second time, he moved with the sangfroid that made him a city legend and fired them.

"A law firm representing Odey Asset Management declined to comment in detail on the allegations made by women in this article, citing confidentiality. It noted that the firm has anti-harassment and workplace relationship policies in place and that it 'has, at all times, complied with all of its legal and regulatory obligations'".

The tables turned in March 2025 when the FCA fined Odey GBP1.8 million and banned him from the UK financial services industry. The FCA took the position that Odey demonstrated a lack of integrity by working to frustrate the disciplinary process, treated policies and procedures to be less important than his own interests, and by showing disregard for governance, leading to breaches in regulatory requirements.

Odey is currently challenging the case in the Upper Tribunal, but the message is clear. As Christopher Woolard, former director of the FCA, famously declared in 2018: "Non-financial misconduct is misconduct, plain and simple."

STRICTLY NUMBERS

The FCA survey comprising 1,028 regulated wholesale financial services firms reported these key findings during the three-year period between 2021 and 2023:

26%
reported incidents of bullying and harassment.

23%
reported incidents of discrimination.

50%
of firms identified incidents through reactive routes, such as grievances or similar processes.

43%
of cases resulted in disciplinary or other actions taken by the firm.

38%
stated that boards and board level committees did not receive management information about non-financial misconduct.

Source: FCA.

LOOKING AHEAD

Irrespective of which regime one operates under, forward-looking firms can already put in motion some best practice using the following four tips when dealing with instances of non-financial misconduct at the firm:

#1 Plan thoughtfully before starting.

Pause briefly and avoid rushing headlong into the investigation stage. This is to ensure you have thought through the implications of what you are embarking upon and how you will need to go about it. Apply care, particularly in maintaining the confidentiality of the process and when considering whether the person under investigation needs to be suspended. Different stakeholders – various service lines, regulators, enforcement authorities – will have competing views on what needs to be done; these concerns will determine the limitations and define the parameters about what you can do and what you ought to be doing. For instance, in jurisdictions where regulatory references are required, this will have an impact on people's careers on an ongoing basis. There is also the growing view that one should not just look at the person alleged with misconduct but also the role of their senior manager and the wider implications of a firm's systems and controls. Tread carefully.

#2 Make the process manageable.

Scope creep can occur. Be clear from the onset what it is going to cover and what it will not. This will set out the level of seniority for the stakeholders involved in the investigation, identification of the correct documents and/or statements, and establish who will be tasked with decision-making at each step of the process (such as conduct rule breaches, assessments) which, in turn, determines what and when they will get access to such information. Be mindful also of time management, particularly on what one commits to the regulators and ensure that all timelines are met in line with existing regulations to avoid further possible breaches at the firm.

#3 Develop a communications strategy.

Financial firms have an overarching obligation to provide information to the regulators on an active basis. Err on the side of inclusion rather than exclusion by complying with the spirit of the rules. No firm would want the regulators to find out something by reading the morning newspapers. Even if an action doesn't hit specific thresholds, it is recommended to get in touch with the regulators before news breaks to make them aware there is a potential issue even if you are unsure of where it might go. Internally, it is not always clear who needs to know what and an internal communications strategy will define what is and isn't relevant to different levels of staff and/or committees. This is especially critical when there is an inherent judgment call to be made.

#4 Ensure accurate records.

Details on decisions, what transpired, responses, and next steps are important and must be documented in case there is a request by the regulators. Years can pass before requests are made and accurate records are required. Without clear steps and detailed rationale about how a decision was taken, firms would have much more trouble trying to justify this later.

Even if regulators have yet to define a common approach to tackling non-financial misconduct, there is already enough language to identify parallel definitions in other sectors such as human resource and employment law.

When dealing with non-financial misconduct, the best way forward is to nip it in the bud. ✱

■ *Dr Amanda Salter is a consultant at Akasaa, a publishing and strategic consulting firm with offices in the UK, Malaysia, and UAE. She has delivered award-winning customer experience strategies for Fortune 500 companies. 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.*

HIGH ETHICAL FINANCIAL LEADERSHIP

By the Banking Insight Reporting Team

What it takes to instil public trust in the financial system.

In this exclusive interview with *Banking Insight*, **Angus Salim bin Salleh Amran, FCB, Group Chief Sustainability Officer at RHB Bank Bhd and Vice President of the Financial Markets Association of Malaysia**, shares his thoughts about the trajectory that has taken him towards the pinnacle of banking and the values that will drive the sector towards sustainable socioeconomic prosperity.

Angus Salim bin Salleh Amran, FCB, Group Chief Sustainability Officer at RHB Bank Bhd and Vice President of the Financial Markets Association of Malaysia

Q With over three decades in banking and a career that spans treasury, FX, and senior management, you've recently transitioned into a new and exciting role at RHB Bank. What is your mandate and priorities as Group Chief Sustainability Officer?

My mandate as the Group Chief Sustainability Officer is to ensure that environmental, social, and governance (ESG) considerations are integrated throughout RHB Banking Group's (Group's) business, operations, and value chain, and our relationship managers are equipped with the capacities to guide our customers through their transition pathways towards net zero.

I fulfil a key leadership role to enhance the Group's ability to drive sustainable growth and deliver greater value for our stakeholders by establishing group sustainability as a centre of excellence in ideation and innovation of products and solutions; adhering to the highest governance standards towards supporting climate resilience and sustainable socioeconomic activities, in alignment with the Group's sustainability objectives.

Q Sustainable banking in a region as diverse as ASEAN poses unique challenges as member nations are at different stages of their sustainability journey. How would this impact the assessment of portfolios at regional banks and how should they equip themselves for this?

At RHB, we advocate just and measured transitions. We recognise

that banks' customers across the ASEAN region will be at different stages of ESG maturity, exposing financial institutions to varying levels of physical and transition risks. However, it is unjust to apply uniform sustainability standards as ESG capacities are not equal across the region. It is far more important for all economic actors in ASEAN to act early and in an orderly manner to transition at a measured yet progress manner, taking into account their position on the ESG maturity spectrum. It is collective transition at a consistent pace embedded in business value chains, investors', consumers' and regulators' sustainability preparedness that will be far more impactful towards contributing to socioeconomic resilience. There are no interplanetary boundaries on greenhouse gas emissions, and transition efforts anywhere, no matter how modest, will have a positive impact on climate resilience everywhere.

Q The Institute was proud to welcome you onboard as a Fellow Chartered Banker (FCB) at our 2024 Conferment. In the year since, has being an FCB shaped your perspective and approach to work and, perhaps, life?

Being conferred an FCB is the pinnacle of my banking career. It was humbling to be awarded the fellowship for all that it represents: professionalism, a commitment to excellence, integrity and ethical conduct, and exemplary leadership within the industry. I am acutely aware of the responsibilities of a banker to instil public trust and confidence in the financial system; being an FCB has inspired me to hold myself up to a higher standard and, through thought leadership, build and foster capacities towards strengthening financial system integrity and sustainability.

Q Many are of the opinion that the world is entering a phase of significant geopolitical realignment with multiple impact on the financial sector. As Vice President of the Financial Markets Association of Malaysia, how do you see banks preparing for this possibility?

Banks consistently undertake scenario analysis and stress testing to ensure that capital levels remain strong to cater for any financial shocks. Regulators are very proactive in ensuring liquidity remains ample to address imbalances and ensure orderly financial markets. Banks are reinforcing their duty of care to stakeholders by repricing financial risks to manage any excessive financial market volatility arising from geopolitical realignment.

Q What is your advice to the next generation of bankers coming onboard?

Banking is a career that requires a high level of professionalism, commitment, and integrity to ensure financial system stability, which is essential for societal well-being. Chartered Bankers must embody a duty of care and consistently exercise high ethical financial leadership to support and drive sustainable socioeconomic prosperity. ✱

FINANCIAL CRIME IN MALAYSIA: ARE WE WINNING THE FIGHT?

By Tookitaki and ChatGPT

Building a future-ready compliance ecosystem that safeguards trust in the financial system.

Financial crime in Malaysia isn't just a persistent issue — it's an escalating threat that continues to adapt and expand alongside the country's digital transformation. From syndicate-led scams to the misuse of financial infrastructure for laundering illicit proceeds, the stakes are rising rapidly. In 2024, Malaysia recorded an estimated RM54 billion in scam-related losses, a figure equivalent to around 3% of national GDP.

Yet, the real question isn't how much we're losing, but whether we're gaining any ground in the fight.

THE RISE OF MONEY MULE NETWORKS

Among the most troubling developments is the rapid evolution of money mule networks — criminal structures that recruit or exploit individuals to transfer or receive illicit funds. Once a peripheral concern, mule networks are now core to the operational playbook of financial criminals. These mules are often recruited through job scams, social media ads, or romantic deception. Many don't even realise they are participating in illegal activity.

Take a scenario involving love scams or job fraud: Victims are manipulated into sending money for fictitious emergencies or employment processing fees. The funds are routed through mule accounts — frequently held by students, gig workers, or the unemployed. Transactions move rapidly, with high velocity, irregular patterns, and sometimes across borders, making it nearly impossible to trace the origins of the funds in real time.

FORGED RECORDS, FAKE TRANSACTIONS

Another scenario emerging in Malaysia involves laundering through

This article was created with ChatGPT, based on Tookitaki's source material, and edited by Rae Guinto. Readers are encouraged to verify important information.

structured transfers supported by forged documentation. Criminal groups simulate legitimate commercial activity using fake invoices or transaction narratives. These funds flow through a chain of mule accounts, often appearing as payments for goods or services never rendered.

Key red flags include:

+ repeated transactions in near-identical amounts (structured deposits);
+ sudden account activity in previously dormant or low-use accounts; and
+ inconsistent or altered 'know your customer' records over short periods.

These techniques mirror broader global typologies but are particularly concerning in Malaysia, where over 30,000 commercial crime cases were recorded in the first half of 2024 alone.

TARGETING THE VULNERABLE: ELDERLY AND UNBANKED

Money mule syndicates are also evolving to exploit Malaysia's ageing population. In several reported cases, the elderly have unknowingly participated in laundering rings under the pretence of helping charities or aid agencies. Criminals instruct them to receive and forward funds, often increasing amounts over time.

Common warning signs include:

+ atypical e-wallet and online bank activity;
+ cross-account transfers inconsistent with typical senior spending patterns; and
+ new beneficiaries added with unusual urgency.

Public education efforts have improved, but many elderly individuals — particularly those outside of urban centres — remain unaware of these tactics.

NARCOTICS MONEY AND INSTANT TRANSFERS

An alarming trend in Malaysia's financial crime landscape is the integration of narcotics proceeds into mainstream financial channels. Here, criminal syndicates deposit cash into mule accounts and use instant payment systems to rapidly layer the funds. The velocity of these transactions often exceed the detection capacity of conventional monitoring systems.

Dormant accounts are suddenly reactivated, processing high volumes of in/out transfers that don't match the customer's known profile. Given Malaysia's geographic proximity to trafficking routes in the Golden Triangle, this tactic is likely to intensify without enhanced detection capabilities.

MALAYSIA'S POSITION IN A REGIONAL CRIME WEB

Being a regional financial hub brings with it exposure to cross-border laundering operations. Increasingly, local mule accounts are used to channel illicit funds into neighbouring countries, often leveraging cryptocurrency and remittance channels to obscure the trail. In recent cases, authorities have identified local accounts being used to purchase cryptoassets before transferring them to international wallets.

This reflects a broader ASEAN-wide trend of financial crime without borders, where syndicates exploit onboarding vulnerabilities in digital-first banks, e-wallet platforms, and fintechs.

An alarming trend in Malaysia's financial crime landscape is the integration of narcotics proceeds into mainstream financial channels. **HERE, CRIMINAL SYNDICATES DEPOSIT CASH INTO MULE ACCOUNTS AND USE INSTANT PAYMENT SYSTEMS** to rapidly layer the funds. The velocity of these transactions often exceed the detection capacity of conventional monitoring systems.

ARE WE CATCHING UP FAST ENOUGH?

Despite advancements, detection remains a major challenge. Transaction speed is outpacing investigative capacity. Financial institutions still rely heavily on post-transaction analysis, limiting their ability to intervene in real time. Furthermore, because many money mules appear as typical customers, red flags are often dismissed as false positives.

A deeper issue lies in fragmented data. With institutions operating in silos, there's limited sharing of typologies, red flags, or investigative patterns. This disconnect allows criminals to repeat the same tactics across different banks undetected.

WHERE PROGRESS IS BEING MADE

Encouragingly, Bank Negara Malaysia (BNM) has intensified enforcement. In 2024, it issued RM18.9 million in fines for anti-money laundering/countering financing of terrorism breaches and conducted on-site inspections of 123 financial entities across 166 premises. More significantly, BNM and local law enforcement agencies are now treating money mule activity as a criminal offence, enabling stronger legal action and deterrents.

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Malaysia has also launched public awareness campaigns aimed at educating youth and elderly populations, particularly around job scams and deceptive investments.

A PATH FORWARD: ADAPTIVE RISK STRATEGIES

The way forward requires financial institutions to embrace more adaptive and collaborative approaches. That means moving beyond static rule-based systems to adopt frameworks that incorporate:

+ shared red flag databases;
+ real-time behavioural analytics; and
+ cross-border collaboration between compliance teams.

Crucially, regulators, banks, and fintechs must work in tandem to stay ahead of the curve, not merely react to it. Given the pace at which criminal methodologies evolve, reactive compliance is no longer enough.

CONCLUSION

Malaysia's fight against financial crime is far from over, but it's no longer on the defensive. The country has made significant investments in regulatory enforcement, public education, and institutional controls. Still, the rapidly evolving nature of financial crime calls for greater collaboration, smarter analytics, and faster detection.

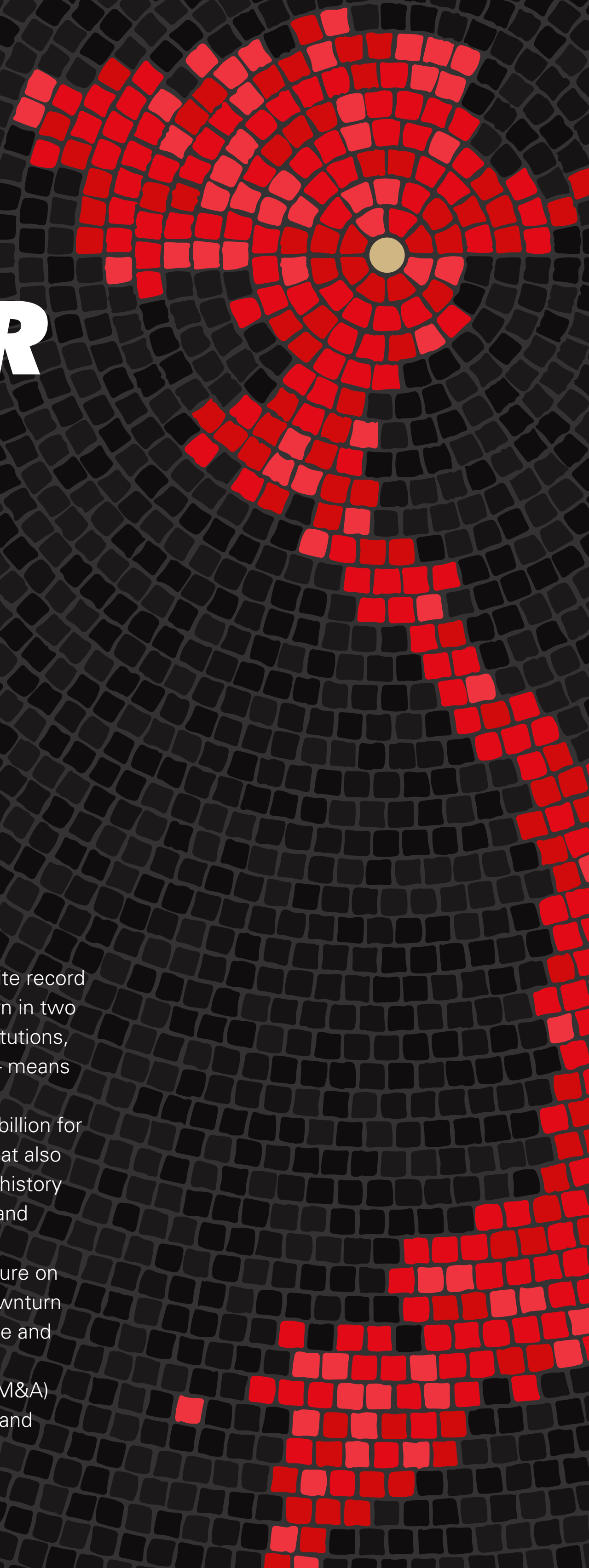
Winning this fight isn't just about blocking one scam at a time. It's about building a future-ready compliance ecosystem that safeguards trust in the financial system — at home and across the region. ✱

■ *Tookitaki is a Singapore-based regulatory technology company that provides AI-powered solutions to help financial institutions combat money laundering and other financial crimes. Its Anti-Money Laundering Suite (AMLS) and community-driven AFC Ecosystem are used by banks and fintechs globally to strengthen compliance and reduce risk.*

VIETNAM: FULL OF FAR EASTERN PROMISE

By Chartered Banker Institute

A MIX OF PERFORMANCE POSITIVES AND NEGATIVES IS DRIVING A SURGE IN MERGERS AND ACQUISITIONS ACTIVITY ACROSS VIETNAM'S BANKING SECTOR.

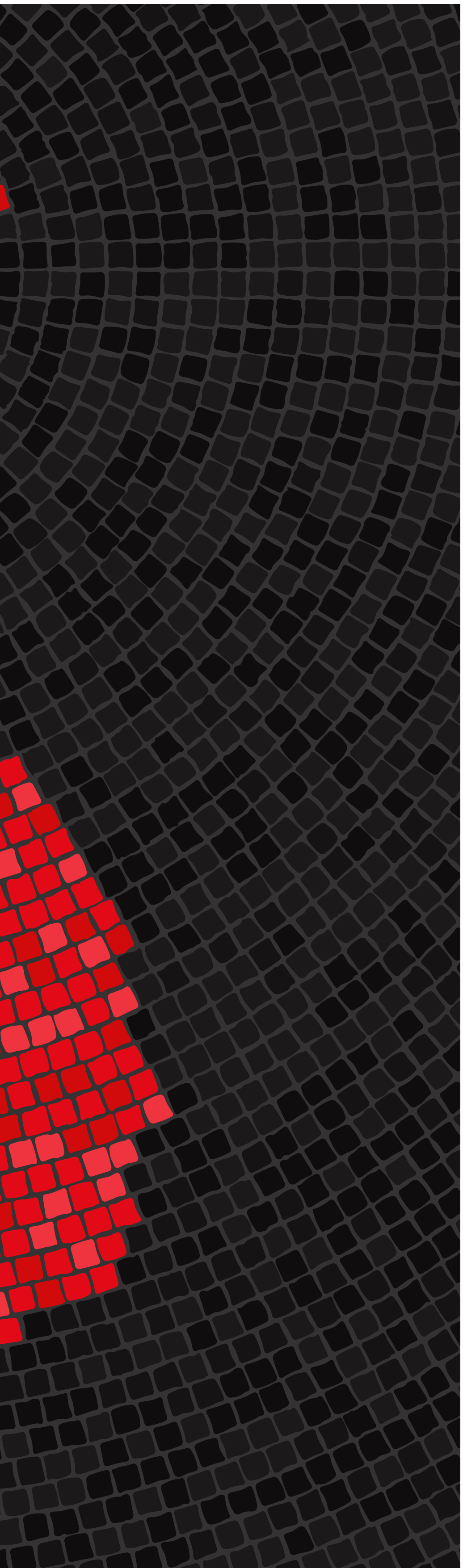


Analysing industry is not a black-and-white task. Despite record deposits growth in 2023, a subsequent first downturn in two years – combined with a number of weak credit institutions, slow credit growth and rising non-performing loans – means the sector faces plenty of challenges as well as opportunities.

In 2023, Vietnamese bank deposits surged – topping USD560 billion for the first time and delivering a 14% uplift on the previous year. That also marked the fastest growth in the Vietnamese banking industry's history – driven by strong consumer confidence in the growing stability and security of the nation's banks.

But the mix of weak banks and a growing economy, and pressure on financial institutions to sustain deposit growth amid a relative downturn in the early part of 2024, has seen many local businesses struggle and some placed under special measures.

The result of all of this is a surge in mergers and acquisitions (M&A) activity as stronger market players look to snap up weaker rivals and wealthy foreign investors attempt to tap the country's favourable demographics.



WHAT'S DRIVING THIS SURGE?

A major factor underpinning the sector's M&A activity is the mix of weak credit institutions in a high-growth economy.

According to Dezan Shira & Associates' latest Vietnam briefing, several of the country's domestic banks, including DongA Bank, CB Bank, and Ocean Bank, have faced negative equity and significant bad loans in recent times.

As a result, the State Bank of Vietnam (SBV) placed these market players under special administration in May 2023 and actively sought interested buyers and investors.

"To attract foreign investment, the SBV [even] proposed raising the foreign ownership cap in domestic banks from 30% to 49% for those taking over underperforming banks," the report states. "As part of this strategy, banks such as Vietcombank and Military Bank are set to acquire struggling institutions such as DongA Bank and Ocean Bank, respectively."

Dezan Shira & Associates' report also sets out how January corporate deposits fell by about 2.4% from the previous year's end across the industry – marking the first monthly decrease in more than two years and a significant dip on the previous year's growth.

The SBV has aimed for 15% credit growth this year (2024), but by the end of March, bank lending had increased only by 1.34% from December 2023. Although credit growth in Vietnam typically accelerates in the second half of the year when demand rises, that figure has sparked some movement in strategy around deposit interest rates.

Vietnam Technology and Commercial Joint Stock Bank raised its rates on all deposit terms by 0.1–0.4 percentage points in May 2024, according to a bank employee speaking to *Channel News Asia*. The adjustment brought short-term deposit rates to the range of 4.55% to 4.95%.

Dr Can Van Luc, a government adviser and economist at the Bank for Investment and Development of Vietnam, was cited in the report as saying that banks in the country are

"To attract foreign investment, the SBV [even] **PROPOSED RAISING THE FOREIGN OWNERSHIP CAP IN DOMESTIC BANKS FROM 30% TO 49%** for those taking over underperforming banks," the report states. "As part of this strategy, banks such as Vietcombank and Military Bank are set to acquire struggling institutions such as DongA Bank and Ocean Bank, respectively."

bolstering their deposits in anticipation of the usual increase in loan demand later in the year.

Meanwhile, Willie Tanoto, a senior director at Fitch Ratings, commented that the recent hikes in deposit interest rates by local banks "reflect tighter monetary conditions rather than an increase in systemic stress".

DIVERSIFICATION OF FINANCIAL PRODUCTS

A further driver behind the Vietnam banking industry's heightened M&A activity is the rapidly growing demand for diverse financial products, according to the same report. Digital banking and e-wallets have significantly expanded the customer base of domestic banks, making them attractive acquisition targets for foreign investors seeking quick market entry.

Acquiring existing banks enables foreign investors to swiftly expand their range of financial products. This diversification can enhance profitability and customer satisfaction while offering more opportunities for upselling and cross-selling.

That view is also shared by S&P Global. In its country focus report on Vietnam's banking sector last year, it too set out that foreign investors could well be attracted to acquisition activity in return for future fruitful opportunities.

"Vietnam's banking sector is poised for an increase in M&As over the next two years, as lenders seek to bolster their capital while the country's economic growth attracts investors," it stated.

Ivan Tan, an analyst at S&P Global Ratings, added: "Acquiring a strategic stake in the Vietnam banks provides an opportunity for foreign investors to participate in the growth and tap the country's favourable demographics via retail lending, particularly via digital channels."

In return, overseas investors offer a source of much-needed capital for Vietnamese banks to boost their capital adequacy ratios, currently among the lowest in the region. As such, foreign direct investment (FDI) in Vietnam surged in 2023, with disbursed FDI reaching around 3.5% more on the previous year. In the banking industry, notable FDI included Sumitomo Mitsui Banking Corporation's USD1.5 billion investment in VPBank and AEON Group's acquisition of Postal Finance Company Limited for USD175 million.

THE RISE OF ALTERNATIVE LENDING AND 'BUY NOW, PAY LATER'

A major element of that retail opportunity that is proving so attractive to foreign investors and other local banks circling for acquisitions is the rapid growth of the alternative lending market in Vietnam. It is expected to expand at a compound annual growth rate of 19.3%, from USD304.7 million in 2022 to USD818.7 million by 2027.

According to the Dezan Shira report, small- and medium-sized enterprises (SMEs) in Vietnam are increasingly turning to alternative lenders due to the challenges and costs associated with accessing traditional credit.

"For instance, Funding Societies, a Singapore-based financing platform, entered the Vietnamese market in 2022 and has since facilitated over USD70 million in financing in Vietnam to SMEs across various industries, including agriculture, services, and construction," its analysis states. According to reports, Funding Societies provided SME financing worth USD3 billion over more than five million transactions across Southeast Asia.

"For instance, Funding Societies, a Singapore-based financing platform, entered the Vietnamese market in 2022 and **HAS SINCE FACILITATED OVER USD70 MILLION IN FINANCING IN VIETNAM TO SMEs ACROSS VARIOUS INDUSTRIES,** including agriculture, services, and construction," its analysis states. According to reports, Funding Societies provided SME financing worth USD3 billion over more than five million transactions across Southeast Asia.

Additionally, the expanding buy now, pay later (BNPL) market is providing a boost by offering consumers flexible, short-term lending solutions.

BNPL payments in Vietnam are expected to reach USD3.33 billion this year at an annual growth rate of 41.8%.

SEIZING THE MOMENT

Of course, that success also depends on the ongoing positive performance of the country's wider economy.

In a recent economic update, Deputy Prime Minister Le Minh Khai noted the stability of the economy in the first four months of 2024, with inflation under control. Further, gross domestic product growth in the first quarter reached 5.66%, the highest in three years, and the economy's scale reached USD430 billion, "placing Vietnam among upper-middle-income countries".

According to the same report, the average consumer price index also increased by 3.93% year on year, while realised foreign direct investment reached USD6.28 billion, up 7.4%, marking the highest growth in five years.

With domestic banks seeking capital, a burgeoning consumer market, robust SME financing needs, and emerging challengers to traditional banking institutions, foreign investors will find ample scope for growth in the Vietnam market.

However, walking the regulatory tightrope and concerns over consistent performance may not be the only issues they need to take into account as they navigate their M&A routes. ✱

■ *This article previously appeared in Issue 2 2024 of Chartered Banker, UK.*

AI and Critical Thinking: Enhancing Problem-solving Skills in the Age of Machines

By Derek Ariss

The future of banking is smarter, more ethical, and more human.

Artificial intelligence (AI) is a rapidly evolving field that, for many individuals, can seem complex and intimidating. However, as more people interact with AI tools in their daily lives through voice assistants, personalised recommendations, or automated services, it is clear that AI is a useful tool that professionals across industries, especially those in banking, can leverage to enhance their cognitive abilities, improve decision-making, and solve problems more efficiently.

By understanding AI's potential and limitations, bankers can use it to analyse data, identify biases, simulate scenarios, and overcome cognitive fatigue - ultimately making better, faster, and more informed decisions.

UNDERSTANDING AI'S ROLE IN CRITICAL THINKING

Critical thinking involves evaluating information, identifying patterns, making informed judgements, and considering different perspectives before reaching conclusions. It also means challenging assumptions, analysing evidence, and being open to new ideas. The World Economic Forum's *The Future of Jobs Report 2023* highlights AI as a top skill-shaping force and underscores critical thinking as a key future skill.

In a world flooded with data and increasingly complex systems, the human brain often struggles to process and make sense of it all. In this regard, AI is invaluable because AI systems can process massive volumes of data, thus uncovering trends and relationships that may not


AI

be immediately obvious. In banking, this translates to recognising hidden patterns in customer behaviour, market movements, or risk factors. Machine learning models can be trained to detect correlations, forecast outcomes, and surface insights at scales and speeds far beyond human capabilities.

To harness AI effectively, one must integrate it thoughtfully into existing problem-solving processes as a tool that enhances and supports these processes. Let's take a closer look. Here are a number of uses we can apply AI for critical thinking in banking, ranging from data analysis to using AI as a cognitive aid.

HOW TO APPLY CRITICAL THINKING WITH AI IN BANKING

+ Data Analysis and Pattern Recognition

One of AI's greatest strengths lies in its ability to quickly analyse vast datasets and identify meaningful patterns. This is especially beneficial in banking, where data is foundational to strategy, operations, and compliance.

For instance, AI can uncover trends in customer transactions to detect potential fraud, monitor credit utilisation for early warning signs of risk, or analyse market sentiment for investment insights. Instead of manually reviewing spreadsheets, banking professionals can rely on AI to surface relevant insights, enabling faster, more strategic responses.

+ Root Cause Analysis

When addressing financial anomalies or operational challenges, understanding the root cause is essential. AI excels at this by evaluating large sets of structured and unstructured data.

For example, in the case of rising non-performing loans, AI can sift through borrower profiles, sectoral exposure, repayment behaviours, and external economic data to pinpoint causes. Similarly, when compliance violations occur, AI can trace transaction logs, policy changes, and internal communications to identify oversight or weak points in

One of AI's greatest strengths lies in its **ABILITY TO QUICKLY ANALYSE VAST DATASETS AND IDENTIFY MEANINGFUL PATTERNS.** This is especially beneficial in banking, where data is foundational to strategy, operations, and compliance.

the process. This not only helps resolve current issues but also builds resilience against future ones.

+ Scenario Simulation

AI-powered simulations can project how various inputs will influence future outcomes. This is invaluable in strategic planning, especially in dynamic financial environments.

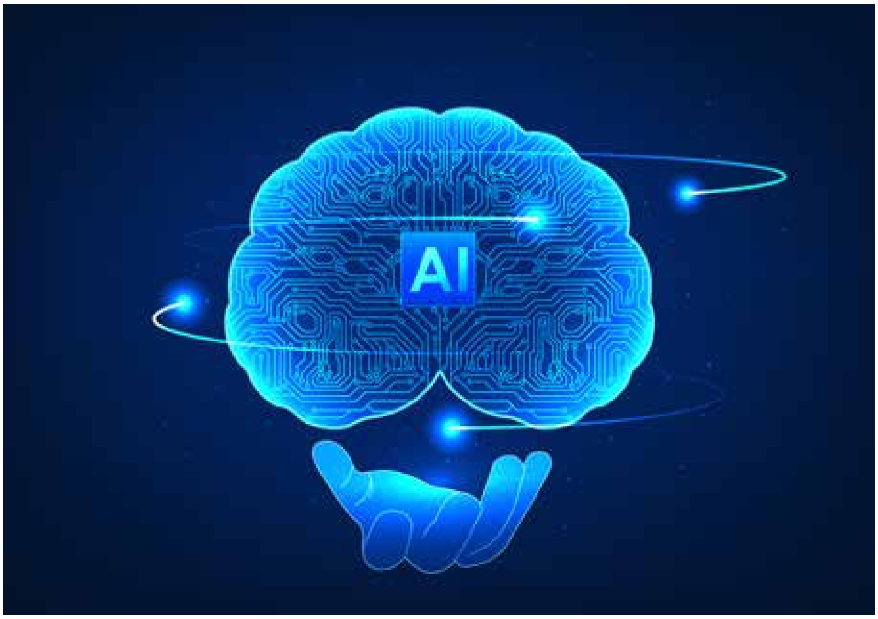
For example, banks can use AI to simulate the impact of different interest rate scenarios on loan portfolios or model how regulatory policy shifts might affect liquidity, risk-weighted assets, or customer behaviour. These simulations enable better-informed decisions without committing real-world resources.

Moreover, this predictive capability allows financial leaders to stress-test assumptions and make decisions with a more holistic view of potential consequences.

+ Bias Detection

A cornerstone of critical thinking is recognising and mitigating bias, whether in data, models, or human judgement. In finance, where decisions can directly impact livelihoods and market outcomes, this is especially critical.

AI tools can be trained to identify biased patterns in lending algorithms,



Source: Deposit Photos

flagging unfair treatment across gender, ethnicity, or geographic location. In hiring or client onboarding, AI can detect if unconscious bias is influencing outcomes. Furthermore, in regulatory compliance, AI-powered systems can process vast amounts of legal text to flag emerging risks or discriminatory practices hidden in operational workflows.

By making these biases visible, AI helps maintain fairness, objectivity, and compliance with evolving ethical standards.

COGNITIVE AID FOR FINANCIAL PROFESSIONALS

Problem-solving in banking often involves reviewing complex documentation, evaluating multiple risks, and considering the implications of fast-changing data. AI can act as a cognitive assistant by automating repetitive tasks, highlighting anomalies, or suggesting areas for review.

For example, when analysing a long and detailed credit agreement, AI can summarise clauses, highlight deviations from standard terms, or surface risks that require attention. This allows professionals to spend more time on strategic thinking rather than being bogged down in administrative detail.

These are but a few benefits. As a reference for the curious, Deloitte recently published an interesting paper titled *AI and Risk Management* on 17 April 2025, which highlights further AI use cases for the financial services industry, especially around risk.

CONSIDER COGNITIVE CHALLENGES OF AI

As we consider that AI can enhance cognitive performance, it also introduces new mental challenges if we do not manage things correctly. Issues like decision fatigue, cognitive overload and even attention management processing are very real issues to be considered and addressed.

THINK ABOUT DECISION FATIGUE

We know that AI often presents multiple recommendations or data points.

To avoid decision fatigue, people using **AI SHOULD ESTABLISH FILTERS AND USE AI SELECTIVELY – ALLOWING IT TO SUPPORT DECISION-MAKING** without dominating it, e.g. limit the scenarios being considered, and also limit the time for using AI. Prior to using AI, consider the purpose and desired outcome and then balance this with other work practices.

Without clear prioritisation, users can often feel overwhelmed. In banking, for example, AI tools that present 10 different investment strategies may require additional cognitive effort from reviewers/prompters to evaluate each of the various strategies.

To avoid decision fatigue, people using AI should establish filters and use AI selectively — allowing it to support decision-making without dominating it, e.g. limit the scenarios being considered, and also limit the time for using AI. Prior to using AI, consider the purpose and desired outcome and then balance this with other work practices.

Notably, Daniel Kahneman's book, *Thinking Fast and Slow*, highlights the underlying concepts of decision fatigue and bounded rationality, which need to be considered.

In addition, excessive data or overly complex visualisations can overload the mind. When compliance teams are presented with thousands of flagged transactions, the signal can be lost in the noise. The result: cognitive overload.

AI systems should be designed to highlight key risks, provide explanations for recommendations, and categorise alerts by relevance. This ensures cognitive clarity and enhances productivity. One important consideration is how you prompt and narrow your scope of answers to manage information density and mental fatigue.

By being exposed to a constant stream of AI information and feedback, one's focus can become easily fragmented. Effective use of AI requires professionals to intentionally manage their attention, ensuring that AI augments their workflow rather than distracts from it. This takes constant effort and regular practice.

In the finance world, this might mean scheduling dedicated times to review AI-generated insights, rather than reacting to them in real-time throughout the day.

AI AS A CATALYST FOR STRATEGIC GROWTH

Beyond immediate productivity, AI can contribute to long-term professional development. By providing feedback on decision patterns or highlighting recurring blind spots, AI serves as a mirror for self-improvement.

Imagine a banker who regularly struggles with risk estimation. An AI system could track decisions over time, provide comparative benchmarks, and suggest adjustments. Over time, this feedback loop helps sharpen judgement and improve strategic outcomes.

AI also nudges professionals to think more expansively. When it surfaces alternative solutions or contrarian insights, it challenges default thinking. This blend of machine-generated options and human reasoning fosters innovation, broadens perspective, and improves decision quality.

In the banking sector, where decisions carry financial, regulatory, and reputational consequences, the ability to think clearly, ethically, and strategically is invaluable. **AI, WHEN USED WISELY, ENABLES PROFESSIONALS TO DO JUST THAT.** It relieves the burden of data overload, accelerates analysis, and opens new possibilities for insight and innovation.

Salman Khan, in his book *Brave New Words: How AI Will Revolutionize Education (and Why That's a Good Thing)*, explains how learning in an AI era can be magnified for overall human learning and development.

A HUMAN-MACHINE PARTNERSHIP

The future of critical thinking in finance is not about choosing between AI and human judgement - it is about combining both for optimal results.

AI excels at tasks that require speed, scale, and consistency. Humans excel at intuition, ethics, creativity, and strategic judgement. When paired thoughtfully, this create a decision-making ecosystem that is more intelligent, more adaptable, and more resilient.

For example, a relationship manager might use AI to segment customers by behaviour, predict churn, or tailor product recommendations. However, the final engagement - the personal touch, the negotiation, the trust-building - remains uniquely human.AI is here to elevate our thoughts.

In the banking sector, where decisions carry financial, regulatory, and reputational consequences, the ability to think clearly, ethically, and strategically is invaluable. AI, when used wisely, enables professionals to do just that. It relieves the burden of data overload, accelerates analysis, and opens new possibilities for insight and innovation.

Think of AI as a cognitive co-pilot: always scanning the environment, suggesting routes, and flagging risks - while you remain at the helm, exercising judgement, creativity, and leadership.

In this partnership, the future of banking is not just more efficient - it is smarter, more ethical, and more human. ✱

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He holds an MBA in International Marketing and Strategy; a BCom (Hons) from the University of Windsor, Canada; and a BSc in Psychology and Biology.


COST
OCR
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FROM INSIGHT TO IMPACT: THE STRATEGIC IMPERATIVE FOR AI IN MALAYSIAN FINANCIAL SERVICES

By Sash Mukherjee

Integrating AI and tapping into external innovation are no longer optional, but strategic imperatives.

Think about the sheer volume of information flowing through Malaysia's financial system today. Every DuitNow QR payment, every e-Know Your Customer onboarding, every credit card swipe and foreign exchange transfer tells a story. With Bank Negara Malaysia (BNM) pushing the agenda on digital banking, financial inclusion, and Open Banking, the sector is sitting on a goldmine of insights. This isn't just about collecting data. It's about turning that data into strategic advantage in an increasingly competitive, customer-driven landscape.

With five digital bank licences issued and BNM's Financial Sector Blueprint 2022–2026 outlining bold reforms, Malaysia is entering a new phase of financial innovation, driven by data and accelerated by artificial intelligence (AI).

DATA IN ACTION: MALAYSIAN BANKS ALREADY SHOWING THE WAY

Malaysian banks are ramping up their tech investments, following the lead of regional peers, but with clear priorities in sight. They aim to build loyalty, boost efficiency, and position themselves for long-term growth. The shift is already underway, with banks leveraging data intelligence to deliver hyper-personalised, intuitive digital experiences – think pre-approved financing, targeted investment nudges, and contextual app recommendations that anticipate customer needs rather than just react to them.

At the same time, technology is strengthening compliance and fraud detection frameworks. AI models are

Figure 1 Banking Priorities Driving Tech Transformation
Source: Ecosystm.

being deployed to spot anomalies in real time, aligning with rising regulatory expectations and improving overall risk management. Automation is also streamlining back-end processes, such as small- and medium-sized enterprise loan approvals, cutting time and cost while boosting service levels.

These advances are unlocking new revenue opportunities as well. Banks are tapping into emerging customer segments, offering environmental, social, and governance-linked products to environmentally conscious millennials and designing Shariah-compliant solutions that meet both ethical and financial goals.

Underpinning all of this is a push for greater resilience and agility: automating core operations, improving risk visibility, and laying the foundation for Open Banking through secure, application programming interface-first infrastructure.

AI: THE GAME CHANGER

AI adoption is accelerating rapidly across Malaysia's banking sector. From chatbots like CIMB's Eva to credit scoring models that integrate both traditional and alternative data, AI is poised to become the driving force behind the nation's banking transformation. The potential? Beyond efficiency gains, AI is enabling entirely new value propositions, centred around predictive and proactive customer service.

However, the impact of AI on Malaysia's banking tech landscape goes even deeper. Driven by its transformative power, both technological investments and strategic priorities are undergoing significant change. While cybersecurity remains a top priority – given the increasing sophistication of AI-driven threats and the need to safeguard valuable digital assets – AI itself is now a central focus for technology spending. Banks and financial institutions are actively embracing AI for a range of business applications, understanding its potential to unlock unprecedented levels of efficiency, uncover new insights, and deliver hyper-personalised customer experiences.

At the same time, AI is playing a pivotal role in streamlining technology operations, helping to create more agile, resilient, and self-managing environments. The continued investment in foundational technologies, such as process automation software, reflects the ongoing drive to optimise workflows, while the urgent need for infrastructure modernisation is becoming ever more apparent. As businesses

Banks and financial institutions are actively embracing AI for a range of business applications, understanding its **POTENTIAL TO UNLOCK UNPRECEDENTED LEVELS OF EFFICIENCY,** uncover new insights, and deliver hyper-personalised customer experiences.

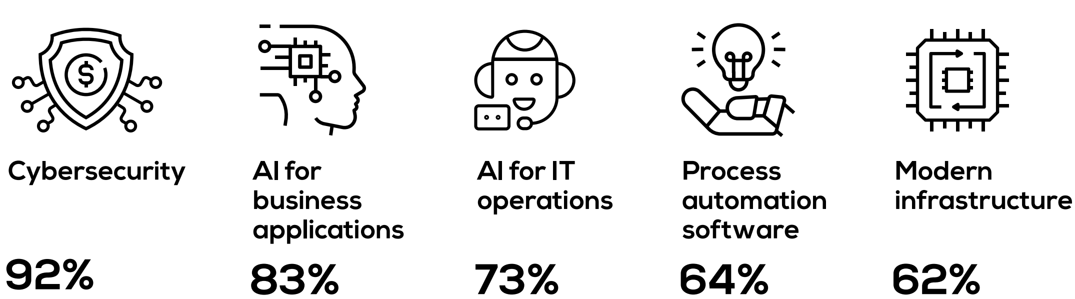

Figure 2 Areas Where Banks are Re-evaluating Their Tech Strengths
Source: Ecosystm.

Figure 3 Factors Affecting AI Implementation at Malaysian Banks
Source: Ecosystm.

prepare their digital foundations to support the growing computational and data demands of AI solutions, they are also laying the groundwork for future scalability.

This evolving landscape shows that AI is no longer just an emerging trend; it's becoming a core element of technology investment strategies and driving the next phase of digital transformation in the region.

THE BUMPS IN THE ROAD: MALAYSIA'S AI CHALLENGES

Adopting AI in Malaysia's banking sector promises immense potential, but the journey is far from straightforward. One of the major hurdles is the complexity of data. Many banks are still grappling with fragmented systems and data silos, where critical information is locked in disparate platforms. This disconnection makes it difficult to access and integrate the data needed to train and deploy effective AI models. Without unified data access, banks are unable to create the comprehensive AI solutions required to drive meaningful change.

A key challenge for banks is defining clear and impactful use cases for AI. Without in-depth research into customer pain points and opportunities, AI initiatives often fail to target the most pressing business challenges, resulting in scattered projects that deliver little tangible value. At the core of this problem is the absence of a cohesive AI strategy. Without a unified roadmap that aligns AI efforts with business objectives, banks risk pursuing isolated projects that lack scalability or long-term vision, making it difficult to prioritise investments and ensure consistent AI adoption across the organisation.

A key challenge for banks is defining clear and impactful use cases for AI. Without in-depth research into customer pain points and opportunities, **AI INITIATIVES OFTEN FAIL TO TARGET THE MOST PRESSING BUSINESS CHALLENGES,** resulting in scattered projects that deliver little tangible value.

Additionally, the shortage of in-house AI expertise is a significant hurdle. The specialised talent needed to build, deploy, and manage AI solutions is in high demand, forcing many banks to rely on expensive external consultants, adding both complexity and cost. Ethical concerns also complicate AI adoption, as many models operate in a "black box" fashion, raising issues of transparency, accountability, and fairness, especially in the highly regulated banking environment. Addressing these concerns is essential to maintaining trust and ensuring responsible AI use.

Taken together, these challenges present a clear picture of a banking sector eager to embrace AI but facing significant strategic, organisational, and ethical obstacles.

KEY SUCCESS FACTORS FOR AI IMPLEMENTATION IN BANKING

Achieving meaningful and sustainable success with AI in banking requires more than just deploying technology – it demands a comprehensive strategy that aligns with business goals.

- **Robust data strategy: scaling, compliance, and accessibility.** A strong data strategy is the bedrock of impactful AI in banking. It's not just about collecting more data – it's about ensuring that customer, transaction, risk, and compliance data can be accessed, integrated, and analysed at scale. Banks need infrastructure that can handle growing volumes without compromising performance or compliance – especially with data residency regulations and cost pressures. The ability to locate and link data across core banking systems, CRM platforms, and third-party sources is critical for training reliable AI models. Legacy systems can't be ignored; instead of waiting for full modernisation, banks must focus on building integration layers that bridge these silos and make data AI-ready.
- **Proving value with bank-specific return-on-investment (ROI) models.** For AI to gain lasting traction in financial services, it must prove its worth in clear business terms. That means moving beyond surface-level metrics to detailed ROI models that link AI initiatives to outcomes like faster loan approvals, lower fraud losses, improved cross-sell rates, or reduced compliance overhead. It's important to account not only for upfront costs, such as infrastructure and specialist talent, but also for ongoing expenses tied to model retraining, governance, and integration. With this level of clarity, institutions can prioritise high-impact use cases and make confident, data-driven decisions on where to scale AI next.
- **Ethical AI governance: building trust from the ground up.** As Malaysia's banking sector accelerates AI adoption, trust becomes non-negotiable. With regulatory expectations tightening — such as those under BNM's Risk Management in Technology guidelines – banks must embed ethical AI governance into their core data and tech strategies, not treat it as a compliance add-on. That means ensuring transparency in decision-making, addressing bias in algorithms and training data, and establishing clear lines of accountability. A robust governance framework not only mitigates reputational and regulatory risks but also builds stakeholder confidence, laying the foundation for responsible, long-term AI use.
- **Bridging data silos: leveraging modern platforms.** A practical solution to fragmented data systems in banks lies in adopting modern data platforms that can sit atop legacy infrastructure and connect siloed sources – such as core banking, customer relationship management, payments, and risk systems – without requiring full-scale replacement. These platforms enable secure, real-time data integration and harmonisation, giving AI models access to complete customer, transactional, and risk data. This unified view is critical for accurate credit scoring, personalised recommendations, and proactive fraud detection, significantly accelerating the impact and scalability of AI across banking functions.

Banks need infrastructure that **CAN HANDLE GROWING VOLUMES WITHOUT COMPROMISING PERFORMANCE OR COMPLIANCE** – especially with data residency regulations and cost pressures. The ability to locate and link data across core banking systems, CRM platforms, and third-party sources is critical for training reliable AI models. Legacy systems can't be ignored; instead of waiting for full modernisation, banks must focus on building integration layers that bridge these silos and make data AI-ready.

that reflect Malaysian regulatory, cultural, and language contexts. This combination of internal focus and external collaboration helps banks to stay ahead of regional peers and accelerate meaningful AI deployment.

- **The human element: integrating talent and processes.** AI's success in banking hinges as much on organisational readiness as on tech itself. It requires more than hiring data scientists – banks must upskill relationship managers to interpret AI-driven insights, train credit officers to trust model-based recommendations, and embed AI outputs into frontline decision-making. Without reworking loan approval workflows, fraud escalation protocols, or customer engagement processes to integrate AI tools meaningfully, even the most sophisticated models will sit unused. True impact comes when AI is not a separate initiative but is woven into everyday banking operations.
- **Innovation and collaboration: staying ahead in the AI race.** To remain competitive as AI reshapes financial services, Malaysian banks need to institutionalise innovation. Establishing an internal Centre of Excellence can drive experimentation with high-impact use cases – from predictive credit scoring to real-time fraud detection – and ensure learnings are shared across teams. Strategic collaboration is equally key: partnerships with tech providers, fintechs, and even academia can provide access to emerging tools, niche expertise, and localised AI models

Without reworking loan approval workflows, fraud escalation protocols, or customer engagement processes to integrate AI tools meaningfully, **EVEN THE MOST SOPHISTICATED MODELS WILL SIT UNUSED.** True impact comes when AI is not a separate initiative but is woven into everyday banking operations.

FROM DATA DELUGE TO INTELLIGENT BANKING IN MALAYSIA

Malaysia's banking sector is on the cusp of a major shift. With regulatory support and a flood of rich data from digital interactions, the foundation is set for a smarter, more adaptive financial ecosystem. Early wins in personalised customer engagement and proactive risk management are more than isolated use cases; they signal a deeper transformation underway. However, as challenges like fragmented data, unclear AI strategies, and a shortage of skilled talent show, success demands a rethink of how banks operate and innovate.

It starts with a solid data strategy, sharp ROI thinking, and AI governance that's built in from day one – not bolted on later. Bridging legacy data silos, integrating AI into everyday workflows, and tapping into external innovation through fintech and tech partnerships are no longer optional, but strategic imperatives. Banks that embed these priorities into their core – not just in information technology, but across business lines – will lead the way. With the right approach, Malaysia's wealth of financial data can fuel a hyper-personalised, efficient, and resilient banking system, putting the nation at the forefront of intelligent finance in the region. ✱

■ *Sash Mukherjee, VP Industry Insights at Ecosystm, brings nearly two decades of deep industry analysis and strategic foresight, translating complex tech trends into clear, actionable insights that shape key conversations and guide critical decisions across the tech landscape.*

AMPLIFY ACCESS TO TRANSITION FINANCE

By Kannan Agarwal

MIXED SIGNALS ON THE GLOBAL CLIMATE FINANCING FRONT. WE NEED TO INTENSIFY THE RIGHT PERSPECTIVES.

As the term 'transition finance' takes centre stage as one of the pillars towards achieving net zero, it is important that there be alignment in our understanding of this term.

One of the main critiques in the past was the absence of a unified definition from standard setters about transition finance – what it is, what it is not, what it should be. Some saw this as another greenwashing endeavour, cobbled together to continue funding to brown industries like fossil fuels. Others lacked clarity on how it could be practically implemented to bridge the financing gap and bring economies in line with the timeline of the 2015 Paris Agreement.

A transition finance plan is a time-bound implementation strategy provided by companies detailing operational, governance, financial, and non-financial shifts in their business that will meet sustainability goals, especially low-emission targets.

As critical as it is, the world is still some way from a common approach on corporate transition plans and how financial institutions should be assessing them for funding. Here is a quick recap to illustrate the global divergence based on major economic blocs:

USA

The Trump administration has swiftly moved to take two steps back in the US' climate pledges, sparking concerns of 'greenhushing' – the deliberate downplaying or hiding of a company's environmental efforts and initiatives for fear of backlash – amongst businesses, state governments, and financial institutions.

In the weeks before President Trump's inauguration, six of the largest US banks – led by Goldman Sachs and followed by Citigroup, Bank of America, Wells Fargo, JP Morgan, and Morgan Stanley – pulled out of the United Nations-convened Net-Zero Banking Alliance (NZBA), a global member-led initiative supporting banks to lead on climate mitigation. The NZBA was launched in the leadup to the 2021 United Nations Climate Change Conference, or COP26, and was envisioned to be a platform for banks who were "aligning their lending, investment, and capital markets activities with net-zero greenhouse gas emissions by 2050."

The departure is not a surprise. As at March 2025, the US has pulled out of several critical global agreements, including the Paris Agreement and alliances such as the Just Energy Transition Partnership which provides USD3 billion in green financing to developing economies.

EU

Since 2023, the European Commission has mandated that in-scope companies adopt transition plans for climate change mitigation. This comes under two directives – the Corporate Sustainability Due Diligence Directive and the Corporate Sustainability Reporting Directive – whereby corporates that are in scope must show evidence of how they plan to turn high-level climate and environmental targets into actionable, robust, and consistent plans that are assessable by financial institutions.

In January 2025, the EU Platform on Sustainable Finance, an independent advisory body comprising the world's leading sustainability experts to advise the European Committee, issued its report titled *Building Trust in Transition: Core Elements for Assessing Corporate Transition Plans,* the most comprehensive technical guide to date on effective transition financing for European companies and how financial institutions should be assessing these corporate transition plans.

Although its recommendations are non-binding, the report holds sway as it works within the existing EU legal framework which enables companies to credibly operationalise their transition plans and facilitate financial institutions' assessment of the same.

ASEAN

Transition finance is in top gear since Malaysia assumed the ASEAN chairmanship in January 2025 and announced two priorities: (i) financing for energy transition projects in ASEAN; and (ii) supporting small- and medium-enterprises in their low-carbon transitions. The 3rd National Climate Governance Summit from 7 to 11 April 2025 held at Sasana Kijang in Kuala Lumpur reaffirmed its commitment.

Development is governed by the ASEAN Transition Finance Guidance (ATFG), the first version of which was issued by the ASEAN Capital Markets Forum in October 2023, providing businesses with a framework to assess and demonstrate a credible transition to facilitate access to capital market financing. Version 2 of the ATFG was published on 24 October 2024 after consultation with key stakeholders, leading to:

+ **additional guidance and clarity** on different types and applications of transition finance to help unify the terminology and therefore understanding among market participants; and
+ **provision of guidance on reference pathways** for real economy companies to use to set their transition plans, and financial institutions to use when assessing entities' transition plans.

Bank Negara Malaysia is leading the charge by facilitating funding mechanisms and solutions towards an ASEAN Power Grid project, initially announced in 2018, to construct an integrated regional power grid system, which would enhance electricity trade across borders, including renewable energy.

The central bank will also expand its Greening Value Chain programme to the region and provide small- and medium-enterprises with tools and financing to measure and report their greenhouse gas emissions.

Additionally, Capital Markets Malaysia, established by the Securities Commission Malaysia together with the Malaysian government, has released a *Transition Strategy Toolkit for Corporations in ASEAN* in collaboration with the Climate Bonds Initiative. The toolkit outlines five transition principles and assists organisations in developing a credible and science-based green-transition plan.

ASKING THE RIGHT QUESTIONS

Lenders must have sufficient comfort with and an understanding about how borrowers intend to operationalise, which encompasses risk management, leveraging opportunities, achieving climate and sustainability targets, and staying competitive.

For financial institutions in ASEAN, it is important that they be well-versed in assessing transition plans at the entity level for each borrower. The basis for financing – whether to support climate targets, biodiversity goals, or other sustainability targets – should adhere to what is set as benchmark practice through guidelines such as the ATFG and ASEAN Taxonomy.

Additionally, financial institutions should be mindful that discretion is required when assessing transition plans, often on a country-to-country basis, given

Element 1 Climate Ambition	**Current state assessment**	• Entities must assess all emissions from environmentally material business activity (Scopes 1, 2, as well as Scope 3 where material), which serves as a robust foundation for their forward-looking progress.
	Transition pathway	• Entities should identify a reference pathway that informs the extent of required decarbonisation consistent with the Paris Agreement, based on the following key characteristics: » pathway source; » geographical granularity; » scope of emissions; » emissions metric; and » temperature outcome. • In some instances, entities may wish to augment their selected pathway to better reflect the nature of their business. Entities may conduct such augmentation based on the following key variables: » **Scope of emissions:** Entities may augment a pathway to ensure the scope of emissions covered is in alignment with the scope of emissions encompassed by their emissions reporting framework. » **Business activities:** Entities may augment a pathway to reflect the specific activities and operational profile of their business by ensuring it comprehensively covers all material business activities pertinent to their operations. » **Emissions profile**: Entities may augment a pathway to ensure it comprehensively encompasses all material greenhouse gases that are emitted from their business activities. » **Local nuances and geographical coverage**: Entities may augment a pathway to more accurately reflect the regional nuances and geographical coverage of their business operations.

	Transition targets	• Entities should set concrete, time-bound targets on how they will align with their transition pathways, where: » Absolute emissions targets must show a decarbonisation trajectory equivalent or more ambitious to the reference pathway through to their net zero year. » Emission intensity targets must converge with the selected transition pathway by 2050 and in the interim: • Companies starting above the pathway should plan to decarbonise in parallel with the reference pathway as a minimum. • Companies starting below the pathway should target to remain on or below the pathway.
Element 2 **Robustness of Ability to Deliver**	**Implementation strategy**	• Entities must clearly demonstrate how they intend to make tangible progress towards achieving their climate ambitions, which includes: » **Action plan**: Detailed roadmap of actions to achieve targets differentiated by near-, mid- and long-term milestones. » **Capital allocation plan**: Financial requirements for execution of the action plan, and how to achieve such financing. » **Risk assessment and mitigation measures**: Robust climate and delivery risk assessment and relevant mitigation strategies. » **Ongoing monitoring**: Processes to track progress against targets and adapt as needed. » **Governance**: Organisational structure and mechanisms to oversee and support the execution of the other elements of the implementation strategy.
	Disclosure	Entities should disclose their performance, targets and progress on an annual basis as a minimum, aligned with existing climate-related disclosure standards such as IFRS S1 and S2.
	Independent verification	Entities are encouraged to seek third-party verification on their transition credibility, particularly for those with lower climate maturity.
	Just transition considerations	Entities should assess and account for potential adverse environmental impacts and social considerations that arise from their transition plan.

To be considered as credibly transitioning, entities are encouraged to demonstrate all aforementioned characteristics, and provide clear justification where there are any deviations (e.g., if a specific criterion may not be applicable in their context or for a particular financing instrument). While these principles are robust and interoperable with existing market-accepted guidance, they focus on establishing the minimum boundaries of what the market is willing to accept as credible and are limited in their ability to recognise that entities may differ in the degree to which they demonstrate these criteria and still be recognised as credible.

Figure 1
Source Adapted from *the ASEAN Transition Finance Guidance Version 2*, October 2024, ASEAN Capital Markets Forum.

that ASEAN member states are at vastly different stages on the climate maturity curve with large differences in data availability.

With this in mind, based on international guidance and ASEAN stakeholder input after Version 1 was issued, the latest ATFG outlines a series of principles as the cornerstone for assessing transition credibility, the core elements of which are summarised in **Figure 1**.

AMPLIFICATION

To hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" is a simple yet ambitious goal. For this to occur, it is critical that access to finance is made available to entities that are committed to making this happen and withheld from those who are more inclined to greenwash.

Banks that are not for the sustainability agenda will drop out of the race eventually, until such a time when the field is more tightly regulated and opting out is no longer an option. Meanwhile, it is important that we augment the ideas, brands, and voices that elevate public discourse and offer bold, credible solutions to one of the biggest challenges we face today – the survival of our planet. ✱

THE BEST LAID PLANS

To see real economic progress on the climate and sustainability fronts, there is a need for transition plans to work not just on paper, but in practice. Investments must churn out real economic progress.

Which is why in both the ASEAN and the EU guidelines, a common feature of transition credibility assessments is the acknowledgement that countries within these regional blocs are at different stages of development and sophistication. Whilst interoperability remains a challenge, flexibility is embedded in all transition planning guidelines which allow companies to provide both context and rationale if they fall short of the minimum criteria expected by lenders and/or investors.

ASEAN achieves this through a three-tier classification system (**Figure 2**). The tiers facilitate financing activity by providing a consistent basis for evaluating a company's transition approach based on several qualifying thresholds.

CLASSIFICATION	CLASSIFICATION	CLASSIFICATION
Aligned and Aligning – 1.5˚C	**Aligned and Aligning – Well below 2˚C**	**Progressing**
QUALIFICATION Entities that demonstrate sufficient climate ambition that is already aligned or aligning with a science-based 1.5˚C trajectory and meet all other criteria of transition credibility.	**QUALIFICATION** Entities that demonstrate sufficient climate ambition that is already aligned or aligning with a science-based well below 2˚C trajectory and meet all other criteria of transition credibility.	**QUALIFICATION** Entities that demonstrate most but not all elements of ability to deliver and/or a climate ambition that is material but not yet aligned or aligning to well below 2˚C, and have committed to addressing any material omissions in the next two years.
DETAILS This is the gold standard for what is globally accepted as a credible transition, consistent with international guidance.	**DETAILS** More reflective of climate ambitions across ASEAN while maintaining the robustness of all other criteria.	**DETAILS** Designed for companies that meet most but not all criteria of transition credibility, and serves two purposes: facilitating capability development of real economy companies, and directing capital towards the more climate mature even if they may not meet all requirements. The latter reflects evolving investor interest in steering their full portfolio, independent of labels or specific financing instruments, in line with their climate goal.

Figure 2
Source Adapted from the *ASEAN Transition Finance Guidance Version 2*, 22 October 2024, ASEAN Capital Markets Forum.

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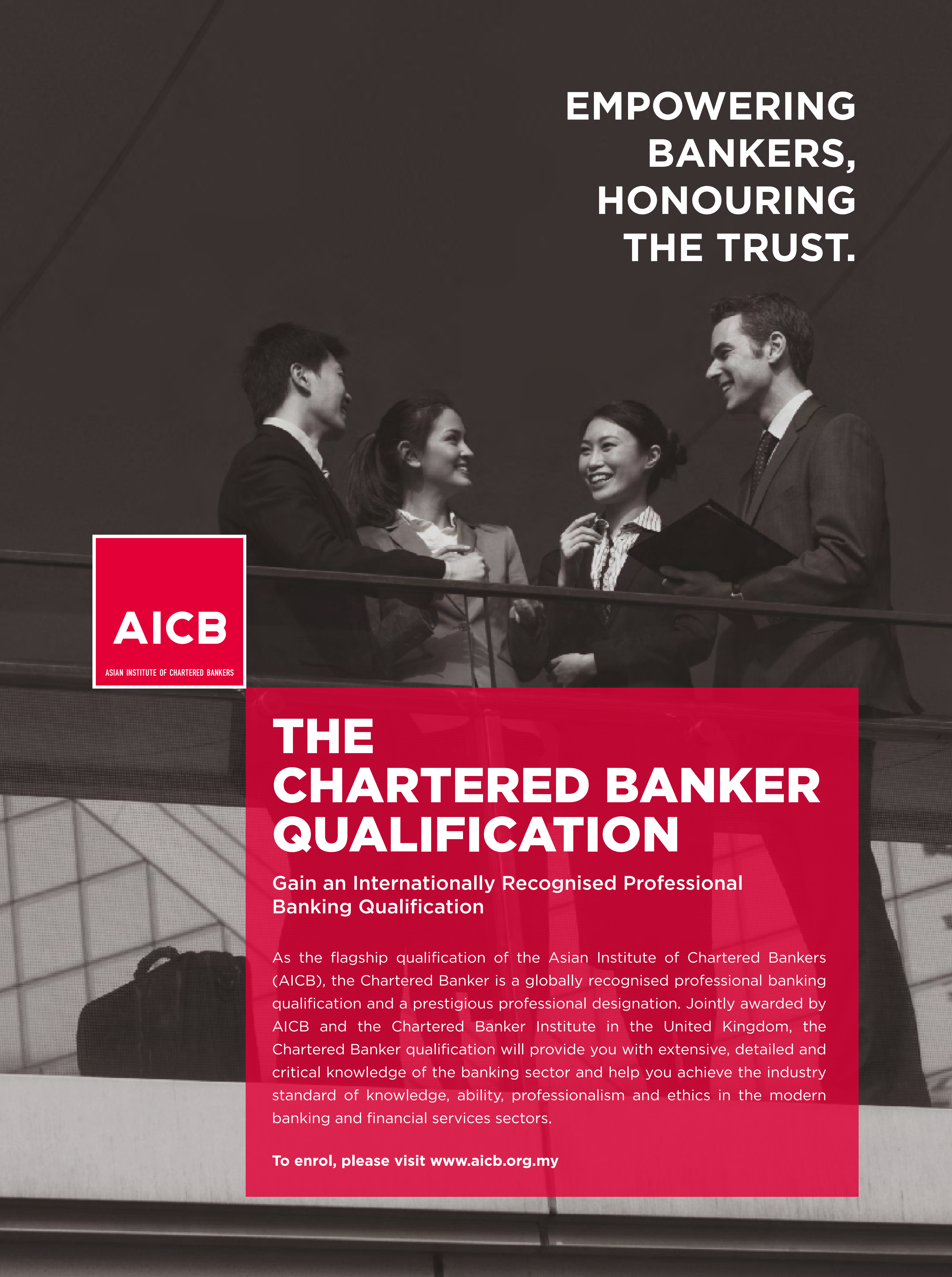
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