

Yanis Varoufakis, Economist and Activist, Ex-Finance Minister for Greece
'We Are Witnessing A Catastrophic Plunge Into Kleptocracy'

BANKING INSIGHT

IDEAS FOR LEADERS | DECEMBER 2025

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Southeast Asia's Scam States: Fire in the Belly to Wrest This Beast

Cambodia, Myanmar, Laos, the Philippines, and now
Timor-Leste. Source confirms regional players are
financing cybercriminal activity.

A PUBLICATION OF



Is Private Credit
Bubbling Over?

SUPPORTING THE
LOW-CARBON
TRANSITION OF
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TRANSITION LOAN SCHEME

DO IT FAST
OR DO IT
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Editor's Note

Trek Into a New Wilderness

Banking is under threat. Much like navigating a new hike trail, this issue of *Banking Insight* shows readers the uncertainties of the path ahead and what it will take to prepare for the journey.

Each story tackles head on an emerging risk, explores its dimensions, and lights a way forward.

Southeast Asia's Scam States: Fire in the Belly to Wrest This Beast, our exclusive cover story by Angela SP Yap is part exposé about the financing of proliferation of transnational criminal organisations in Southeast Asia and recent crackdowns by financial authorities in the US, UK, and Asia. It is also an expansion of the serious discussions held during the Institute's 15th International Conference on Financial Crime and Counter Terrorism Financing (IFCTF) on *The Future is Now: Tech-driven Compliance in the Fight Against Financial Crime*.

Our exclusive interview, *'We Are Witnessing a Catastrophic Plunge into Kleptocracy'*, with economist Yanis Varoufakis, who served as the ex-finance minister for Greece at the height of the Greek Debt Crisis, exemplifies why he continues to be a strident voice in international economic discourse, including his panel discussion during MyFintech Week 2025 in Kuala Lumpur recently. He puts it plain the disruption of blockchain-based BRICS tokens, ASEAN's risk and dependence on US trade and currency, and why he is now advocating towards the creation of a monetary commons for greater equity and equality.

Voices calling for the deregulation of banking are growing louder. In *Deregulation: Resist the Race to the Bottom*, we take the position that financial institutions must hold the fort because if there's a lesson to be learnt from past forays on the matter, it is that we've not yet learnt the lesson.

SymphonyAI's Jason Shane takes to task the 'trap of extremes' in the way



Voices calling for the deregulation of banking are growing louder. In *Deregulation: Resist the Race to the Bottom*, we take the position that **FINANCIAL INSTITUTIONS MUST HOLD THE FORT BECAUSE IF THERE'S A LESSON TO BE LEARNT FROM PAST FORAYS** on the matter, it is that we've not yet learnt the lesson.

From left: Abd Rahman Abu Bakar, Assistant Governor, Bank Negara Malaysia (BNM); Mak Joon Nien, Managing Director and CEO, Standard Chartered Bank Malaysia Berhad; Dato' Marzunisham Omar, Deputy Governor, BNM; Tan Sri Azman Hashim, FCB, Chairman, AICB; Dato' Sri Abdul Rasheed Ghaffour, FCB, Governor, BNM; Faradina Ghouse, CB, Chairman, AICB's Compliance Officers' Networking Group and Group Chief Compliance Officer, AmBank Group; Affendi Rashdi, Director General of Labuan Financial Services Authority; Dato' Sri Khairussaleh Ramli, FCB, Chairman of the Association of Banks Malaysia and Group President and Chief Executive Officer of Maybank; T. Raja Kumar, Immediate Past President, Financial Action Task Force, 2022–2024 and Senior Advisor (International), Ministry of Home Affairs, Singapore, 2021–2024; Edward Ling, CEO AICB.

companies integrate artificial intelligence into current workflows. He writes on how we should be *Redefining Compliance Excellence: The 50/50 Model as Malaysia's Path to Proactive Financial Crime Prevention*.

Staving off a potential crisis from the private credit sector's exposures to the billion-dollar collapses of Tricolor, First Brands, and Renovo, we ask *Is Private Credit Bubbling Over?* and illustrate why banks should never settle for a zero-sum game.

At times like these, under conditions that make it near impossible to be two steps ahead, it is mission critical that we move in concert in order to carve a common future. *

The Editor



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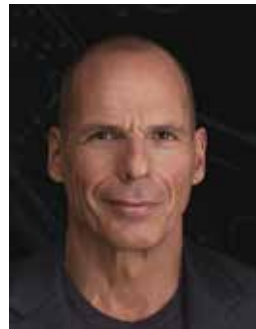
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‘Governance Grounded in Accountability And Integrity’

Entering its 15th edition, the AICB’s flagship International Conference on Financial Crime and Counter Terrorism Financing (IFCTF) 2025 drew over 1,400 delegates from banking and finance.

From 4 to 6 November, the premier event at the Malaysia International Trade and Exhibition Centre in Kuala Lumpur featured masterclasses, plenaries, and breakout sessions centred on the theme of *The Future is Now: Tech-driven Compliance in the Fight Against Financial Crime*.

Frank exchanges and expert insights covered the vast and evolving threat landscape in banking: AI-enabled fraud detection, machine

reflected on the pivotal role that we play in the future of financial crime prevention, where “the principles of Collaboration, Creativity and Conduct are not mere aspirations – they are guiding principles that inform our actions as we navigate the evolving landscape of the financial industry.”

Organised by the AICB in collaboration with the Compliance Officers’ Networking Group (CONG) and supported by the BNM, SC, and Labuan Financial Services Authority, this year’s IFCTF organising committee was led by Faradina Ghouse, CB, CONG Chair and Group Chief Compliance Officer of AmBank Group.



learning-driven compliance, virtual assets and digital threats, terrorism and proliferation financing, and anti-bribery and anti-money laundering frameworks.

A media roundtable on *Shaping the Future of Compliance — Technology, Talent and Trust* spotlighted regional preparation for AI-driven financial crime, cross-border illicit flows, and the future workforce.

BNM Governor Dato’ Sri Abdul Rasheed Ghaffour’s opening remarks at IFCTF 2025

In delivering her closing remarks, Ghouse reminded us of the importance of conduct, collaboration, and accountability: “Fellow compliance officers and banking professionals, we are called upon to act now. The new era of compliance is one that is shaped by exemplary conduct. And at the core lies strong governance grounded in accountability and integrity, which transforms compliance from a layer of obligation into a shared culture across all institutions.”

HEALTH CHECK • FINANCIAL RESILIENCE* IN EAST ASIA & PACIFIC

Total population aged 15 years and above

1.726 BILLION PEOPLE

Hold an account at a bank or similar financial institution

82.2%

Saved informally using a savings club or a person outside the family

20.3%

Borrowed formally in the past year

53.3%

Made a digital merchant payment in the past year

67.4%

% population who could cover more than two months of expenses if income is lost

43.7%

% women who could access extra money in 30 days

77.1%

Has a personal mobile phone

94.0%

* Financial resilience is defined as ‘not difficult to access extra money in 30 days’.

SOURCE: 2025 *The Little Data Book on Financial Inclusion*, 2025, World Bank.

ANTI-CORRUPTION TRENDS UNEVEN GROUND



“Across Asia Pacific, many governments still underdeliver on anti-corruption pledges: frameworks and law exist on paper, but gaps persist in beneficial ownership transparency, whistleblower protection, and foreign bribery enforcement...”

While Hong Kong’s Independent Commission Against Corruption and Singapore’s Corrupt Practices Investigation Bureau stand as regional benchmarks,

many other agencies lack true prosecutorial independence and rely heavily on executive will...

Agencies in certain countries often struggle to compel disclosure of assets, trace complex financial flows or act against politically connected figures. Without greater autonomy, enhanced forensic capabilities and cross-border cooperation, legislation risk being merely symbolic.”

~ Ashane J W Jayasekara, Deputy Managing Partner, BDO.

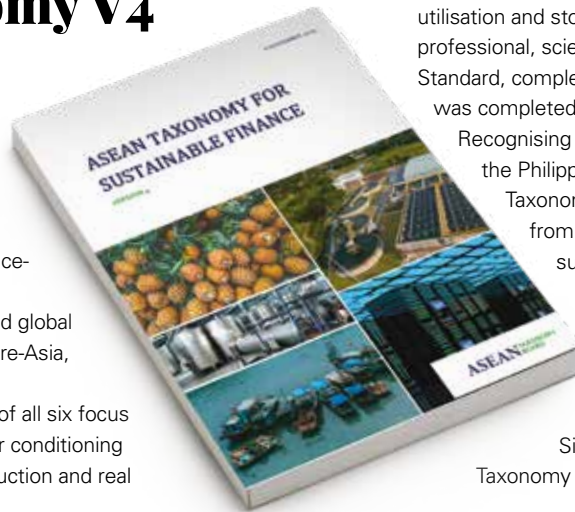
SOURCE: Excerpt from *Anti-corruption Developments in APAC, Oct–Dec 2025, Risk & Compliance*.

Mainstream Milestones: Asean Taxonomy V4

On 6 November, the ASEAN Taxonomy Board released Version 4 of the ASEAN Taxonomy for Sustainable Finance.

This latest iteration reinforces ASEAN's commitment to its 2045 sustainability vision, providing a science-based, inclusive, and interoperable taxonomy that aligns with national and global frameworks such as the EU, Singapore-Asia, and Indonesia taxonomies.

It contains comprehensive coverage of all six focus sectors (electricity, gas, steam and air conditioning supply; transport and storage; construction and real



estate; agriculture, forestry and fishing; manufacturing; water supply, sewerage, waste management and remediation) and three enabling sectors (carbon capture, utilisation and storage; information and communication; professional, scientific, and technical activities) of the Plus Standard, complementing the Foundation Framework which was completed in March 2023.

Recognising its interoperability, companies in Thailand, the Philippines, and Malaysia have used the ASEAN Taxonomy Second Party Opinion assessments from June 2024 to June 2025 in order to raise sustainable financing. Additionally, it forms the main reference for the Indonesia Taxonomy for Sustainable Finance and the Philippine Sustainable Finance Taxonomy Guidelines, in addition to the other ASEAN-nation taxonomies. The Singapore-Asia Taxonomy and the Thailand Taxonomy have also been developed in alignment.

**MyFINTECH
WEEK 2025**

Bold Conversations, Regional Alignment



From left: Tan Sri Azman Hashim, FCB, Chairman, AICB; Dato' Sri Abdul Rasheed Ghaffour, FCB, Governor, BNM; YB Senator Datuk Seri Amir Hamzah Azizan, Minister of Finance II; Dato' Mohammad Faiz Azmi, Executive Chairman, Securities Commission Malaysia.

Malaysia's flagship finance and innovation event, MyFintech Week (MyFW 2025), featured 230 global expert speakers and drew close to 750 delegates from local and international financial institutions. Entering its third iteration, discussions centred on its theme, *Ideate, Innovate, Co-create: Shaping the Future of Finance*, throughout the event held at Sasana Kijang and the AICB Centre of Excellence from 4 to 7 August 2025. Co-organised

by the BNM, Securities Commission Malaysia (SC), AICB, Fintech Association of Malaysia, and Malaysia Digital Economy Corporation, MyFW 2025 brought together regulators, financial institutions, digital banks, fintech innovators, technology providers, policymakers, investors, and academia for transformational insights from thought leaders, bold conversations, and regional alignment to shape the future of finance.

MyFW 2025 was officiated by Yang Berhormat Datuk Seri Amir Hamzah Azizan, Minister of Finance II, who delivered the special address. The opening remarks were delivered by the BNM Governor Dato' Sri Abdul Rasheed Ghaffour, together with a series of high-level keynotes exploring innovation, inclusion, sustainability and regulatory clarity delivered by:

- **Tan Sri Andrew Sheng**, former central banker and Chairman of George Town Institute of Open and Advanced Studies
- **Douglas Feagins**, Head of Ant International
- **Zafer Mustafaoglu**, Division Director, Philippines, Malaysia and Brunei, East Asia and Pacific, World Bank

The conference also featured sessions discussing key topics, including open finance, digital assets, and sustainable finance, as well as sessions delivered by key partners and industry experts, with deep dives into topics such as asset tokenisation, generative artificial intelligence and cybersecurity resilience. A media panel session, sandbox consultations, fintech pitching sessions, exhibitions, a FINVERSE hackathon, and the *Fintech Frontiers 50 Awards Night*, were held on the sidelines of MyFW 2025 to facilitate deeper conversations on shaping the future of finance.

ADVANCE STRATEGIC FINANCIAL TALENT



From left: Mithila Sathasivam, Director of Membership & Services, AICB; Edward Ling, Chief Executive, AICB; YBhg Datuk Dr Yvonne Chia, FCB, Chairperson of the MyMAHIR Future Skills Talent Council – Financial Sector and AICB Council Member; Sharma Lachu, Founder and CEO, Accendo Technologies; Prof Dr Manivanan Saman, CEO, Asian Banking School.

Building on the success of the Future Skills Framework in 2024, the Institute has launched FSF Xcel, Malaysia’s first industry-wide digital skills assessment platform for the financial sector. The initiative facilitates the benchmarking of workforce capabilities and accelerates upskilling across the financial industry. FSF Xcel operationalises the Framework through structured, industry-validated assessments that enable financial institutions to

identify skill gaps, map learning and career pathways, and future-proof talent strategies. It encompasses 161 job roles and 157 critical skills, spanning both technical capabilities and behavioural competencies. Progressive roll-out across financial institutions has already begun, with the AICB working closely with BNM, Accendo Technologies, industry associations, and learning partners to support adoption and implementation.

To register for FSF Xcel, go to: <https://www.aicb.org.my/future-skills-framework/xcel>.

Green Light: Project Mandala Phase 2

In November 2025, the Bank for International Settlements (BIS) announced that Project Mandala, its global compliance-by-design system to simplify regulatory checks for international transactions, successfully entered Phase 2 of the proof-of-concept stage.

This important step towards future-proofing the international financial market infrastructure will further streamline cross-border compliance and explore programmable compliance for digital assets by testing scalability and expanding use cases.

Led by the BIS Innovation Hub Singapore Centre, Phase 2 brings together an expanded universe of participants, leveraging the best-in-class competencies of central banks from diverse jurisdictions, including the Bank Negara Malaysia (BNM), the Reserve Bank of Australia, the Banque de France, the Reserve Bank of India, the Central

Bank of Kuwait, Bangko Sentral ng Pilipinas, and the Monetary Authority of Singapore. Launched on 5 October 2023, Phase 1 explored embedding jurisdiction-specific compliance requirements into a peer-to-peer protocol that facilitates compliance pre-validation and the generation of a cryptographic proof of compliance. The outcome showed sufficient potential to automate compliance procedures while improving data privacy through technologies such as zero-knowledge proofs and multi-party computation.

With the release of its initial report in October 2024 confirming that compliance can be

embedded within cross-border transaction protocols, the BIS targets that Phase 2 will build on this momentum and determine whether it could serve as a common compliance layer for global payment systems, supporting G20 and Financial Stability Board goals to make cross-border payments faster, safer, and more transparent.

In its statement, the BNM expressed: “This represents another step forward in our journey to future-proof Malaysia’s financial market infrastructure.”

The initiative forms the cohort of other international projects – namely Project Dunbar, Project Rialto – in which the BNM is working collaboratively with its central banking peers to enhance capabilities and test the viability of future frontiers in finance, including the country’s readiness in the issuance of a wholesale central bank digital currency.



Southeast Asia's Scam States:

Fire in the Belly to Wrest This Beast

By Angela SP Yap

Cambodia, Myanmar, Laos, the Philippines, and now Timor-Leste. Source confirms regional players are financing cybercriminal activity.

The world is training its guns on organised cybercriminals operating industrial-scale scam centres in Southeast Asia.

Over the past 12 months, the Global Anti-Scam Alliance (GASA) reports that the world

lost USD442 billion to scams. Closer to home, Malaysians lost an estimated MYR40.1 billion.

"Southeast Asia is the ground zero for the global scamming industry," said Benedikt Hofmann, Deputy Regional Representative for Southeast Asia and the Pacific, from the United



Nations Office on Drugs and Crime (UNODC) in an interview after visiting a defunct scam farm in the Philippines post-raid.

Operations range from identity theft, blackmail and extortion to more long-term fraud such as pig-butchering, and artificial-intelligence-driven deepfakes.

Battling what's been described as "a national security problem and a homeland security problem", the US Department of Justice declared that its newly formed Scam Center Strike Force will target cybercriminals based in Southeast Asia that are estimated to have defrauded Americans of USD10 billion in 2024, a 66% increase from the year prior.

This October, financial regulators in Asia, the US, and UK swiftly took down major scam operations in the region:

- + Cambodia-based Prince Group, an alleged transnational criminal empire of online investment scams where trafficked workers conduct online scams, was imposed with 146 sanctions by the Office of Foreign Assets Control under the US Department of Treasury.
- + An 18-month investigation into the Prince Group's money trail led to the USD15 billion seizure of 127,271 bitcoins, the largest asset forfeiture in its history.
- + The UK government separately froze 19 London properties worth more than GBP100 million belonging to Chen Zhi, founder and chairman of Prince Group.
- + Singapore also seized the Group's properties and financial assets worth over SGD150 million in relation to money laundering and forgery offences.
- + Huione Group, a financial services conglomerate, was severed from the US Financial system following the finalisation of a rule under Section 311 of the USA PATRIOT Act by the Financial Crimes Enforcement Network for alleged money laundering of proceeds from virtual currency scams.

Year-end efforts continue as the Prime Minister of Thailand Anutin Charnvirakul said on 3 December that the nation

The Centre for Strategic and International Studies reports that from 2022 to 2023, the Asia-Pacific region saw a **1,530% SPIKE IN DEEPPAKE FRAUD TO HELP SCAMMERS PERPETRATE INVESTMENT FRAUD**, create deepfake pornography for blackmail, and impersonation schemes. It's also been deployed by cybercriminals to bypass digital verification systems and Know Your Customer procedures, an added dimension of complexity and threat to financial institutions.

had seized over USD300 million in assets connected to transnational criminal networks running Southeast Asian scam centres.

FROM CENTRE TO STATE

Cybercriminal networks have long been in existence, however, the pandemic supercharged their scale and trajectory using advanced technologies like artificial intelligence and malware to exploit their victims. It was faster, cleaner, and more lucrative.

The Centre for Strategic and International Studies reports that from 2022 to 2023, the Asia-Pacific region saw a 1,530% spike in deepfake fraud to help scammers perpetrate investment fraud, create deepfake pornography for blackmail, and impersonation schemes. It's also been deployed by cybercriminals to bypass digital verification systems and Know Your Customer procedures, an added dimension of complexity and threat to financial institutions.

Scam centres are compounds used by cybercriminal networks to fuel an online fraud industry that is worth billions. In some states, illicit revenue comprises up to 50% of its local gross domestic product.

The Guardian's Tess McClure writes in her December exposé that "[s]o monolithic has the multi-billion-dollar global scam industry become that experts say we are entering



the era of the 'scam state'. Like the narco-state, the term refers to countries where an illicit industry has dug its tentacles deep into legitimate institutions, reshaping the economy, corrupting governments and establishing state reliance on an illegal network."

Throughout the past months, Myanmar's military junta raided cyber scam hubs along the Thai-Myanmar border in a series of highly publicised crackdowns. The largest is KK Park, a heavily guarded 210-hectare complex which reportedly held over 100,000 trafficked scam workers on a site that barren fields just five years ago, proof of how quickly these 'scam states' proliferate. Time lapse satellite imagery however show that scam complexes along the border have doubled since 2021 – new sites are continuously popping up as older ones are either infiltrated and demolished or expand in size.

NEW EPICENTRE

Tasked with combatting organised crime, corruption, terrorism, and money laundering, the UNODC has long red-flagged regions such as Myawaddy (Myanmar), Sihanoukville (Cambodia), and Bamnan (the Philippines) as fraud havens running large-scale compounds linked to sophisticated transnational criminal networks.

"In recent years, UNODC identified criminal syndicates have increasingly invested in casinos, junket operations, and online gambling platforms, particularly in Special Economic Zones and autonomous regions, to facilitate money laundering, underground banking, and cyber-enabled fraud. Some of these investments appear to have masqueraded, or operated under the cover of legitimate enterprises, allowing criminal actors to move and clean large volumes of illicit funds, including both fiat and cryptocurrencies."

These fraud networks, which typically revolve around gaming and casino licences coupled with a network of corrupt beneficiaries, have since evolved to take advantage of green energy narratives, as seen in criminal groups masquerading as solar panel startups to gain entry into Cambodia. This provides a layer of legitimacy and front for illicit activity in jurisdictions with lax regulatory controls, limited technical expertise, and weak due diligence mechanisms.

In September 2025, UNODC announced a new scam hub emerging in Southeast Asia's Timor-Leste which "showcases patterns and emerging developments indicative of the establishment and operation of a Southeast Asia-style scam centre".

#JANGANKENASCAM A UNITED FRONT AGAINST ONLINE FRAUD RISK

The Malaysian banking industry – led by the Bank Negara Malaysia (BNM), Association of Banks in Malaysia (ABM), and Association of Islamic Banking and Financial Institutions Malaysia – are in the driver's seat of the nationwide #JanganKenaScam campaign launched on 3 October 2023. The National Fraud Portal (NFP) went live in April 2024 to support the operations

of Malaysia's National Scam Response Centre (NSRC). A collaboration between the BNM, financial institutions, and Payments Network Malaysia Sdn Bhd, NSRC officers use the NFP as a platform for tracing the flow of fraud transactions, sharing information among financial institutions, and monitoring the intervention actions taken by financial institutions.

These combined efforts have resulted in



RM780 MILLION
in blocked suspicious
online transactions
between 2023 and 2024



Over
RM399 MILLION
of attempted fraudulent
transactions averted



75%
reduction in the time
taken to obtain complete
information on fund flow



41%
increase in cases escalated to
the Royal Malaysia Police for
further investigation



52%
decline in the number of
fraudulent unauthorised
transactions involving
malware and phishing
reported to BNM



9 IN 10
Malaysians actively
reading scam alerts and
demonstrating readiness
to act

With over **47,000 scam cases and RM1.9 billion in losses** reported up to September 2025, a whole-of-nation response remains critical.

SOURCES BNM, *Annual Report 2024*; ABM, *Bernama*.

ANTI-SCAM PLAYBOOK

Visa's *Anti-scam Playbook: Market Responses and Industry Insights* analyses Singapore and Australia, jurisdictions which carry some of the most proactive regulatory measures, reproduced below:



Singapore

The Monetary Authority of Singapore (MAS) and Infocomm Media Development Authority introduced the Guidelines on Shared Responsibility Framework (SRF) effective December 2024. Key elements include:

+ LIABILITY: Cost-sharing is determined via a 'waterfall' approach. The responsible financial institution (FI) is first in line and expected to compensate the victim for their entire loss if it has breached its obligations. If the responsible FI has fulfilled its obligations but the telco has not, the telco is expected to bear the full loss. If both the FI and telco have fulfilled their obligations, the consumer bears the full loss. MAS' E-payments User Protection Guidelines (EUPG) sets out when a consumer can or cannot be held liable for losses arising out of unauthorised transactions. Liability stipulations set out in the

SRF and EUPG do not apply to transactions on credit cards issued in Singapore.

+ ACCOUNTABILITY: FIs and telcos must implement anti-scam measures set out in the SRF and EUPG. The latter outlines the responsibilities of FIs and consumers in relation to unauthorised and erroneous transactions, and baseline protections FIs should offer to consumers for losses arising from these transactions. The duties in the SRF are drawn from the EUPG. Telcos are required to implement authentication measures and anti-scam SMS filters.



Australia

The Treasury introduced the Scams Prevention Framework (SPF) effective January 2025. Key elements include:

+ LIABILITY: Banks, telcos, and digital platform providers are liable if they fail to meet their obligations to prevent scams. The framework allows consumers to seek compensation if these sectors fail to comply with their obligations. The Australian Financial Complaints Authority will decide on the share

of compensation for which each sector is responsible.

+ ACCOUNTABILITY: Entities must comply with codes of conduct specific to their sector, which are designed to prevent scams. Detailed obligations are outlined in the Treasury's 'Scams - Mandatory Industry Codes'.

Its *Threat Alert on the Strategic Infiltration of Vulnerable Jurisdictions Through Criminal Foreign Direct Investments: The Case of Timor-Leste* spotlights trends in the country's criminal foreign direct investment, specifically in the special administrative region of Oecusse and its Oecusse Digital Centre, where organised crime groups have reportedly embedded illicit activities within a legitimate economic framework.

The *Alert* came on the heels of the arrest of 10 people on suspicion of involvement in illegal gambling and computer fraud in Oecussi. The region relies on cryptocurrency and digital assets designed to attract investors and regulatory support whilst concealing illicit intent.

A well-placed source has confirmed with this writer about the accuracy of the Timor-Leste report. This source has also disputed claims by the mainstream Western presses that the syndicates are solely China-based, indicating that there are other high-net-worth perpetrators rolling in illicit activities and money laundering in Timor-Leste, including Malaysians.

This is further corroborated by an opinion piece by Michael Rose, adjunct professor at the University of Adelaide, carried in the *South China Morning Post* and online portal, *The Conversation*:

"On September 21, Agio Pereira, Timor-Leste's Minister of the Presidency of the Council of Ministers in Timor-Leste, published in Facebook post titled, *A Manifesto for the Defence of Timor-Leste*, alleged that USD45 million had been smuggled into the country by "transnational criminal syndicates from Cambodia, Malaysia, Macau and Hong Kong" in order to influence regulatory bodies to grant "fraudulent licences" and set up "protected enclaves" where "illegal gambling, cyber-scam centres and human trafficking would be able to operate under state protection".

"He [Pereira] said the country faces a simple choice: Will we be a sovereign nation governed by democratic laws and institutions, or will we become a criminal state owned by foreign mafia syndicates?"

The government subsequently passed a resolution to cancel licences granted to online gaming and betting operators plus prohibition from further new licences.

INTERNATIONAL FINANCIAL INTELLIGENCE

Swift enforcement requires global cooperation. In August 2024, a Singapore-based commodity firm was tricked into transferring USD42.3 million to a fraudulent account in Timor-Leste based on an email sent by cybercriminals impersonating as their supplier.

The Singapore Police Force (SPF) contacted Timor-Leste authorities through INTERPOL's Global Rapid Intervention of Payments (I-GRIP) mechanism. This led to the freezing of USD39.3 million in the fake supplier's account with an additional USD2 million recovered and the arrest of seven suspects.

With the majority of funds sent through wire or bank transfers (29%) and credit cards (18%), the Netherlands-based GASA's *State of Global Scams 2025 Report* found:

- > 45% of adults believe that banks should always be responsible for reimbursing those experiencing a scam;
- > 74% Of adults Globally who were scammed did report the scam to the payment service; and

Transnational cybercriminal organisations **DON'T JUST COMMIT ECONOMIC CRIMES BUT CRIMES AGAINST HUMANITY.**

The sweatshop labour camps they operate, oftentimes using enslaved labour, has been called out by United Nations rights experts as having "reached the level of a humanitarian and human rights crisis."

- > 30% were able to at least partly recover the money.

Debates are ongoing on the boundaries of liability and accountability of financial institutions when it comes to scams. Different jurisdictions have developed specific obligations in their regulatory frameworks in order to protect citizens from scams and enforce financial resilience mandates. See *Anti-scam Playbook* on page 12.

MORPHED STATE

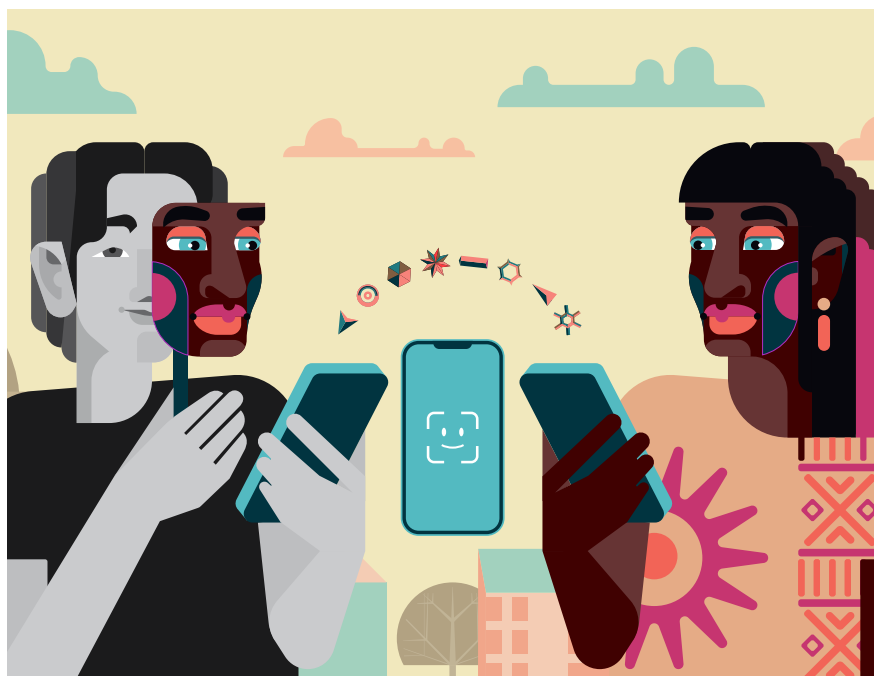
Transnational cybercriminal organisations don't just commit economic crimes but crimes against humanity. The sweatshop labour camps they operate, oftentimes using enslaved labour, has been called out by United Nations rights experts as having "reached the level of a humanitarian and human rights crisis."

These experts have urged Southeast Asian countries to "go beyond surface-level public awareness campaigns" and address the true drivers of forced cybercriminality – poverty, lack of access to reasonable work conditions, education, and healthcare.

These issues are at the heart of the environmental, sustainability, and governance movement that banking has pledged to tackle.

Exposing the dark inner workings of scam farms is only part of the equation. Banks should also look within, explore its own inner workings; question where they may have erred, when controls were lax, or whether bankers turned a blind eye. *

■ *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.*



A portrait of a middle-aged man with a shaved head, wearing a dark grey blazer over a dark t-shirt. He is looking directly at the camera with a slight smile. A small red bird logo is visible on the left side of his blazer. The background is dark with faint, glowing lines and dots, suggesting a network or data visualization.

“ We Are Witnessing a Catastrophic Plunge into Kleptocracy ”

By the Banking Insight Reporting Team

**Economist takes aim at deeper
dynamics in an era of increasing
global instability.**

Yanis Varoufakis is synonymous with social resistance, economic revolution, and financial rebellion. As an economist and activist, he has shifted the landscape of politics and economies. His tenure as the ex-finance minister for Greece at the height of the Greek Debt Crisis put him dead centre in debt negotiations with the so-called financial Troika – the International Monetary Fund, European Central Bank, European Commission – to

secure “an agreement that involves debt restructuring, less austerity, redistribution in favour of the needy, and real reforms.”

This did not happen. Despite Greek voters’ historic referendum and decisive rejection of the proposed international bailout conditions, Varoufakis resigned just hours after this victory as other eurozone finance ministers had reportedly pressured the then Prime Minister Alexis Tsipras for his ‘absence’ from future negotiations. The Hellenic

Republic ultimately accepted a three-year bailout on terms that were significantly harsher than the ones initially rejected by voters.

As a bestselling author and forceful speaker – including his panel discussion at the recent MyFintech Week 2025 co-organised by the Bank Negara Malaysia, Securities Commission, AICB, and Malaysian Digital Economy Cooperation – Varoufakis continues to call a spade a spade and hold power to account for the common good.

Q Reflecting on your tenure as arguably Greece’s most controversial yet recognisable finance minister, what personal toll did that period have on you and what gave you the strength to stand firm when the political and financial pressure was at its peak?

Allow me to begin answering your question with a comment regarding my, usual, characterisation as ‘controversial’. It has been said so often that it appears trivially true. But what was so controversial about my stance?

As the finance minister of a bankrupt state, I insisted that we did not have the right to borrow more on conditions that would shrink our disposable incomes further. One might have thought that this ought to be an uncontroversial stance. That it was presented as controversial, radical, insufferable even (to our creditors) is a sign of how deep, even irreversible, the euro crisis had become. And why Europe is, today, deindustrialising and becoming geopolitically irrelevant.

As for the source of my determination not to succumb to the demonisation that was unleashed against me, the answer is



simple: common people out there, on the street, patting me on the back (to this day), thanking me for not putting my political career above the promise not to betray them.

Q You’ve been a consistent advocate for more inclusive financial structures and policies, prioritising social justice in tandem with

economic efficiency. As we’re seeing private credit funds increasingly become major lenders, does this shift in credit source strike you as an evolution or reversal of more inclusive finance?

I would put it far more strongly than that; it is not just a ‘reversal’ that we are witnessing but a catastrophic plunge into a kleptocratic regime.



Private equity and credit funds have become calculated destroyers of value. They buy schools, hospitals, water companies. They split them up into two companies, one owning the real estate and another (that now needs to pay rents to the former) owning the labour and customer contracts. Then they lump debts on the first company (money with which they line their own pockets) and increase the rent the second company pays to the first, demanding of workers to reduce their pay while the services provided to customers deteriorate.

This is a quasi-sophisticated form of theft that enriches some by defrauding workers and customers. Rather than a mere 'reversal', this is a plunge into a moral void that destroys considerable economic value.

■ Many ASEAN economies remain deeply tied to the US trade and dollar system. From your perspective, does this dependence undermine financial sovereignty?

Of course. Dependence on the currency of a hegemon means that your interest

What this means is that your central banks will lose much of the control they still have over your money supply. **EVEN WORSE, IT ALSO MEANS THAT IF THESE STABLECOINS SUFFER THE EQUIVALENT OF A BANK RUN** (i.e. owners of stablecoins rush to convert them into normal dollars), millions of Southeast Asian firms and households will suffer a meltdown of their deposits since these stablecoins are not backed by any central bank – not even the US Federal Reserve.

rates will be determined not by the conditions of your domestic money and goods market but by the whims of the hegemon. This comes with large-scale deadweight losses for your own economy.

Moreover, and this is something the ASEAN countries must consider with the utmost seriousness, the Donald Trump administration's commitment massively to expand the use of US-denominated stablecoins, e.g. through the so-called GENIUS (Guiding and Establishing National Innovation for US Stablecoins) Act will increase considerably both ASEAN's dependence on privatised versions of the US dollar.

What this means is that your central banks will lose much of the control they still have over your money supply. Even worse, it also means that if these stablecoins suffer the equivalent of a bank run (i.e. owners of stablecoins rush to convert them into normal dollars), millions of Southeast Asian firms and households will suffer a meltdown of their deposits since these stablecoins are not backed by any central bank – not even the US Federal Reserve.



Q Could initiatives like central bank digital currencies or non-sovereign, blockchain-based BRICS (Brazil, Russia, India, China, and South Africa) trade tokens move the needle in the other direction?

Yes, of course. This is why the US authorities are so hostile to BRICS Pay and any digital payments system that Washington cannot control. Having said that, the greatest ally of the US dollar is the fact that, despite Trump's tariffs, Southeast Asian and Chinese exporters still rely on the US trade deficit for a large part of the aggregate demand for their exports.

As long as this is so, the BRICS-related payments systems will not threaten the US dollar, or its privatised version (the US-denominated stablecoins).

Q How should banks contribute to a climate-conscious financial system without falling into what you've called the 'greenwashing trap'?

They can't. As long as their fiduciary responsibility is toward their shareholders, banks will be drawn

Effectively, we would all have the right to open a digital wallet (or account) with our central bank (e.g. by downloading an app made available by the central bank) that **ALLOWS US TO MAKE FREE, INSTANTANEOUS PAYMENTS ON A SECURE DISTRIBUTED LEDGER** while receiving the overnight central bank interest rate on our deposits.

to lending that is detrimental to our planet's capacity to keep humanity alive. Put differently, as long as our governments continue to subsidise fossil fuels and to refuse to introduce serious levels of carbon taxes, banks will continue to fund the climate catastrophe – and to think that they can be the solution is, at best, naïve.

Only public investment banks and vehicles can help fund the green transition. But that takes political will and a capacity of our political systems to clash with the interests of a tiny, but supremely powerful, oligarchy.

Q If you could redesign global banking and financial architecture, what would a Varoufakis model of it look like?

I would create a monetary commons.

Effectively, we would all have the right to open a digital wallet (or account) with our central bank (e.g. by downloading an app made available by the central bank) that allows us to make free, instantaneous payments on a secure distributed ledger while receiving the overnight central bank interest rate on our deposits. Then, commercial banks would have to offer us a better deal for our deposits and restrict themselves to the role of intermediaries (i.e. full reserve lending of deposits mostly held on the central bank).

The added bonus to society would be that, in the context of this monetary commons, a universal basic dividend could be paid to everyone. See <https://monetarycommons.com/> for more. *

Is Private Credit Bubbling Over?

By Julia Chong

Boom and bust point to a potential ‘canary in the coal mine’.

Since the early 2000s, private credit funds have made the leap from a mere USD200 million in assets under management (AUM) to nearly USD3 trillion currently. A leap that perhaps pales in comparison to the high-profile scandals that have plagued the sector in recent months.

ROI: ZERO (AT BEST)

In September, US auto lender Tricolor Holdings collapsed into bankruptcy amidst declaring USD2 billion in debt and a slew of fraud allegations. Classified as a nonbank financial institution, the subprime car loan lender was heavily backed by banking heavyweights such as JP Morgan and Barclays.

On 14 October 2025, JP Morgan’s Jamie Dimon detailed that the bank would charge-off USD170 million due to Tricolor during a detailed press conference, stating: “It is not our finest moment”. Word on the Street was that its total exposure was roughly USD200 million.

The following week, Barclays Group’s CEO CS Venkatakrishnan made a similar announcement that the UK bank would clock a loss of GBP110 million due to Tricolor, but softened the blow with some unexpected news: a further provision of GBP235 million for potential related





losses and GBP500 million market share buyback programme.

Then in a double whammy for US markets, news channels rumbled with reports that the USD6-billion-dollar empire of auto-parts supplier First Brands Group was imploding. By 28 September, the car parts company had filed for Chapter 11 bankruptcy after allegations of widespread fraud against its founder, disappearance of billions of dollars, and intensely opaque factoring (borrowing against invoice) arrangements came to light.

Online portal *Cryptopolitan* reported on 8 November that a federal bankruptcy court had thrown a lifeline to First Brands by green-lighting a USD1.1 billion rescue package. This came after a reportedly “dragged-out overnight brawl between First Brands’ lawyers [in] a room full of pissed-off creditors...because more than 80 hedge funds and money managers offered to throw cash at First Brands, but only if they got paid first, on not just the new debt, but on USD3.3 billion they were already owed.”

Then came Renovo Home Partners, the US remodelling company that shuttered without warning and filed for Chapter 7 liquidation instead of the more common Chapter 11 reorganisation bankruptcy that allows for continued business operations. Sources at the material time said that employees were hung out to dry with emails of same-day termination, its website was taken down, demolition and construction projects came to a sudden halt, customers could not get through to the company, and it looks like no one will see their final pay cheque or return on deposits.

The majority of Renovo’s approximately USD150 million in private debt was held by BlackRock, the global investment manager, and to a lesser extent Apollo Global Management. The former subsequently wrote off its entire investment in the US remodeller.

ALARM BELLS ON SYSTEMIC RISK

As early as June 2025, financial regulators and multilateral agencies such as the International Monetary Fund warned that private credit could become

RISKS WORTH THE REWARD?

As early as March 2025, the Bank for International Settlements' (BIS) in its *Quarterly Review (QR)* warned: "From a financial stability perspective, developments in funds' investor base...as well as funds' leverage and degree of portfolio concentration warrant monitoring. This is especially relevant in light of growing interlinkages between banks and private credit." The increasing involvement between banks

and private credit is closely analysed in the *QR*, which explored two aspects: (i) global patterns in the growth of private credit relying on detailed loan-level data; (ii) how changes in the cost of capital may have supported the growth of private credit vis-à-vis banks. What emerged were three key findings summarised below:



1 Whilst private credit has grown rapidly and serves an increasing variety of industries, the loan portfolios of individual funds remain heavily concentrated. Portfolio specialisation in narrow industries can yield benefits through lenders' superior screening and monitoring capabilities – improving credit access for riskier and more opaque firms. However, a lack of diversification could expose funds to sector-specific downturns, which requires investors – up to now mostly institutional – to diversify their portfolios of private credit assets. The trade-off between specialisation and diversification is bound to gain prominence as AUM continue to grow and fund managers seek avenues for greater participation by retail investors, who may be less aware of the concentration risks involved.

2 The footprint of private credit is larger in countries with lower policy rates, less efficient banking systems and, to some extent, more stringent banking regulation. In a

panel covering private credit loans for 45 countries between 2010 and 2019, all three variables have a statistically significant impact on loan originations by private credit funds. In terms of economic magnitude, the efficiency of the local banking system has the largest impact, followed by the level of the policy rate.

3 The gap between the cost of capital of banks and business development companies (BDCs), an important private credit investment vehicle, has narrowed substantially since 2010. The spread between the cost of capital of publicly listed BDCs and that of banks has declined by around 200 basis points between the GFC and 2019. The narrowing of the spread reflects a relative increase in banks' cost of equity in the aftermath of the GFC as well as a steady increase in BDC leverage. These patterns suggest that at least part of the rise of private credit has been supported by a relative improvement in its cost of funding.

a "locus of contagion" with its meteoric rise; making it, at the very least, a fresh amplifier of systemic stress, or, at its worst, a ripe source of the next financial crisis.

On 21 October, the Bank of England (BoE) Governor Andrew Bailey appeared before the House of Lords' Financial Services Regulation Committee to unequivocally state that the collapse of two leveraged US firms might not be isolated events but "the canary in the coalmine".

The Governor continued: "Are they telling us something more fundamental about the private finance, private asset, private credit, private equity sector, or are they telling us that in any of these worlds there will be idiosyncratic cases that go wrong?"

"I think that is still a very open question; it's an open question in the US."

"I don't want to sound too foreboding, but the added reason this question is important is if you go back to before the financial crisis when we were having this debate about sub-prime mortgages in the US, people were telling us: 'No it's too small to be systemic; it's idiosyncratic.' That was the wrong call."

The next day, the BoE confirmed its plans to run a landmark private-credit stress test in order to map out systemic risks of the burgeoning industry. The UK regulator is the first to do this since industry-wide stress tests were first introduced post-Global Financial Crisis (GFC) and the practice has become an important tool used by banking supervisors to identify and quantify shortfalls in distressed banks and the banking system.

On 2 December 2025, sources familiar with the matter told the *Financial Times* that BlackRock, Apollo, and KKR (pioneers of the leveraged buyout) had agreed to participate in the BoE stress test of how the fast-growing private credit market would fare in a major crisis.

ASIAN FUNDING LINES

It would be a fallacy to write this off as a US and UK issue. Global markets are intertwined and contagion is swift.

In December 2024, Temasek Holdings, owned by the government of Singapore, announced that it had set up its first private credit entity with a portfolio worth SGD10 billion comprising direct investments and credit funds. Its wholly-owned Aranda Principal Strategies, is managed by a 15-man team across New York, London, and Singapore. Temasek has been in the private credit space indirectly for more than a decade, operating via indirectly owned entities such as SeaTown Holdings International. A Singapore-based firm, SeaTown raised USD1.3 billion for its second private credit fund last year and finances Asian-centric conglomerates such as Vietnam's Vingroup Joint Stock Company's retail and auto units.

Across the straits, Indonesia is a hotbed of activity. The archipelago's largest sovereign wealth fund is Danantara (Daya Anagata Nusantara Investment Management Agency) which received a USD20 billion injection from state coffers. Launched in February this year, Danantara was reported by online portal *Tech in Asia* to have hired two former investment executives from the Government Investment Corporation (GIC) of Singapore, one of whom is Daniel Lim who will focus on private credit including structured debt and hybrid instruments. The country's largest fund

currently manages approximately USD1 trillion in assets, according to its Chief Investment Officer Pandu Sjahrir who is referenced in the same article. The recent corporate moves confirm earlier reports that Danantara was reportedly allocating upping the ante on drawing in private credit resources and open to co-funding.

Additionally, the Indonesia Investment Authority, the country's first sovereign wealth fund, has also more doubled its investment capital from an initial USD5 billion to its current USD10 billion in AUM which includes private credit mandated to assist Indonesian companies in their overseas expansion and attract technical expertise.

In the Middle East, other sovereigns and sovereign-related funds, such as the Abu Dhabi Investment Authority and Mubadala Investment Company, have looked to leverage on the

Additionally, the Indonesia Investment Authority, the country's first sovereign wealth fund, has also more doubled its investment capital from an initial USD5 billion to its current USD10 billion in AUM which **INCLUDES PRIVATE CREDIT MANDATED TO ASSIST INDONESIAN COMPANIES** in their overseas expansion and attract technical expertise.

expertise of firms such as KKR and substantially bankrolled global private credit funds.

NOT OVER YET

Speaking in a Q&A with *Financial Times*, Jim Chanos, one of Wall Street's famous short-sellers who foretold of the Enron blow-up, prophesied that the private credit "magical machine" would keep churning: "As long as everything works, nobody asks questions... It isn't until something stumbles, or the markets stumble, that people say, 'Wait a minute, what are we doing here? This doesn't make any sense.'"

During his press conference, Venkatakrishnan downplayed Barclays' GBP20 billion exposure to the private credit industry, insisting that it runs a "very risk-controlled shop" and that unlike other financial institutions, it had rejected the financing line to First Brands Group due to concerns over its fundamentals.

KKR Co-founder Henry Kravis publicly said in October that he is unperturbed about systemic risk in private credit and that "not one penny of private credit" was involved in Tricolor and First Brands scandals. A month later, PayPal announced a new EUR65 billion agreement with KKR-managed funds where KKR would finance its buy now, pay later (BNPL) loan receivables.

However, Dimon has publicly conceded that these bankruptcies signal a lending regime that falls short of standards and increased laxness over the past decade or more. See *Deregulation: Resist the Race to the Bottom* on page 24.

The collapse of Tricolor, First Brands, Renovo, and other companies that are bubbling over, typifies the problems of private credit – opaque risk-build up, lax lending standards, and disharmonised regulation.

How this plays out is anyone's guess. But hyping up a sector that leaves banks holding the short end of the stick is not the way to go. *

■ *Julia Chong writes for Akasaa, a strategic consulting and publishing firm with offices in London, Sharjah, and Kuala Lumpur.*



ACCOUNTABILITY

By Bob Souster

A culture of ethical reflection and technological adaptation.

The Code of Professional Conduct of the Asian Institute of Chartered Bankers states:

“Members shall accept responsibility and be accountable for their actions and decisions, and for the impact these may have on others, including customers, colleagues, employers, business partners and the community.”

This article explores the nature of accountability in banking, distinguishing it from responsibility. It examines various dimensions of accountability, from both a legal and moral perspective, and considers its practical implications. It also identifies some of the contemporary issues and challenges presented by advanced technologies, such as artificial intelligence (AI) and algorithmic systems.

DEFINING ACCOUNTABILITY

Accountability can be defined as the obligation to explain, justify, and accept the consequences of one's actions. In that an individual is accountable to someone for something, it is essentially a relational concept. By contrast, responsibility is about the duty to act or perform a task. An investment banker may be responsible for managing a portfolio on behalf of a client, but they are accountable to the client, as well as regulators and their institution, for how that portfolio is managed. Accountability reflects obligations to others.

When considered in the context of hierarchical structures, such as

organisation charts, accountability is an ‘upward’ concept and responsibility is a ‘downward’ concept. Just as a chief executive officer is accountable to the board, and the board is accountable to the shareholders of the company, they have responsibility for what goes on within the terms of reference of their jobs.

In business ethics, accountability is central because it underpins transparency, trust, and ethical decision-making. Without understanding the nature of accountability, it will be unclear how praise or blame can be apportioned. It demands that individuals and institutions not only act competently but also own the outcomes of their actions, especially when those outcomes affect stakeholders. This is especially important in banking, where decisions can have profound implications for financial stability, customer welfare, and society as a whole.

LEGAL ACCOUNTABILITY

It arises from formal mechanisms, such as laws, regulations, contracts, and codes of conduct. In banking, these include:

- **Statutory obligations** arising from laws and financial regulations (e.g., Basel III, MiFID II, Dodd-Frank) that set mandatory, non-negotiable rules and standards.
- **Contractual duties** laid down in contracts of employment, fiduciary roles, and service-level commitments.

- **Regulatory oversight** by bodies such as the Central Bank of Malaysia and the Securities Commission Malaysia, which enforce compliance and impose sanctions for breaches.

Legal accountability is typically enforced through external adjudication by bodies such as courts, tribunals, or regulators; they assess whether obligations were met and can impose penalties if they were not. However, legal compliance alone does not guarantee ethical conduct. A banker may follow the letter of the law while violating its spirit, underpinning the need for moral accountability.

MORAL ACCOUNTABILITY

Unlike legal accountability, moral accountability is internal and relational. It reflects an individual's ethical obligations and often the expectations of various

In business ethics, **ACCOUNTABILITY IS CENTRAL BECAUSE IT UNDERPINS TRANSPARENCY, TRUST, AND ETHICAL DECISION-MAKING.**

Without understanding the nature of accountability, it will be unclear how praise or blame can be apportioned. It demands that individuals and institutions not only act competently but also own the outcomes of their actions, especially when those outcomes affect stakeholders.

stakeholders. For bankers, this can be multi-layered:

- + **To one's manager:** Meeting performance targets and complying with internal policies.
- + **To clients:** Acting objectively and in their best interests, avoiding conflicts of interest, and ensuring fair treatment.
- + **To shareholders:** Delivering sustainable returns and safeguarding reputation (this may be complicated further if some shareholders are concerned with financial sustainability while others are focused on environmental sustainability).
- + **To society:** Supporting financial inclusion, environmental sustainability, and economic resilience.

These layers can, and often do, conflict. A banker may face pressure to maximise short-term profits (shareholder accountability) while recognising the long-term harm of aggressive lending practices (societal accountability). Managing these tensions requires ethical judgment, supported by an appropriate institutional culture and professional standards. When conflicts arise, the individual is faced with a dilemma, especially when they have 'skin in the game' (that is to say, may suffer adverse consequences as a result of the course of action that they choose).

Moral accountability is undoubtedly shaped by personal conscience, professional codes (such as the Code of Professional Conduct), and social norms. It is not always enforceable, but it is essential for ethical banking.

CAN ORGANISATIONS BE ACCOUNTABLE?

Proponents of organisational agency theory believe that institutions can act intentionally and bear moral responsibility. This challenges traditional views of ethics, which focus on the individual.

Writers such as Peter A French (*The Corporation as a Moral Person*) and Christian List and Philip Pettit (*Group Agency: The Possibility, Design, and Status of Corporate Agents*) argue that organisations can be moral agents if they have:

- **Decision-making structures:** Formal processes for choosing actions;
- **Collective intentions:** Goals that guide behaviour; and
- **Capacity for action:** Resources and authority to implement decisions.

French introduced the notion of corporate internal decision structures (or CIDS), which are internal sets of rules and procedures. These permit an organisation to form intentions and act independently of the will of those who direct and control operations.

French concludes that decisions can be ascribed as corporate intentional acts if they arise in accordance with the CIDS. He further claims that there are only two conditions necessary to lay responsibility (and hence blame) on a corporation: it must have caused some untoward event or state of affairs to arise; it must have intended the event or state of affairs to occur.

As banks have highly structured procedures and processes, they meet these criteria. They make strategic choices, pursue objectives, and influence society. They can be held ethically accountable.

A contradictory view is held by Joel Feinberg, (*Corporate Moral Agency*), who contends that only individuals can be moral agents. Organisations are legal constructs and cannot have intentions, which only humans possess. Further, blaming 'the organisation' can obscure individual culpability and dilute justice.

ACCOUNTABILITY IN THE DIGITAL AGE:

As banking becomes increasingly digitalised, accountability faces new challenges. AI, algorithmic decision-making and automated systems complicate traditional notions of agency and control.

Key concerns include:

- > **Transparency**
AI systems often operate as 'black boxes', making it difficult or impossible to trace decisions or understand their rationale.
- > **Displacement and dispersal of agency**
When decisions are made by

algorithms, who is accountable: the developer; the user; the institution? All or some of these?

- > **Bias and fairness**
AI can facilitate biases in lending, recruitment, selection and performance appraisal, and fraud detection, raising ethical and legal concerns.
- > **Data governance**
Accountability for data privacy, consent, and misuse are critical as banks handle vast amounts of personal information.

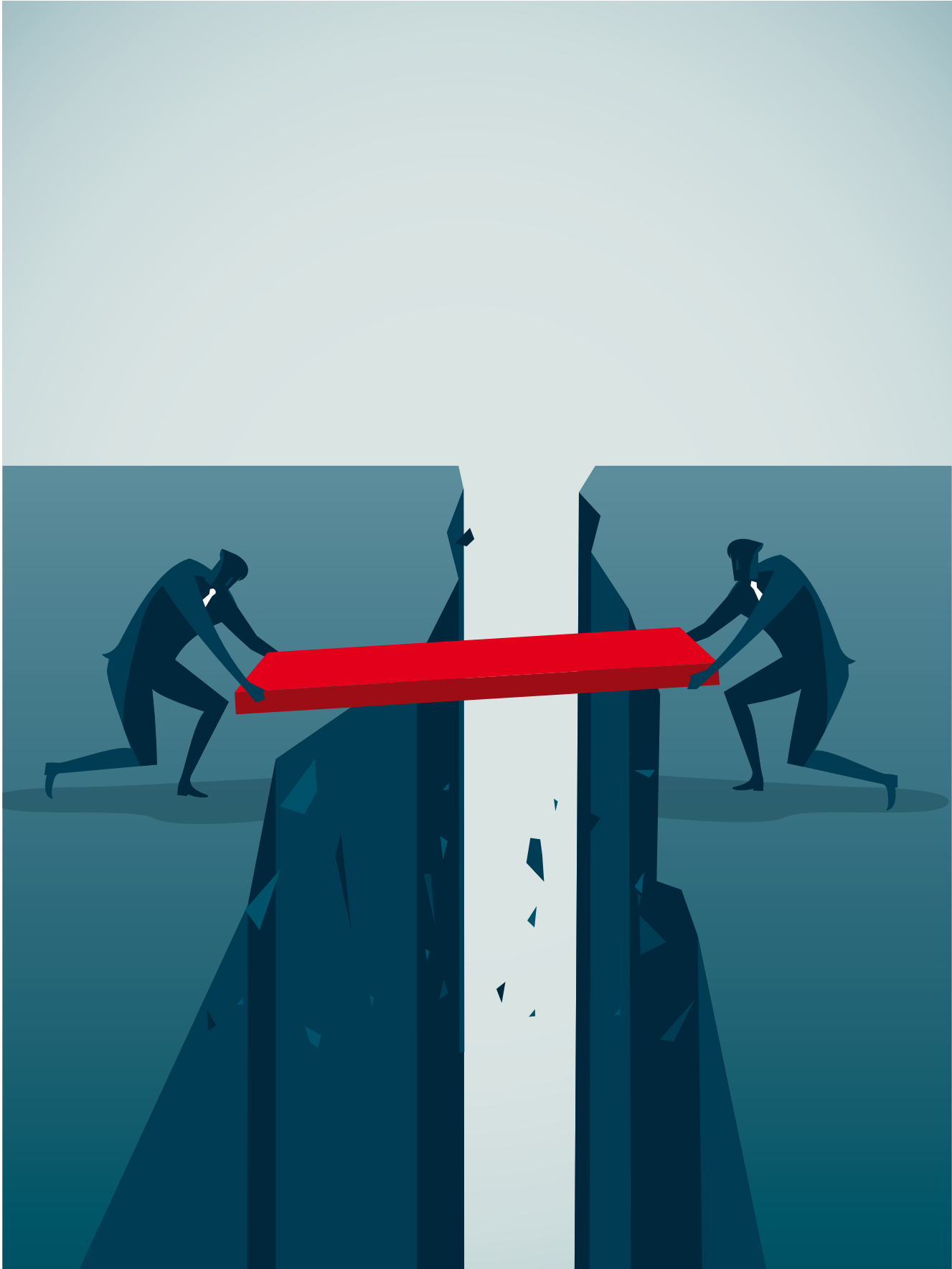
Effective AI accountability requires governance frameworks that ensure transparency, human oversight, and ethical design. Many contemporary writers now advocate the need for ethical leadership in AI adoption, warning against the rush to implement without considering long-term impacts.

In response, regulators across the world are developing AI-specific accountability standards. Banks must integrate these into their risk management and compliance systems.

BUILDING A CULTURE OF ACCOUNTABILITY

For bankers, accountability cannot be a static obligation; it is dynamic and continuously evolving, requiring a need for ethical reflection and technological adaptation. To foster a culture of accountability, institutions should clarify roles and expectations, strengthen ethical training, embed accountability in governance and embrace robust oversight of AI and data systems. ✱

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DEREGULATION: RESIST THE RACE TO THE BOTTOM

By Angela SP Yap

APAC flex to a Trump-style decoupling.

Over the past three quarters of 2025, the Trump administration has been pushing for a rollback of post-crisis banking stability measures; deregulation that Washington has said is crucial to unlock valuable unallocated credit and propel the US economy forward.

Prior to the collapse of US firms First Brands Group, Tricolor Holdings and Renovo Home Partners over the past months, which spotlight the increasing influence of private credit in global finance, the proposed rollback of prudential rules by the US was predicted to do two things: (i) unleash additional lending capacity of up to USD2.6 trillion into the US financial system; and (ii) create successive waves of deregulation, starting with the UK and followed by other countries in the EU.

Today, as the bankruptcies of these three private-credit-funded US firms totalling billions in debts continue to send jitters throughout the financial system, a third prophecy looms heavy: contagion – originating from the lightly

regulated nonbank financial intermediary segment to the financial system proper.

Drawing parallels to the Global Financial Crisis (GFC) in 2008, the Bank of England Governor Andrew Bailey told a House of Lords committee the collapses should be taken “very seriously” and confirmed that the central bank would run a stress test of private equity and credit firms.

“I think the big question,” Governor Bailey said, “is are these cases idiosyncratic, or are they what I call the ‘canary in the coalmine?’”

ON THE CARDS

In the first edition of its *Bank Deregulation Primer* starting October 2025, the law firm of Alvarez & Marsal’s Finance Services Industry Group focused on *US-led Bank Deregulation Wave Under Trump Administration* and the implications for other global banks. Examining the projected revamp of capital requirements of the top global systematically important banks (G-SIBs), it anticipates how other

international banks would adjust to the new requirements in order to optimise their business models.

A summary of the projected dynamics is as follows:

- + US banks will obtain a total common equity tier 1 (CET1) release of 14%, unlocking asset capacity for lending and capital markets businesses of USD2.6 trillion – equivalent to half the size of JP Morgan Chase of 16% of US bank assets. This will represent a major boost to the US economy and add a 6% return-on-equity (ROE) uplift to US banks.
- + UK regulators are expected to follow the US with a CET1 release of 102 basis points, equivalent to around USD500 billion of additional asset capacity or 9% of total UK bank assets. UK bank profitability is forecast to rise by 3%.
- + In the EU, the current talk is regulatory simplification but not capital reduction, with any proposed changes significantly lagging those of US and UK banks. Net effect will be neutral-to-negative, with ROE declining by 1%.
- + Switzerland is going the opposite direction with plans to materially increase capital requirements for UBS (the only Swiss G-SIB), raising CET1 by 769 basis points to 19% and cutting ROE by 8%.

At a recent S&P Global event, *Asia-Pacific Financial Institutions Virtual Conference 2025: Emerging Risks – Emerging Opportunities*, the rating agency commented that “global banking regulation is at a crossroads.”

“Banking industries globally have aimed for enhanced prudential regulation for decades. Switzerland and the US addressed bank failures in 2023 with minimal contagion effects. The events showed that the global system of rules was working, and that global banks were in good health. Among other factors, this drew banks and regulators globally to be increasingly focused on simplification and proportionality – put most simply, that means a potentially lighter regulation for some banks.”

“Banking industries globally have **AIMED FOR ENHANCED PRUDENTIAL REGULATION FOR DECADES.** Switzerland and the US addressed bank failures in 2023 with minimal contagion effects. The events showed that the global system of rules was working, and that global banks were in good health.”

Whether by accident or design, the glaring omission in S&P’s analysis is its failure to mention the undeniable impact of deregulation on financial resilience.

In times of stress, lax banking regulations will limit the effectiveness of supervisory action by undermining global coordination. The US’ current trajectory is reminiscent of the repeal of the Glass-Steagall Act in 1999, when banks began leveraging heavily in high-risk financial derivatives which sparked the GFC.

FOOL ME ONCE, SHAME ON YOU. FOOL ME TWICE...

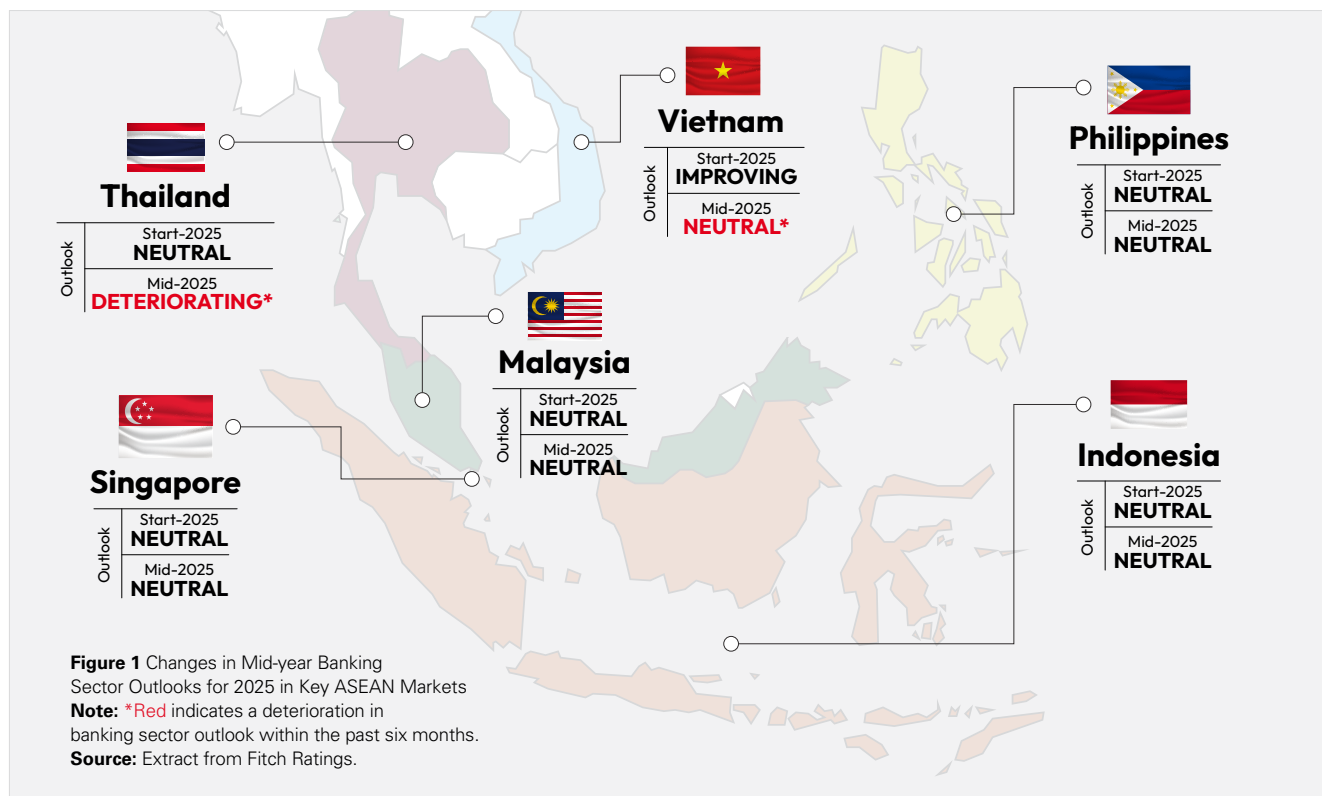
In under a generation, it’s rare that a prophecy should come to pass twice.

In 2017, Christine Lagarde, then Managing Director of the International Monetary Fund (IMF), warned that one of the biggest risks to the international economy was “a race to the bottom...on the financial regulation front”.

“Then that, for me, would be a really big black swan that would have devastating effects.”

Close to a decade later, her sentiment is echoed by Isabel Schnabel, Member of the Executive Board of the European Central Bank, whose speech in October harkened to this epoch of unlearned lessons.





Schnabel said: “[I]n recent periods of financial stress, banks have acted as shock absorbers rather than shock amplifiers. And this has been largely due to the comprehensive banking regulation introduced after the GFC of 2008.”

“[I]t is essential to preserve the resilience banks have built up following the post-crisis reforms. While the financial system has evolved and the sources of financial instability have shifted, banks continue to play a central role in the euro area, both for financing the real economy and for monetary policy transmission. Governments should therefore resist joining a ‘race to the bottom’ when it comes to financial regulation.”

Deregulation is also no panacea for the host of new risks posed to banking: stablecoins; the looming number of non-bank financial institutions; as well as duplications, overlaps, and inefficiencies in the current rules. “Rather than softening bank regulation,” says Schnabel, “we should make sure that those areas of the financial system that pose new risks to the economy and banks...are regulated appropriately

without stifling innovation...Governments would be ill-advised to weaken bank resilience.”

Meanwhile, across the pond, *The Banker* reports that Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co, commented at the latest October IMF annual meeting that “if governments want economic growth without spending money, they should just look at banking deregulation — it’s “freaking free”.”

RISKING IT FORWARD

For the rest of the world, the result is that regulatory fragmentation and arbitrage risks will escalate, although some agencies downplay its significance by typifying the trend as yet another “evolution of financial markets”.

The ASEAN banking sector is already showing signs of this as the outlook for some key markets show downward revisions (**Figure 1**). However, S&P Global notes that “most regulators and banks across Asia Pacific are taking a different approach.”

“There are fewer discussions about easing current frameworks. Rather, stronger supervision is possible for smaller

institutions in some jurisdictions in the face of higher interest rates, domestic competition, and industry consolidation... Discussions in Asia-Pacific banking are more about changing regulations in evolving areas, such as banks’ cyber risks, private credit, and stablecoins.”

At the cusp of what’s been touted as the “next potential crisis”, although the major economies are relenting, it seems that the banking ecosystem in Asia Pacific is moving in concert to stabilise the turf; securing a stronger position, whichever way the pendulum swings.

We are resisting the race to the bottom. *

■ *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.*

THE JOURNEY TOWARDS FRICTIONLESS CROSS-BORDER PAYMENTS IN APAC

By LexisNexis Risk Solutions

Delve into the aspirations for a frictionless cross-border payment landscape.

Cross-border payments in the Asia-Pacific (APAC) region have traditionally been characterised by inefficiencies, high costs, and varying levels of transparency. According to an article by The Payments Association, 55% of firms lose 4%–5% of revenue per month due to manual tracking and reconciling transactions. These challenges have been exacerbated by disparate regulatory frameworks and the complexity of international transactions. While there are significant advancements in domestic payments across the APAC region, similar advancements in cross-border payments have been slow.

Improving cross-border payment systems is crucial for fostering economic growth, promoting international trade, and enhancing financial inclusion. A more efficient and

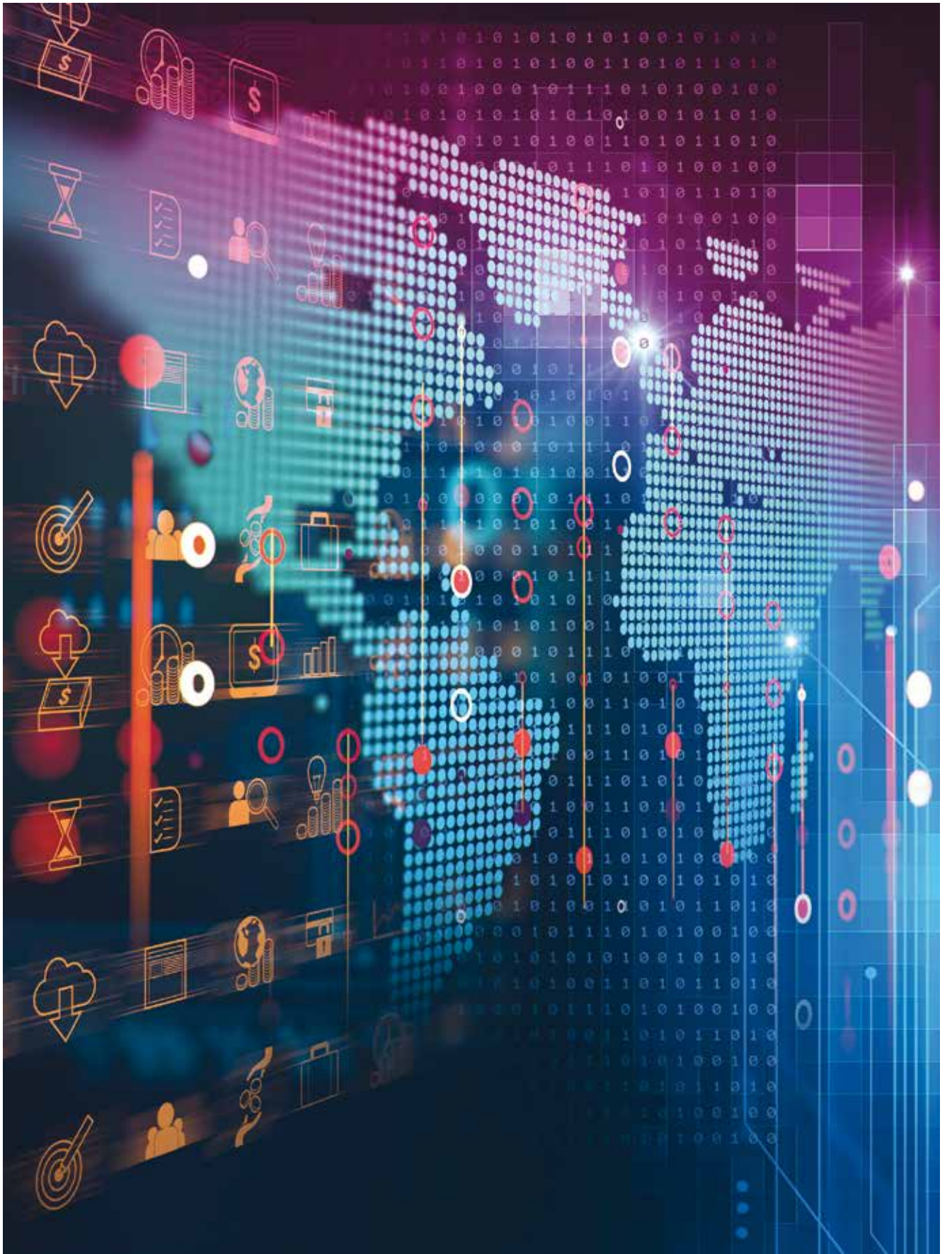
seamless payment infrastructure can reduce transaction costs, mitigate risks, and improve overall economic stability throughout the APAC region.

ASPIRATIONS FOR CROSS-BORDER PAYMENTS

The ideal vision for cross-border payments in the APAC region involves instant, cost-effective, and transparent transactions, mirroring the ease of domestic payments. This aspiration

includes:

- real-time settlement and finality of funds;
- minimal transaction fees;
- transparency in exchange rates and fees;
- consistency and confidence that payments are error-free; and
- enhanced security measures to protect against fraud.



COMPLEXITY FOR APAC

While the ideal vision is to mirror the process of instant payment in the cross-border payments journey, the practical reality for individual regions is to work around the key cross-border challenges. These include:

- + harmonising payment information across 50+ countries within the APAC region to drive instant yet cross-border payment experience;
- + enable interoperable clearing and settlement infrastructure between APAC countries to instantly settle outside the SWIFT network; and
- + drive regional payment standards (like Payment Service Directives in the European Union) to ensure compliance in payments; and
- + enhanced security measures to protect against fraud.

These are the roles of each stakeholder:

- + Traditional financial institutions play a crucial role in providing the infrastructure and trust needed for cross-border transactions. Their extensive networks and regulatory compliance capabilities are vital in ensuring secure and reliable payment processes. They are expected to continue playing a key role as fintech companies use the infrastructure and compliance rails to enable cross-border payments.
- + While traditional financial institutions form the backbone of payment services, fintech companies are likely to be at the forefront of innovation, driving the development of new technologies and solutions that enhance the efficiency and user experience of cross-border payments. They are instrumental in bridging gaps in traditional banking systems and providing alternative payment methods.
- + Governments are key in establishing regulatory frameworks that facilitate cross-border payments while ensuring security and compliance. Their role varies by country, with some focusing on fostering innovation through supportive regulations and others emphasising

While traditional financial institutions form the backbone of payment services, **FINTECH COMPANIES ARE LIKELY TO BE AT THE FOREFRONT OF INNOVATION, DRIVING THE DEVELOPMENT OF NEW TECHNOLOGIES AND SOLUTIONS** that enhance the efficiency and user experience of cross-border payments. They are instrumental in bridging gaps in traditional banking systems and providing alternative payment methods.

stringent security measures. In cross-border payments, however, it becomes tougher to enforce common formats and enable interoperability in payments messages. ISO 20022 has in some way created a common messaging structures across the globe, however, governments need to drive regulation within domestic payments systems to drive error-free instant payments across borders. The government's aim to drive regional economic growth will help shape localised standards and interoperability within cross-border instant payment systems.

DIVERGENT PATHS AND FUTURE CONVERGENCE

Countries across the APAC region are adopting different approaches to cross-border payments. Some are focusing on instant account-to-account payments, while others are developing closed-loop systems that dominate their domestic landscapes. The panel sees potential for greater regional convergence through:

- > standardisation of protocols and regulations;
- > interoperability between different payment systems; and
- > collaborative efforts among stakeholders to harmonise payment infrastructures.



HISTORICAL CONTEXT AND FUTURE DIRECTION

Understanding the current payment landscape requires a look at its evolution. The past decade has seen significant advancements in digital payments, driven by technological innovation and changing consumer behaviours. The present focus is on enhancing interoperability, reducing transaction costs, and improving user experiences. The desired future state is one where cross-border payments are indistinguishable from domestic transactions in terms of speed, cost, and convenience.

CHALLENGES IN CROSS-BORDER PAYMENTS: KEY TRENDS IN PAYMENTS

The payment roundtable also discussed various key trends currently shaping the industry. Some of key trends identified included:

- pricing in line with United Nations Sustainable Development Goal Target 11.c to reduce the cost of remittance;
- making global payments more seamless, fast, and low cost;
- ensuring data consistency in payment instructions across jurisdictions;
- focusing on customer journeys that simplify customer inputs for payments;
- ensuring error proofing mechanisms in cross-border payments;

Understanding the current payment landscape requires a look at its evolution.

THE PAST DECADE HAS SEEN SIGNIFICANT ADVANCEMENTS IN DIGITAL PAYMENTS, DRIVEN BY TECHNOLOGICAL INNOVATION

and changing consumer behaviours. The present focus is on enhancing interoperability, reducing transaction costs, and improving user experiences. The desired future state is one where cross-border payments are indistinguishable from domestic transactions in terms of speed, cost, and convenience.

- adhering to data protection regulations across the APAC region (e.g. Personal Data Protection Act regulation in India);
- implementing interoperable and real-time payments between countries;
- seeking regulatory support for smoother operations;
- enhancing anti-scam and anti-fraud measures before making a payment;
- enhancing sanctions check before payment is initiated;
- ensuring 24/7 availability of payment services;
- promoting collaboration between money transfer companies within managed ecosystems;
- exploring cross-border licencing across the APAC regions;
- utilising digital assets and channels for payment transactions, including digital currencies and digital wallets;
- facilitating real-time business-to-business trade payments within the APAC region;
- exploring government-to-government real-time payments and stablecoins for USD payments;
- improving transparency in pricing within cross-border payment systems;
- enhancing account validation through new rails and netting of currencies;
- implementing initiatives similar to Open Banking in the APAC region;
- increasing straight-through processing through AI technology and digital assets;
- integrating embedded financing solutions;
- facilitating ASEAN collections and payments for businesses;
- adapting to changes in payment regulations;
- fostering fintech-banking partnerships;
- utilising digital assets for various payment purposes; and
- promoting collaboration across the payments ecosystem.

Main discussion points of top key trends identified from the above:

+ Interoperability between systems

Achieving interoperability between different payment systems and across jurisdictions remains a significant challenge. Standardising



protocols and enhancing connectivity are essential for facilitating seamless cross-border transactions. Where standardisation is not achievable, a tactical interoperable translation of payment information and instructions can enable error-free cross-border transactions. In this regard, having both source and destination payment data is key in such transactions.

+ Regulatory compliance across jurisdictions

Navigating diverse regulatory requirements across multiple jurisdictions adds complexity and cost to cross-border payments. Harmonising regulations and promoting cross-border cooperation are essential for simplifying, reducing compliance burdens, and enhancing efficiency within payments.

+ Managing fraud and security risks

Cross-border payments are vulnerable to fraud and cybersecurity threats due to the global nature of transactions. Implementing robust security measures, real-time monitoring systems, and enhanced authentication protocols are critical to mitigating risks and safeguarding transaction integrity.

+ Cost and transparency issues

High transaction fees, hidden costs, and opaque exchange rates are common concerns for users of cross-border payment services. Improving

cost transparency and reducing transaction fees through competitive pricing and innovative solutions can enhance customer trust and satisfaction.

+ User experience and friction

Complex payment processes, long settlement times, and cumbersome documentation requirements contribute to poor user experiences in cross-border payments. Streamlining procedures, enhancing user interfaces, and providing real-time transaction tracking are essential for improving customer satisfaction.

APPROACHES TO COMBATTING AUTHORISED PUSH PAYMENT (APP) FRAUD IN APAC

The development towards frictionless cross-border payments carries risks such as increased exposure to fraud. However, from a risk-benefit assessment, the benefits of improved efficiency, reduced costs, and enhanced customer satisfaction outweigh the risks. Mitigating these risks involve:

- > implementing stringent authentication and verification processes right at the point of keying in payments instructions;
- > enhancing real-time monitoring and fraud detection capabilities; and
- > educating consumers and businesses about potential threats and preventive measures.

To stay ahead of the APP fraud wave, the APAC payments industry can:

- > foster collaboration between banks, fintech, and regulators to share information and best practices;
- > invest in advanced technologies like artificial intelligence and machine learning for fraud detection;
- > regularly update and adapt security protocols to address emerging threats; and
- > promote awareness and training programmes for consumers and businesses.

These are the key findings from the roundtable discussion

• Balancing Speed, Safety, and Cost

Achieving frictionless cross-border payments requires balancing the need for speed with safety and cost considerations. Stakeholders must work together to ensure that faster payments do not compromise security or result in higher costs for users.

• Managing Risks and Reducing Friction

Managing risks like fraud while reducing friction for users is a key focus. Advanced security measures, real-time monitoring, and consumer education are essential in this regard.

• Challenges with Domestic Payment Systems

Different domestic payment systems and digital wallets present challenges in achieving seamless cross-border payments. Overcoming these challenges involve developing interoperable solutions and fostering collaboration among stakeholders

• Role of Regulation and Interoperability

Regulation plays a critical role in shaping the cross-border payment landscape. There is a need for harmonised regulations and interoperability between different payment systems to facilitate seamless transactions across borders.



SURVEY INSIGHTS FROM THE PAYMENT ROUNDTABLE

During the payment roundtable, a live survey was conducted among the 47 attendees to gather insights into the challenges and priorities in cross-border payments. The survey results provided valuable perspectives from industry experts and stakeholders.

When asked about the most important change they would make to simplify payment processes, respondents indicated:



77%

favoured "Using APIs to validate customer instructions and data during the journey." This highlights the critical role of automated validation in reducing errors and streamlining transaction processes



13%

supported "Using external data to complement internal data," underscoring the importance of leveraging external sources for enhanced data accuracy and completeness



7%

expressed interest in "Utilising the granularity of ISO data standards to drive down the error rate," emphasising the benefits of standardised data formats in improving transaction efficiency



3%

suggested "Pushing as many payments to be initiated in digital channels," reflecting the trend towards digital-first approaches for faster and more efficient payment execution

In terms of customer priorities in cross-border payments, respondents indicated:



33%

of respondents identified "Speed" as the most important factor for their customers



30%

highlighted "Their experience" as a critical consideration



20%

mentioned "Price" as a significant factor influencing customer preferences



15%

emphasised "Avoidance of fraud risk" as a key concern for customers

• Collaboration Among Stakeholders

Collaboration between banks, fintech, and regulators is crucial in addressing the challenges of cross-border payments. Joint efforts can lead to the development of innovative solutions and the establishment of standardised protocols.

• Importance of Customer Experience and Transparency

Enhancing customer experience

and ensuring transparency on fees and exchange rates are vital for building trust and satisfaction among users. Clear communication and user-friendly interfaces are important components.

• Evolving Role of Digital Wallets and Financial Inclusion

Digital wallets are becoming increasingly important in the cross-border payment landscape. Ensuring financial inclusion by

providing access to digital payment solutions for all segments of the population is a key consideration.

• Opportunities and Challenges with New Technologies

New technologies like blockchain and central bank digital currencies present both opportunities and challenges. Leveraging these technologies can enhance the efficiency and security of cross-border payments, but also requires careful consideration of regulatory and technical aspects.

The journey towards frictionless cross-border payments in the APAC region is a complex and multifaceted endeavour that requires collaboration among traditional finance institutions, fintech companies, and governments. Achieving seamless cross-border transactions hinges on striking a balance between speed, safety, and cost. By prioritising interoperability, enhancing customer experience, and implementing advanced security measures, the region can realise the aspiration of making cross-border payments as efficient as domestic transactions. Continued efforts in innovation, regulation, and collaboration are essential to overcoming existing challenges and shaping the future of cross-border payments. *

■ LexisNexis Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and government entities reduce risk and improve decisions to benefit people around the globe. The company provides data and technology solutions for a wide range of industries, including insurance, financial services, healthcare, and government. Headquartered in metro Atlanta, Georgia, it has offices throughout the world and is part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers.



SIDEWAYS SUCCESS: WHEN UP IS NOT THE ONLY WAY

By Priscilla Edna Moreira

Toward a healthier corporate culture.

*“Keep going, work hard!”, “Keep climbing up to achieve that promotion!”,
“Set your goals, hit your target, and you will be the boss!”*

While the gruelling effort and hard work behind the ambitious individual to achieve leadership status deserve recognition, recent studies challenge such conventional knowledge and insist that we probe deeper.

One of the more hotly debated perspectives to emerge in recent times come from organisational researchers Shilaan Alzahawi, Emily S Reit, and Francis J Flynn’s study, *A Legend in One’s Own Mind: The Link Between Ambition and Leadership Evaluations*, which sets out to question whether there is a disconnect between how ambitious people view themselves and how they are viewed by their colleagues.

In other words, is ambition an accurate barometer for effective leadership?

AMBITION ≠ EFFECTIVE LEADERS

“Leadership roles often come with substantial personal, financial, and professional rewards, so it’s common for ambitious people to strive for these positions,” according to Eric Dolan, founder of *PsyPost*, an independent science news website.

Ambition certainly has a role in propelling one to actively seek and occupy leadership roles, no matter the industry. Alzahawi and team investigate the link between ambition and leadership by surveying a group of 472 executives enrolled at the Stanford Graduate School of Business about their ambitions and to rate themselves on 10 leadership competencies, such as their ability to motivate others; manage collaborative work; coach and develop people; and present and

communicate ideas. Thereafter, the researchers pose the same question to each of the executive's peers, managers, and direct reports, asking them to rate the executive on the same leadership competencies.

The researchers found that executives with high ambitions with self-reported positive ratings were perceived and rated poorly by their colleagues, i.e. their image of themselves were incongruent with how they were perceived by their peers, managers, and direct reports. This leads to the conclusion that ambition oftentimes does not equate to effective leadership. Alzahawi et al suggest that ambition is a beneficial trait when one is emerging as a leader but is inconsequential in the long run. This makes ambitious individuals more likely to occupy leadership roles, however, it also implies that the probability of having an ineffective leader in your organisation is high.

SPOT EFFECTIVE LEADERSHIP

So, what personality traits are good indicators of effective leadership?

Korngrang Sear, an educator involved in the Cambodian Education Forum and author of the paper, *Leadership Myths and Essential Skills for Becoming a Good Leader*, which ran in the June 2024 edition of the *Cambodian Journal of Educational Research*, posits five essential qualities that make a good leader: ceaseless learning, openness, confidence, humility, and will.

He expounds that ceaseless learning sustains leaders to continuously use knowledge and expertise to overcome problems and remain resilient, which is associated with being open-minded. Openness is practiced when leaders listen to others' ideas, allowing employees to feel valued. An effective leader possesses confidence – a result of mastery – strengthening the leader's belief in one's capabilities and performance. On the other hand, being humble keeps the leader grounded as they recognise that they do not have all the answers and remain teachable. Finally, leaders possessing the will or ambition to build great organisations



and make a difference. These produce positive outcomes.

Dr David Deming, Professor of Political Economy at the Harvard Kennedy School, sheds light on this during an interview with *The Harvard Gazette* about his joint study, *How Do You Find a Good Manager?.* He states that leaders in organisations must now tackle a diverse range of issues, such as where to direct their attention, what are the most important things to focus on, and how to allocate resources

“Traditional corporate environments tend to equate loudness with leadership and mistake arrogance for confidence. **THIS BIAS SIGNIFICANTLY DISADVANTAGES THOSE WHO, BY NATURE OR CHOICE,** embody a more reserved leadership style. It raises the question: does being a good talker and charismatic necessarily equate to effective leadership?”

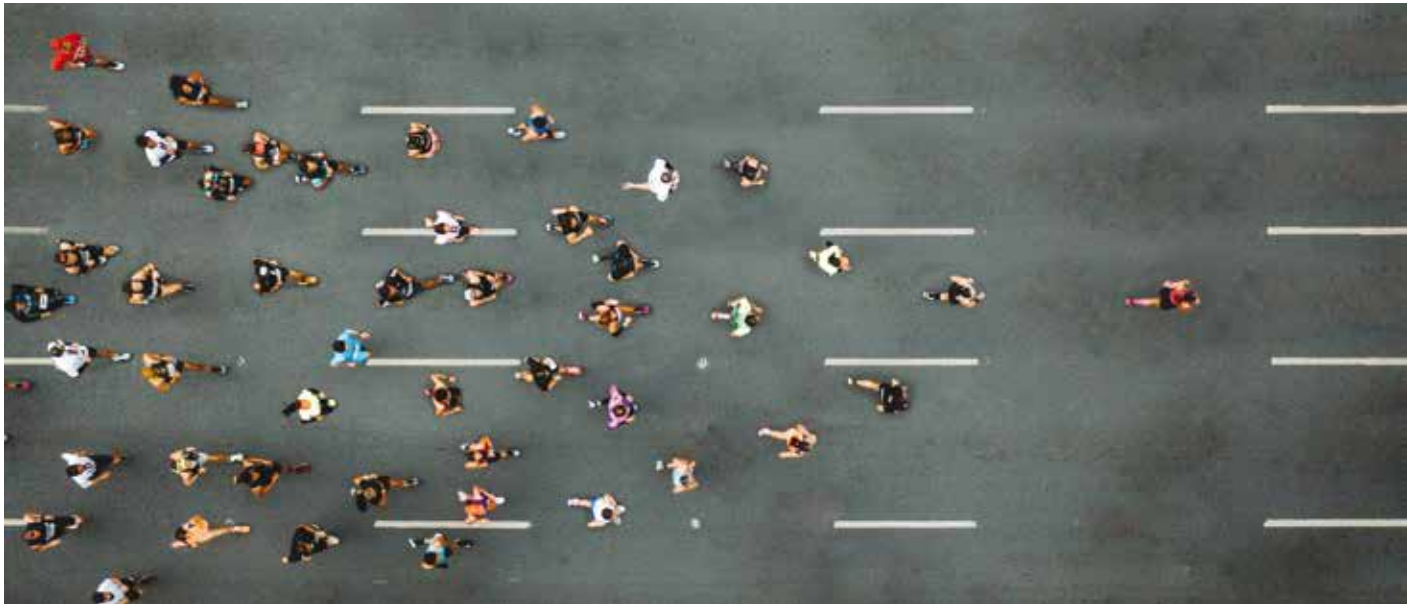
Dr Victor Goh
Dean of the Singapore-based Pacific International Lines Academy

toward problem-solving. Considering the complexity of the leadership role and multifaceted understanding that must come with it, Deming posits that both interpersonal and analytical skills are typically required of an effective leader, skills which are common among those who possess the traits of a ‘quiet leader’.

Dr Victor Goh, Dean of the Singapore-based Pacific International Lines Academy, the in-house training division for the global shipping liner, provides some insight on detecting and developing quiet leaders within organisations in his LinkedIn post, *Quiet Leadership in a Loud World: Bridging the Recognition Gap.*

Goh writes: “Traditional corporate environments tend to equate loudness with leadership and mistake arrogance for confidence. This bias significantly disadvantages those who, by nature or choice, embody a more reserved leadership style. It raises the question: does being a good talker and charismatic necessarily equate to effective leadership?”

“History and research suggest otherwise. Quiet leaders often exhibit deep strategic thinking, empathy, and a propensity for listening – qualities that foster strong, resilient teams and innovative solutions.”



Interestingly, he also exhorts what can occur when organisations overlook or undervalue the quiet leaders in their midst, what he typifies as a bias which “not only undermines the organisation’s morale and trust but also contributes to a wasteful expenditure of resources.”

SIDEWAYS SUCCESS

As we widen our perspective of leadership to be more inclusive of the ‘quiet leaders’ among us, it is important that we chart a path for them within the organisation in ways that will be supportive of this leadership style and enhance career growth.

Traditionally, the means to achieve corporate success is through the ‘career ladder’ approach, where the individual progresses upwards in a sequential manner over time, increasing in status, responsibility, salary, and seniority, as explained by Drs Dieter Veldsman and Marna van der Merwe, at the Academy to Innovate Human Resources.

However, as the workplace landscape evolves to become more dynamic, necessitating one to be more adaptable and flexible, another alternative, the ‘career lattice’ approach is gaining traction among individuals and organisations. Coined by Cathy Benko and Molly Anderson in their book, *The Corporate Lattice*, it describes

Dr Beverly Kaye and her co-authors illustrate in their book, *Up is Not the Only Way: Rethinking Career Mobility*, that **A CAREER LATTICE APPROACH MAY INVOLVE MOVING SIDEWAYS IN AN ORGANISATION**

– taking on a similar-level role in another department, broadening one’s knowledge and skills in the new department while expanding networks with new colleagues.



a non-linear career pathway that does not follow a predictable sequence of positions or roles within an organisation or industry. Thus, one who undertakes this approach would be focused on their interests and skills, allowing a sense of autonomy to pivot across various roles and industries while diversifying their skill set and experience.

Dr Beverly Kaye and her co-authors illustrate in their book, *Up is Not the Only Way: Rethinking Career Mobility*, that a career lattice approach may involve moving sideways in an organisation – taking on a similar-level role in another department, broadening one’s knowledge and skills in the new department while expanding networks with new colleagues. In some complex moves, one may even move into a role with an equivalent salary and influence but in a completely new business or industry – a chance for the individual to apply existing leadership capabilities while learning about the new business and/or industry. These experiences not only diversify skill sets but also deepen understanding of organisational mechanisms and industry dynamics, giving individuals the breadth of perspective and knowledge that become powerful assets when stepping into leadership roles. Hence, this approach seems to be a vital process in leadership

growth, inviting us to consider how this process is part of the journey for individuals to find a good fit within their teams.

PERSON-JOB, PERSON-GROUP

Like how a key perfectly fits its lock, true corporate success is unlocked only when there is a right fit between the role and the working team – fulfilling both Person-Job and Person-Group requirements. Different circumstances may call for different leadership styles as some leadership traits may be more effective in certain situations, but not in others.

This can be ascertained through the two elements: the Person-Job fit, defined as the fit between a person's skills and job demands or between their desires and what the job offers; and Person-Group fit, which is the compatibility between individuals and their working group.

Why is the Person-Job and Person-Group fit important for true corporate success and how can this be achieved? In the study titled *Linking Empowering Leadership and Employee Work Engagement: The Effects of Person-Job Fit, Person-Group Fit, and Proactive Personality*, researchers Di Cai, Yahua Cai, Yan Sun, and Jinpeng Ma found that when there is a good Person-Job and Person-Group fit, employees experience

Keeping this in mind, organisations are encouraged to rethink how leadership potential is recognised.

LEADERSHIP IS MORE THAN AMBITION AND TITLE; it rests on qualities that enable leaders to weather through storms and challenges, while coming out of it with positive organisational outcomes.

greater work engagement – a positive state of work-related fulfilment, showing dedication, vigour, and absorption at work – which is positively associated with job satisfaction, organisational commitment, and job performance.

Di Cai and colleagues discovered that leaders' actions can influence the Person-Job and Person-Group fit by providing their team with appropriate support and guidance based on individual development, strengthening their knowledge, skills, and ability to meet organisational demands.

This is where the rich perspective and adaptability leaders gain from a career lattice type of development adds value. When employees perceive a strong alignment with their roles and relationship with their team, their psychological needs for autonomy and belonging are met, eventually leading to higher levels of work engagement.

ON THE FRONT FOOT

Keeping this in mind, organisations are encouraged to rethink how leadership potential is recognised. Leadership is more than ambition and title; it rests on qualities that enable leaders to weather through storms and challenges, while coming out of it with positive organisational outcomes.

Leaders who have grown through a career lattice approach – gaining diverse experiences across roles and industries – are likely more capable in adapting to the complex demands of a work environment, including fostering a good fit between Person-Job and Person-Group.

A step in this direction would be to recognise the value of quiet leaders – those with a natural aptitude to lead effectively with their reflective approach – and embrace this brand of leadership as part of the diversity required to create and maintain a healthy corporate culture. ✪

■ Priscilla Edna Moreira writes for Akasaa, a strategic consulting and publishing firm with offices in London, Sharjah, and Kuala Lumpur.





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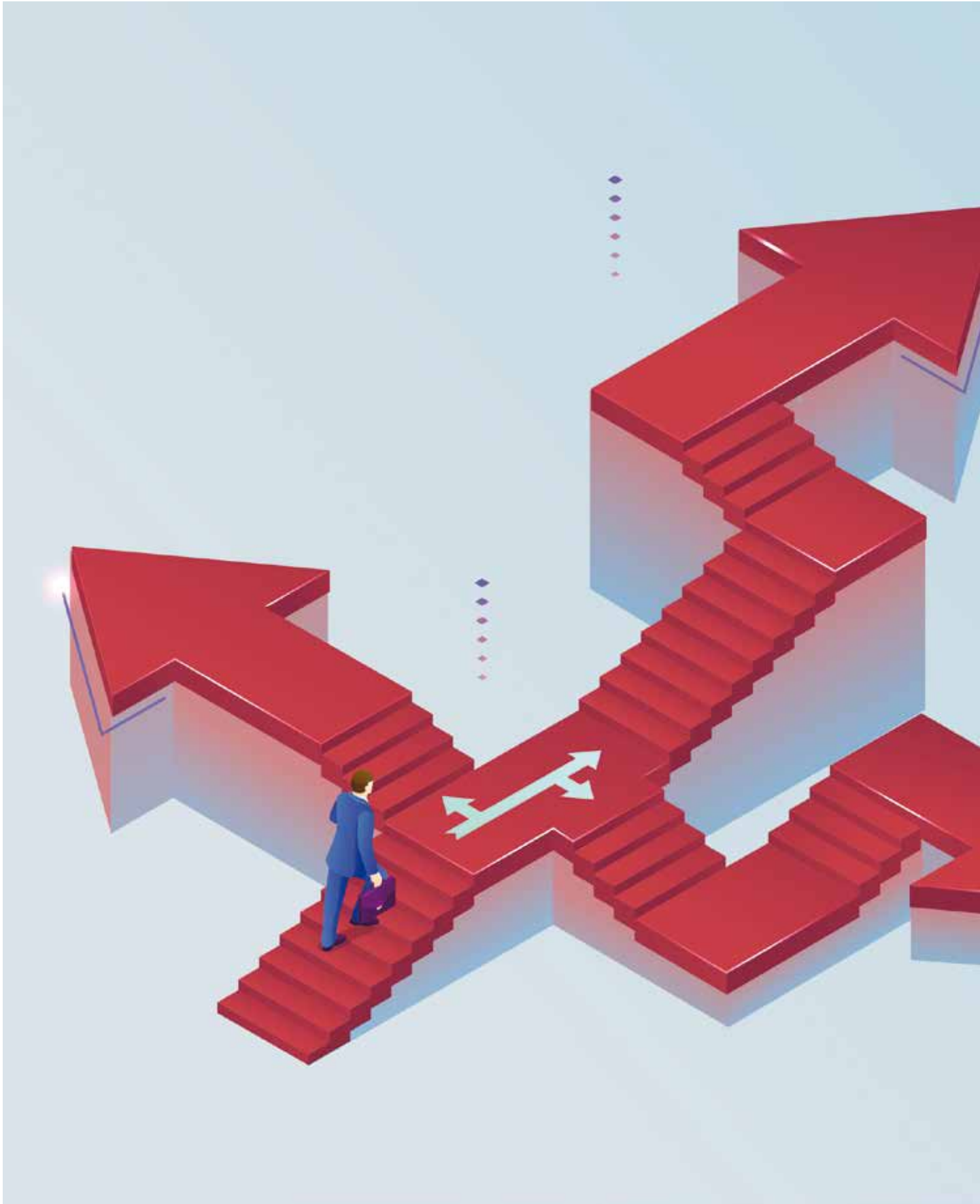
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SPARK OF A WELL-TIMED NUDGE

By Julia Chong

IT WORKS, BUT WILL IT STICK?

In the 17 years since nudge theory went public, it has taken over much of the design thinking that we see in practice today. There are 'nudge units' set up within governments across the world to apply it into policymaking; corporates incorporate it into their enterprise change management design programmes; individuals, wittingly or otherwise, use or are influenced by it every day, from checkout counters at the supermarket to opting in for pension schemes.

All this in the quest to steer people and organisations towards better choices (e.g. placing healthier snacks at the eye-level checkout counters at the supermarket) or decisions that enhance social goals (want to get households to reduce electricity consumption? Ask them to compare their utility bill with their neighbour).

Popularised by Richard Thaler and Cass Sunstein in their book, *Nudge: Improving Decisions About Health, Wealth, and*

Happiness, the Nobel Prize laureate and behavioural economics professor defined what it means: "A nudge, as we will use the term, is any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding any options or significantly changing their economic incentives."

Although this subtle steering toward a specific choice is now widely accepted and commonly practiced in organisations, recent evidence point to a gaping hole in the science: people who respond positively to a nudge don't stick with it in the long run.

BEST BEHAVIOUR

This non-sticky longer-term effect of nudges is studied by Professors Evan Polman and Sam J Maglio who pose this hypothesis: "Research in marketing, psychology, economics, and decision-making has long examined what people choose, when people choose, and why people choose. But almost

no research has examined how long people consume their choices.”

Their research, *Nudges Increase Choosing but Decrease Consuming: Longitudinal Studies of the Decoy, Default, and Compromise Effects*, published in the October 2024 edition of the *Journal of Consumer Research*, outline how they discovered that “these nudges influenced choosing and consuming in opposite directions: participants were more likely to choose the nudged option; however, they consumed it less compared to participants who chose an identical non-nudged option.”

The findings have far-reaching implications for theorists and practitioners in the field of behavioural economics.

“Although nudges can be a powerful lever to increase sign-ups, our results indicate that programme managers should not confound the number of users (choice share) with usage and engagement. As our studies show, nudges can increase the former but decrease the latter over time.”

More recently, Polman and Maglio further caution in a *Harvard Business Review* feature that “our findings — that nudges successfully influence initial decisions can lose steam over time — have significant implications

“Although **NUDGES CAN BE A POWERFUL LEVER TO INCREASE SIGN-UPS**, our results indicate that programme managers should not confound the number of users (choice share) with usage and engagement. As our studies show, nudges can increase the former but decrease the latter over time.”

for programmes aimed at promoting health, financial well-being, and societal welfare. The organisations behind these programmes need to consider whether the nudges they employ are effective over time and if not, what further actions they need to take.”

GETTING IT RIGHT

Banking is rife with examples of nudges, both good and bad.

Here’s what it looks like when nudges backfire:

+ **When Over-Saving Goes Overboard.**

Many financial apps contain ‘buckets’ for regular and frequent

micro-investments, rewarding users for forced savings through various nudges. For instance, some apps round up every transaction to the nearest dollar with the balance auto-credited into their savings bucket as a method of ‘forced’ savings. The intention is to induce customers to spend less or unconsciously save more. However, for young people or gig economy workers, this has led to unexpected shortages in their disposable income, resulting in overdraft fees, over-reliance on credit cards, or opting for payday loans to cover their daily expenses. Although targeted to instil financial discipline, such poorly designed nudges fail by not taking into account the desires, liquidity needs, and cash flow patterns of different customer segments.

+ **Behavioural Fatigue Sets In.**

As Polman and Maglio discovered, unconscious decisions prompted by a nudge will lose traction over time. In the longer term, nudges generally result in customers feeling less in control of their finances. This results in them abandoning the effort, disabling the feature, or closing their accounts completely. When customers consciously decide to save or are self-driven to work towards a financial goal (without a nudge), they tend to stick to the plan for longer.

+ **Exploiting Biases.**

A cognitive bias, according to behavioural finance expert Dr Meir Statman in an article by *Fortune* magazine, emerges because of “cases where the intuition that generally gets us right gets us wrong.” For instance, prestige bias – where people buy into status symbols that indicate wealth or affluence irrespective of whether they can afford it – induces customers to take out loans for things they can’t afford (a luxury car or bungalow in an upmarket neighbourhood) or investing in a specific asset class because





LOOK E.A.S.T.

- EASY
- ATTRACTIVE
- SOCIAL
- TIMELY

better referred to as the EAST Framework – is the Behavioural Insights Team’s way of designing and applying key behavioural interventions successfully.

Source: Extracted and adapted from *EAST: Four Simple Ways to Apply Behavioural Insights, Revised and Updated edition*, Behavioural Insights Ltd, 2024.



Some of the greatest returns on investment will come from making the desired behaviour easier. By this we mean both easier to understand what needs to be done (cognitive effort) and easier to perform the action (practical effort), which can be achieved through

- 1**
 harnessing the power of defaults
- 2**
 reducing the effort required
- 3**
 simplifying messages



Many ways of making things more attractive are relatively intuitive, such as personalising messages. Others are more sophisticated, such as reframing the way incentives are presented. But fundamentally, making an action attractive is about

- 1**
 attracting attention and framing the behaviour
- 2**
 designing incentives for maximum effect

While we treat these goals separately, they often support one another.



We are heavily influenced by what those around us do and say. We pay a premium for products or services that have been endorsed by other people and we want to return favours that are done for us – even if that means ‘paying it forward’. To incorporate them we should

- 1**
 show that most people perform the desired behaviour
- 2**
 recognise the power of social networks
- 3**
 create feelings of reciprocity



We respond differently to prompts depending on when they occur. Moreover, our decisions, thoughts and behaviour are often influenced by the ideas, objects and people we experience from moment to moment. Timing is an often-overlooked aspect of the decision-making process. Policies will be more effective if they

- 1**
 choose the right moment
- 2**
 consider the immediate costs and benefits
- 3**
 help people plan their responses to events

‘everyone else is doing it’ (also known as FOMO or ‘fear of missing out’). It explains how high-end Ponzi schemes run by people like Bernie Madoff, former chairman of the Nasdaq Stock Market, sustained for so long because investing with him was considered ‘prestigious’ and only within reach for a select few. The now-convicted Madoff has said that banks and funds were ‘complicit’ in the USD90 billion fraud, further accentuating the need for ethical considerations in instances where bias is clearly present.

On the other hand, here is what happens when well-designed nudges hit the mark:

- > **Product Design Determines Engagement.** Most banks today have embedded behavioural design features within their product offerings to increase customer engagement. Knowing that consumers often mimic the behaviour of their peers, many banking apps today feature gamification elements, such as quick and/or auto-enrolment (projected +20% participation rate) into investment savings, followed by hyper-personalised congratulatory messages with each achieved budget milestone (projected +10% customer login). Additionally, in low interest-rate environments, shifting customers from deposits to investment savings will have a positive effect on the provision income of banks.
- > **Making Risk Less Abstract.** How information is presented influences decision-making. For instance, data shows that the active promotion of a 50% discount on overdraft fees reduces the utilisation rate, whilst omitting mention of any fees increases the drawdown of an overdraft facility. Upfront disclosure also serves the dual purpose of attracting higher quality borrowers and reining in potential reputational risks, such as allegations of ‘predatory’ behaviour.

Being aware that a **NUDGE CAN CUT BOTH WAYS – POSITIVE OR NEGATIVE** – it is necessary that such choice architecture be mapped and chosen carefully. In the decades since its introduction, what holds constant is that in order for a nudge to be efficient and avoid adverse effects, pairing it with financial education is prudent and works best for both customers and the banks which serve them.

> **Driving Policy In The Right Direction.**

To nudge more women applicants for a senior management position, BBVA redesigned its job description templates and changed some of the language used to describe its management-level jobs. This resulted in a 30% increase in female applicants.

Being aware that a nudge can cut both ways – positive or negative – it is necessary that such choice architecture be mapped and chosen carefully. In the decades since its introduction, what holds constant is that in order for a nudge to be efficient and avoid adverse effects, pairing it with financial education is prudent and works best for both customers and the banks which serve them.

DOING IT RIGHT

Additionally, there are the ethical implications of nudges that most proponents and programme managers – professionals tasked with the design and roll out of change management programmes – do not take into account.

In terms of its design and implementation, there are strong criticisms about how policymakers (especially those in government) determine what the ‘default’ position – the choice people would decide to take due to inertia, convenience, or a belief



it is the best option – is when designing a nudge programme.

For instance, in the case of government wanting to enrol more citizens as organ donors, many policymakers have framed the default position as an 'opt out' system – whereby citizens are presumed to have given their consent and must actively choose to say 'no' or risk being automatically enrolled – in order to induce greater organ donation. As the issue of organ donation is a highly personal and individualistic choice, this nudge position is rejected by many prominent scientists – including Thaler and Sunstein themselves – but is widely deployed anyway in policymaking circles.

There is also controversy surrounding the Behavioural Insights Team (BIT), the leading global nudge organisation which was started by a team of ex-British civil servants to design policies for the government based on behavioural psychology. This British 'nudge unit' was set up in 2010 to apply the theory within its own government, but since 2014 has been wholly owned by the UK's National Endowment for Science, Technology and the Arts.

It currently advises other governments and organisations throughout the world on the design of crucial policies. Past criticisms surrounding the ethics of nudging include pressure and manipulation in taxes,

Companies, including financial institutions, are **APPLYING THIS SCIENCE IN COUNTLESS WAYS TO INDUCE CERTAIN BEHAVIOURS AND ACHIEVE SPECIFIC GOALS.**

This can come through subtle, innocuous methods, such as embedding a shortcut icon on employees' desktops by default or sending timely reminders to complete daily tasks within a new enterprise customer relationship management (CRM) software.

independence and robustness of its research, and how it has "the potential for creating a self-perpetuating gravy train for consultants". Other practitioners in fields such as criminology have reflected that "behavioural insights have not yet been able to claim significant policy shifts in the area of crime, despite increasing interest and experimentation."

Despite this, the burgeoning field of behavioural economics and psychology is seen to be the next frontier in a field with a few clear leaders.

MAKING IT STICK

Companies, including financial institutions, are applying this science in countless ways to induce certain behaviours and achieve specific goals. This can come through subtle, innocuous methods, such as embedding a shortcut icon on employees' desktops by default or sending timely reminders to complete daily tasks within a new enterprise customer relationship management (CRM) software.

These seemingly small but consequential nudges have effectively increased the frequency of use, compelling people to form new work habits. However, like any good 'ol change management programme, such measures are not enough to make a new habit stick.

What does seem to help is when a nudge is coupled with rewards and/or incentives. Some global banks have activated a rewards leaderboard for teams, empowering managers with a tool that prompts actionable insights (e.g. suggesting 'shout outs to team members for good performance') as a way to boost morale and productivity.

For most people, this simple act of coupling a nudge with an incentive could be what tips the scale for them to adopt a new way of 'doing'...and keep at it. *

■ *Julia Chong writes for Akasaa, a strategic consulting and publishing firm with offices in London, Sharjah, and Kuala Lumpur.*



Redefining Compliance Excellence: The 50/50 Model as Malaysia's Path to Proactive Financial Crime Prevention

By Jason Shane

Competitive advantage comes from blending human expertise with AI tools.

Three days. Over 1,400 compliance practitioners. One undeniable truth: Malaysia's banking sector is at an inflection point. At the 15th International Conference on Financial Crime and Counter Terrorism Financing (IFCTF) themed, *The Future is Now: Tech-driven Compliance in the Fight Against Financial Crime*, the conversation wasn't just about compliance challenges. It was about reimagining them as competitive opportunities.

The conference brought together global and regional leaders to explore artificial-intelligence (AI)-enabled fraud detection, machine-learning-driven compliance, virtual assets and digital threats, terrorism and proliferation financing, and anti-bribery and anti-money laundering (AML) frameworks. What emerged from these sessions were clear: Malaysia faces a perfect storm of complexities: rising transaction volumes,

sophisticated money laundering schemes, and digital payment innovations – all demanding compliance vigilance at scale. Yet, the traditional compliance model, heavily manual, resource intensive, and reactive, is cracking under these pressures.

But here's what excited me most at IFCTF: the realisation across our banking community that this isn't a crisis of capacity. It's an opportunity for transformation. The answer isn't hiring more compliance staff or implementing AI as a wholesale replacement for human judgement. It's something far more powerful: the 50/50 model, a blueprint that lets technology and human expertise do what they do best, together.

THE TRAP OF EXTREMES

For decades, Malaysian financial institutions have operated under a largely manual compliance regime. Investigators review alerts, dig through transaction



histories, cross-reference multiple systems, and make judgement calls on suspicious transaction reports (STRs). It's thorough. It's grounded in experience. It's also becoming hard to scale and meet evolving compliance and threat challenges.

Transaction volumes continue to explode. Compliance teams are consumed by routine tasks, reacting to alerts, reconciling reports, and meeting mounting documentation demands. This leaves little capacity for proactive financial crime prevention. These constraints not only impede efficiency but also increase regulatory risk, operational cost, and reputational exposure. As Malaysia's regulatory expectations grow, the traditional model is straining to keep up.

Meanwhile, the swinging pendulum suggests a tempting alternative: full automation. Let AI handle everything, some argue. Remove the human bottleneck entirely.

But full automation is a false promise, especially in financial crime prevention. Deciding whether to freeze a customer's account, filing a suspicious activity report (SAR) that carries regulatory weight, or interpreting ambiguous transactions considering evolving regulations. These require judgement, context, and accountability. They demand human wisdom. Regulations in Malaysia increasingly demand this human accountability, holding individuals personally liable for institutional failures. No algorithm should bear that burden alone.

The real power lies between these extremes.

THE 50/50 MODEL: BALANCE AS COMPETITIVE ADVANTAGE

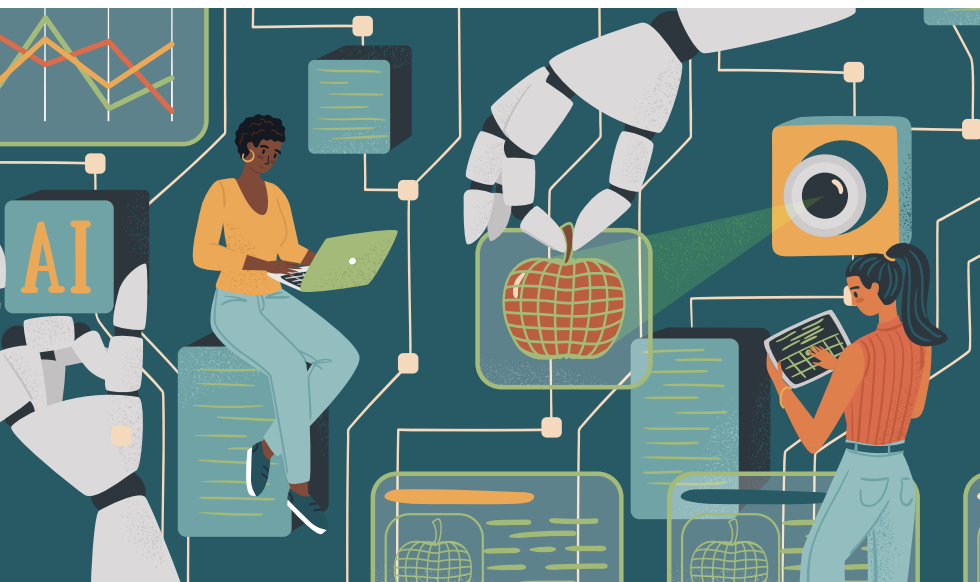
The 50/50 model allocates half of compliance operations to AI-driven automation and the other half to human expertise. It's a framework, not a rigid formula. The precise split varies by financial institution, but the principle is profound: let AI handle volume, consistency, and speed; and let humans handle nuance, judgement, and risk oversight.



Transaction volumes continue to explode. Compliance teams are consumed by routine tasks, reacting to alerts, reconciling reports, and meeting mounting documentation demands. **THIS LEAVES LITTLE CAPACITY FOR PROACTIVE FINANCIAL CRIME PREVENTION.** These constraints not only impede efficiency but also increase regulatory risk, operational cost, and reputational exposure. As Malaysia's regulatory expectations grow, the traditional model is straining to keep up.

In practice, here's how it works:

- > **The AI 50%:** Detecting anomalies in real-time, enriching alerts with data from multiple systems, prioritising cases by risk, pre-filling reports with context, and executing predictive models that identify suspicious patterns before they balloon into full investigations. AI agents, agentic AI, orchestrate these workflows with the speed and consistency that no human team can match. A transaction screening process that took hours now happens in a few minutes. Sanctions lists update automatically and customers are re-screened instantly. False positives that previously flooded investigators with noise are eliminated upfront. What emerges is a curated set of genuine threats deserving expert attention.
- > **The Human 50%:** Making the judgement calls on complex cases. Interpreting regulatory ambiguity. Challenging AI recommendations when context demands it. Filing SARs with confidence, knowing they're backed by human reasoning. Adapting policies as regulations evolve, as they constantly do in Malaysia. Providing oversight that satisfies regulators



and auditors alike. Humans bring accountability, ethical reasoning, and adaptive judgement. All of which are irreplaceable in financial crime prevention.

WHY MALAYSIA NEEDS THIS NOW

Malaysia's regulatory landscape is particularly well-suited to the 50/50 model. Bank Negara Malaysia's (BNM) heightened focus on real-time monitoring, enhanced due diligence, and ownership transparency creates immense volume. The *Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2025* amendments demand more rigorous sanctions screening and STR reporting expectations. Financial institutions that don't automate the bulk of routine tasks will be buried in backlog and high costs of resources. Those that go to automation without human oversight risk regulatory censure and reputational damage.

The 50/50 model strikes the balance Malaysia's regulators and industry leaders emphasise. During IFCTF sessions and in recent industry discussions, a consistent theme emerged: financial institutions must adopt AI responsibly, with strong human oversight and governance. Malaysia's first AI Governance Framework for

This transition requires investment in training and culture. Staff need to understand how AI works, trust its recommendations, and know when to override them.

BUT THE PAYOFF IS SIGNIFICANT: REDUCED BURNOUT, HIGHER-VALUE WORK, AND A COMPLIANCE FUNCTION that attracts talent rather than losing it to competitors.

financial services, developed by the AICB's Chief Risk Officers' Forum in collaboration with BNM, emphasises exactly this: responsible adoption, human oversight, and the preservation of public trust.

Consider a real case: a major financial institution reduced manual processes of assessing transactions flagged as sanctions hits, reducing investigation time by 10x, saving 90 minutes per case. How? By letting AI agents handle triage, data enrichment, and pattern matching. The result? 98% case agreement between AI-assisted investigations and human analysts, plus a 99% reduction in false positives. That's not replacing people; that's amplifying them.

THE WORKFORCE EVOLUTION

Implementing the 50/50 model isn't just about technology; it's about people. Compliance teams shift from routine investigation to strategic risk analysis. Investigators evolve into 'case reviewers' and 'judgement experts'. New roles emerge: AI auditors who validate agent decisions, model risk managers who oversee algorithmic fairness, and compliance strategists who interpret regulatory signals.

This transition requires investment in training and culture. Staff need to understand how AI works, trust its recommendations, and know when to override them. But the payoff is significant: reduced burnout, higher-value work, and a compliance function that attracts talent rather than losing it to competitors.

For Malaysian financial institutions, this is particularly important. The compliance talent market in the region is tight. The AICB's *2025 Workforce Survey* found that more than 40,000 banking employees are expected to see their roles evolve due to automation and technological augmentation. Offering roles that blend human expertise with AI tools, roles that are intellectually stimulating rather than repetitive, becomes a competitive advantage in recruiting and retaining the best practitioners.

THE ROI: BEYOND COST SAVINGS

Let's talk numbers. Many compliance leaders approach AI with a cost-reduction lens: fewer investigators needed, lower operational costs. That's part of the story, but it undersells the real value.

Yes, the 50/50 model reduces costs. By eliminating manual false positive triage and automating routine investigations, financial institutions see dramatic efficiency gains. But the bigger story is risk reduction and strategic value:

+ Better detection

AI doesn't tire. It doesn't miss patterns because an investigator was overwhelmed that day. It catches subtle links between transactions that span months and multiple customer relationships.

+ Faster response

BNM expects financial institutions to respond to suspicious activity quickly. Shorter investigation times mean faster SARs, which means better regulatory standing and reduced reputational risk.

+ Regulatory confidence

Auditors and regulators see AI-assisted investigations with full explainability and robust human oversight. This builds confidence in a financial institution's compliance posture.

+ Competitive advantage

In Malaysia's increasingly crowded financial services market, financial institutions that are known for robust, proactive compliance attract higher-quality customers and business partners.

THE PATH FORWARD: INCREMENTAL, NOT REVOLUTIONARY

I emphasise this to every financial institution: implementing the 50/50 model doesn't require a full overhaul of your compliance function. It's incremental. Start with high-volume, manual processes. Deploy AI overlays on your existing systems. Measure results. Build internal expertise and confidence. Then expand.

The IFCTF conference underscored a vital insight: **MALAYSIA'S COMPLIANCE COMMUNITY UNDERSTANDS THE MAGNITUDE OF THE CHALLENGE AND THE URGENCY OF TRANSFORMATION.** But understanding and acting are different things. Many financial institutions are still locked in the 'all-human' or 'all-AI' debate, paralysed by choices which aren't binary.

The key is to start now. Malaysia's regulatory environment moves quick. Financial institutions that begin their AI journey today will have months of learning and optimisation under their belt when the next regulatory wave hits. Those that wait will be playing catch-up.

A CALL TO ACTION: EMBRACE THE BALANCE

The IFCTF conference underscored a vital insight: Malaysia's compliance community understands the magnitude of the challenge and the urgency of transformation. But understanding and acting are different things. Many financial institutions are still locked in the 'all-human' or 'all-AI' debate, paralysed by choices which aren't binary.

The 50/50 model isn't a theoretical ideal. It's achievable regardless of your starting point. And it's essential to thrive in Malaysia's compliance landscape. The question isn't whether your financial institution has the capacity to implement AI-driven compliance. It's whether you have the capacity not to. *

■ *Jason Shane is a seasoned technology executive with more than 30 years of leadership experience across global financial institutions. He brings deep expertise in IT strategy, product innovation, and transformation within compliance, risk, and financial crime prevention domains. At SymphonyAI, he leads global product strategy and innovation, where he partners with financial institutions to transform compliance from a cost centre into a competitive advantage through AI and human expertise.*

SymphonyAI builds vertical AI applications that help enterprises tackle their most complex, high-value challenges — like stopping financial crime, improving store performance, and boosting manufacturing efficiency. Trusted by more than 2,000 enterprise customers in 26 countries, including 200 of the top financial institutions, top 25 CPGs, and many of the world's largest grocers and industrial manufacturers.





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TALENT-FLUID CULTURE

By Priscilla Edna Moreira

'Go with the flow' takes on new meaning.



As the workforce sprints to equip and/or reinvent themselves with the latest skills in artificial intelligence (AI) and innovations in banking and finance, we should stop and ask whether we are investing our skills in what actually drives performance or merely chasing the next big trend.

In his post titled, *Are We Prioritising the Right Skills? A Call for a Strategic Shift*, Anish K Ravi, Deputy Director of the Centre for Executive Education & Leadership Development at Vinayaka Misson, expressed that universities equip students with cutting-edge skills –blockchain, quantum computing, AI – yet graduates falter at performing basic tasks that their roles demand.

Ravi writes: “While these skills are undeniably important for specific job functions, they are not universally applicable. The mismatch is stark, and the question is glaring – have we become so captivated by the ‘next big thing’ that we’re neglecting the foundational skills essential for real-world success?”

This seems to echo the sentiments of a majority of decision-makers and

seniors in management who point to an emerging paradox: the talent pipeline is bulging with talents who are technically adept at their roles, but stumble at the basics or core skills which directly impact individual and collaborative work.

A Gartner white paper, *Modernizing Talent Management*, presented at the consulting firm’s 2024 Reimagine HR Conference, highlighted this in its research which outlined the critical shifts needed in talent management.

“While these skills are undeniably important for specific job functions, they are not universally applicable. The mismatch is stark, and the question is glaring – have we become so captivated by the ‘next big thing’ that we’re neglecting the foundational skills essential for real-world success?”

Anish K Ravi
Deputy Director of the Centre for Executive Education & Leadership Development at Vinayaka Misson

Based on its survey of 190 human resource (HR) leaders, the No. 1 risk in the organisation is the current skills gap; the No. 2 risk is addressing unclear future skill needs. In fact, its research has determined that investments to bridge the current skills gap in an organisation are five times more impactful for sustained performance than investing in the skills of tomorrow. This pinpoints where organisations should be prioritising their HR spend – into programmes that will address their immediate skills gap over skills which do not have a clear here-and-now application.

Moreover, Dion Love, Vice President who leads its human resource practice, said the research indicates a 26-percentage-point drop in overall employee performance when an organisation’s talent is not consistently ready to meet its changing business needs.

This isn’t to say that corporates should turn away from strategic HR planning in order to fulfil their future talent pipeline, but that they should be looking at both – immediate and future talent readiness – from a more dynamic perspective.

“The skills mandate,” Gartner reports, “spans two time horizons. Employees



need the skills that are essential to their performance today, and they need those that are going to support their future performance. These two parts are challenging in equal measure.”

The advisory firm contends that whilst new generative AI innovations show promise and imbue organisations with greater precision at the workplace, C-suites still find that these efforts only yield minimal results in the short term.

Is there a workaround? Yes, according to Gartner.

“The solution is to prioritise investments in skills intelligence for the roles that have a greater impact on the business and then further refine the focus to those roles that are also highly dynamic – those that are subject to the rapid and ongoing evolution in market forces today.”

Getting the balance just right can be achieved through a strategy that embraces ‘talent fluidity’ – the ability to shape workers’ skills in sync with the changing needs of each organisation. Recognising the interplay between these elements of a talent-fluid strategy can increase organisational readiness by up to 60%.

Here’s how organisations can achieve this:

- + **Identify critical industry-based skills.** In banking and finance, what are the non-negotiable skills that keep daily operations running across the organisation’s value chain? These would include financial literacy, communication, risk analysis, compliance, and ethics. Once identified, the goal would then be to solidify these immediate skills and integrate complementary skills later on.
- + **Leverage on industry partnerships.** For instance, training an individual in AI through a talent-exchange programme with a fintech partner is more effective than enrolment in an online learning course. It also shortens their on-the-field deployment time and equips individuals to remain purposeful and relevant for longer.
- + **Establish mentorships and/or apprenticeships.** Professionals can become key role players in the transference of core knowledge in order to train new employees or upskill existing ones. It also ensures

an uninterrupted work stream by bridging the generational skills gap – veterans can transition towards retirement by passing on valuable know-how and information to the younger generations who are entering the workforce.

- + **A culture of lifelong learning.** Such a culture can be achieved through the creation of continuous, lifelong development programmes that focus on core skills in order to help organisations to identify, develop, and refine their existing talent pool and assess its outcomes on business impact. A study by David Drewery et al, *Lifelong Learning Mindset and Career Success: Evidence From the Field of Accounting and Finance*, shows that those with a higher self-reported lifelong learning mindset were associated with more promotions, greater work satisfaction, and high confidence in their work capabilities. This will, in turn, benefit the organisation through lower attrition rates, more synergistic teams, and overall work satisfaction which will contribute positively to the long-term growth within an organisation.

CHANGE AT THE CORE

Embracing a talent-fluid corporate culture provides a nurturing environment for the greatest value within each individual to grow and thrive amid a dynamic work landscape. This, in turn, is a virtuous cycle which translates into organisational success.

In an industry like banking, where people, roles, and processes are oftentimes pushed to fit into cookie-cutter roles and responsibilities, perhaps the most valuable idea for the future is to be fluid and let your talent flow.

On how to do this, we recommend you read our companion piece, *Sideways Success: When Up is Not the Only Way* on page 34 *

■ *Priscilla Edna Moreira writes for Akasaa, a strategic consulting and publishing firm with offices in London, Sharjah, and Kuala Lumpur.*

Sustainability of Our Own Accord

By Julia Chong

The BCBS' voluntary framework adds granularity to IFRS compliance.

Navigating the increasingly complex matrix of environmental, social, and governance (ESG) reporting has never been more urgent for financial institutions. The good news is that the banking sector in some jurisdictions in Asia are already well-placed to syncretise these standards at both the national and international levels.

Right off the bat, Malaysia had adopted a hybrid reporting standard for its ESG reporting. This was in line with standard-setters' expectations that local entities cast their eyes simultaneously on national-specific and international benchmarks.

Locally, financial institutions are guided by Bank Negara Malaysia's *National Sustainability Reporting Framework* (NSRF), which was announced in September 2024. The NSRF requires entities to "produce consistent and comparable disclosures to enhance the credibility of the reports and promote improved decision-making and stakeholder engagement".





It is no surprise then that the market's reaction to the Basel Committee on Banking Supervision's (BCBS) latest guidance on climate-related disclosures, A Framework for the Voluntary Disclosure of Climate-related Financial Risks (Framework), is lukewarm as **FOREIGN MARKETS GRAVITATE TOWARD DEREGULATION** of the banking sector.



Based on the NSRF, the central bank has set a phased-in timeline beginning 2025 for the financial sector to produce climate-related disclosures that are aligned to the International Sustainability Standards Board's (ISSB) International Financial Reporting Standards' (IFRS) S1 (*General Requirements for Disclosure of Sustainability-related Financial Information*) and IFRS S2 (*Climate-related Disclosures*). More importantly, the ISSB standards are developed in line with the recommendations of the global *Task Force on Climate-related Financial Disclosures*, ensuring that IFRS S1 and S2 compliance forms the baseline for ESG reporting standards.

Moving forward, IFRS S3 (*Biodiversity, Ecosystems and Ecosystem Services*), currently in the research and consultation stage, will integrate biodiversity risk into financial reporting alongside traditional financial metrics.

MORE OF THE SAME?

It is no surprise then that the market's reaction to the Basel Committee on

Banking Supervision’s (BCBS) latest guidance on climate-related disclosures, *A Framework for the Voluntary Disclosure of Climate-related Financial Risks* (Framework), is lukewarm as foreign markets gravitate toward deregulation of the banking sector.

Released this June, the Framework is an extension of the BCBS’ consultation with market players conducted in late 2023 to explore how a Pillar 3 disclosure framework would strengthen the regulation, supervision, and practices of banks for enhanced financial stability. The BCBS has expressly stated that implementation of the Framework, which includes templates to build consistent climate risk data, is flexible and it is left to national supervisory authorities on whether to integrate it nationally.

It is clear that the BCBS’ voluntary Framework complements – not replaces – the ISSB standards in several ways:

- + The Framework was created specifically to address the needs of the banking industry, whereas the IFRS’ S1 and S2 are global sustainability disclosure standards designed for broad capital market application and can be used by corporations of all industries for their general sustainability reporting;
- + The scope of S1 covers the broad spectrum of sustainability-related financial information whilst the Framework is focused on climate-related financial risks;
- + The scope of S2, which outlines climate-related disclosures, applies only to climate-related physical and transition risks which the entity is exposed to – it does not drill down to the minutiae of qualitative and quantitative disclosures on climate-related financial risks that the BCBS’ Framework recommends;
- + Whilst S2 refers to “climate-related risks and opportunities”, the Framework fine-tunes this interpretation and refers only to “climate-related financial risks” – a crucial distinction as the BCBS perspective signals that



Released this June, the Framework is an extension of the BCBS’ consultation with market players conducted in late 2023 to explore how a Pillar 3 disclosure framework **WOULD STRENGTHEN THE REGULATION, SUPERVISION, AND PRACTICES OF BANKS FOR ENHANCED FINANCIAL STABILITY**. The BCBS has expressly stated that implementation of the Framework, which includes templates to build consistent climate risk data, is flexible and it is left to national supervisory authorities on whether to integrate it nationally.

banks should not be seeing any “opportunities” when it comes to climate-related financial reporting.

- + The extensive quantitative and qualitative data points of the Framework signal the trajectory of the regulatory environment and the higher bar that is expected of global systematically important banks.

It is necessary then that the Framework is viewed as a complementary tool for banks which can reduce information asymmetry, ambiguity, and deliver more impactful reporting in the ever-expanding IFRS sustainability standards.

To illustrate this, **Figure 1** is a comparison between the minutiae of the Framework and IFRS S2, which will be useful to banks in two ways: (i) the Framework’s simplified and granular data requirements lessen the ‘grey areas’ when reporting quantitative, qualitative, transition, and physical risks in finance; (ii) it signals regulatory expectations in the near and medium terms for banks.

At a time when the US, UK and Europe are pushing back against a rules-based regime, it is crucial that Asian banks hold their higher ground against destabilising elements.

NUTS AND BOLTS

Here is our comparative analysis of how the BCBS Framework can reduce ambiguity and information asymmetry for banks that are already benchmarking their sustainability reporting to the IFRS' S1 and S2.

Figure 1

Core content	BCBS Framework Reference	Corresponding IFRS S2 equivalent	Material differences between BCBS Framework and IFRS S2
GOVERNANCE	Banks must describe: (a) The governance structure responsible for oversight of material climate-related financial risks, including a breakdown of responsibilities as reflected in the terms of reference, mandates, role descriptions and other related policies.	6. [A]n entity shall disclose information about: (a) The governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about: i. how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);	<ul style="list-style-type: none"> Limits disclosure to climate-related financial risks. Omits reference to 'opportunities' in the analysis of climate-related risks only. Specifies climate-related financial risks only.
	(b) How the board ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to material climate-related financial risks.	ii. how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;	
	(c) How and how often the board and its committees are informed about material climate-related financial risks.	iii. how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;	
	(d) How the board and its committees consider material climate-related financial risks when overseeing the bank's strategy, its decisions on major transactions, and its risk management processes and related policies, including whether the board has considered trade-offs associated with those risks.	iv. how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and	<ul style="list-style-type: none"> Emphasis is on the reporting of material climate-related financial risks only. Omits reference to climate-related opportunities.
	(e) How the board oversees the setting of targets related to material climate-related financial risks and monitors progress towards those targets, including whether and how related performance metrics are included in remuneration policies.	v. how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (see paragraph 29(g)).	<ul style="list-style-type: none"> Emphasis on reporting of material climate-related financial risks only. Limits disclosure to climate-related financial risks. Omits reference to climate-related opportunities.
	(f) Management's role in the governance processes, controls and procedures used to monitor, manage and oversee material climate-related financial risks, including information about: <ul style="list-style-type: none"> whether that role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and whether management uses controls and procedures to support the oversight of material climate-related risks and, if so, how these controls and procedures are integrated with other internal functions. 	(c) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about: <ul style="list-style-type: none"> whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions. 	

<p>STRATEGY AND RISK MANAGEMENT</p>	<p>(a) The climate-related financial risks that could reasonably be expected to materially affect the bank's prospects. Specifically, the bank shall:</p> <ul style="list-style-type: none"> explain for each material climate-related financial risk that the bank has identified whether the bank considers the risk to be a climate-related physical risk or a climate-related transition risk. 	<p>10. An entity shall disclose information that enables users of general purpose financial reports to understand the climate related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall: ...</p> <p>(b) explain, for each climate-related risk the entity has identified, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk;</p>	<ul style="list-style-type: none"> Emphasis on reporting of material climate-related financial risks only. Limits disclosure to climate-related financial risks. Omits reference to climate-related opportunities.
	<ul style="list-style-type: none"> specify the time horizons over which each material climate-related financial risk could reasonably be expected to occur (short term, medium term or longer term); and 	<p>(c) specify, for each climate-related risk and opportunity the entity has identified, over which time horizons — short, medium or long term — the effects of each climate-related risk and opportunity could reasonably be expected to occur; and</p>	
	<ul style="list-style-type: none"> explain how the bank defines 'short term', 'medium term' and 'longer term', and how these definitions are linked to the planning horizons used for strategic decision-making. 	<p>(d) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.</p>	
	<p>(b) The current and anticipated effects of climate-related financial risks on the bank's business model and risk profile. Specifically, the bank shall:</p> <ul style="list-style-type: none"> describe the current and anticipated effects of material climate-related financial risks on the bank's business model and risk profile; and 	<p>13. An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain. Specifically, the entity shall disclose:</p> <p>(a) a description of the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain; and</p>	<ul style="list-style-type: none"> Emphasis on reporting of material climate-related financial risks only. Limits disclosure to climate-related financial risks. Omits reference to climate-related opportunities. Risk profile is outlined in IFRS S2 under its 'Risk Management' section, however, banks can refer to their existing risk management practices and also the BCBS Frameworks' template developed specifically for banks: <ul style="list-style-type: none"> Table 2 CRFRB: Qualitative information on climate-related financial risks (transition, risk, physical risk and concentration risk); Template CRFR1: Transition risk – exposures and financed emissions by sector. Template CRFR2: Physical risk – exposures subject to physical risks; and Template CRFR3: Transition risk – real estate exposures in the mortgage portfolio by energy efficiency level.
	<ul style="list-style-type: none"> describe where within the bank's business model material climate-related risks are concentrated (for example, geographical areas, facilities and types of assets). 	<p>(b) a description of where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).</p>	
	<p>(c) The effects of material climate-related financial risks on the bank's strategy and decision-making and its plans to respond to material climate-related financial risks. Specifically, the bank shall disclose:</p> <ul style="list-style-type: none"> information about how the bank has responded to and plans to respond to material climate-related financial risks in its strategy and decision-making. The bank shall disclose information about: <ul style="list-style-type: none"> current and anticipated changes to the bank's business model, including its resource allocation, to address climate-related financial risks; current and anticipated indirect mitigation and adaptation efforts; how the bank is resourcing and plans to resource the activities disclosed; and quantitative and qualitative information about the progress of plans disclosed in prior reporting periods. 	<p>14. An entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose:</p> <p>(a) information about how the entity has responded to, and plans to respond to, climate related risks and opportunities in its strategy and decision-making, including how the entity plans to achieve any climate-related targets it has set and any targets it is required to meet by law or regulation. Specifically, the entity shall disclose information about:</p>	

	<ul style="list-style-type: none"> Any climate-related targets that the bank has voluntarily set or that the bank is required to meet by law or regulation, if those targets materially affect or are anticipated to materially affect the bank's business strategy and decision-making, including: <ul style="list-style-type: none"> the objective of the target; the part of the bank to which the target applies (for example, whether it applies to the bank in its entirety or only to a part of the bank, such as a specific business unit or specific geographical region); the period over which the target applies and the base period for which progress is measured; any milestone and interim target; whether the target and the methodology for setting the target have been validated by a third party; actions taken or planned to achieve any material targets, including the intended use of carbon offsets; and processes in place to review these targets. 	<ul style="list-style-type: none"> (i) current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon energy- or water-intensive operations; resource allocations resulting from demand or supply-chain changes; resource allocations arising from business development through capital expenditure or additional expenditure on research and development; and acquisitions or divestments); (ii) current and anticipated direct mitigation and adaptation efforts (for example, through changes in production processes or equipment, relocation of facilities, workforce adjustments, and changes in product specifications); (iii) current and anticipated indirect mitigation and adaptation efforts (for example, through working with customers and supply chains); 	
	<ul style="list-style-type: none"> Information about the bank's transition plan, if one has been publicly disclosed voluntarily or in response to law or regulation, including information about key assumptions used in developing the plan, dependencies on which the plan relies and consistency with the bank's broader strategy and risk appetite framework. 	<ul style="list-style-type: none"> (iv) any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies; and 	<ul style="list-style-type: none"> Emphasis on reporting of material climate-related financial risks only. Defines analysis and disclosure of transition planning that is specific to banks and their existing risk frameworks.
	<ul style="list-style-type: none"> Whether and how the bank uses climate-related scenario analysis to inform its strategic decision-making, targets and transition plans, including: <ul style="list-style-type: none"> the climate-related scenarios the bank used for the analysis and the sources of those scenarios; whether the climate-related scenarios used for the analysis are associated with climate-related transition risks or climate-related physical risks; whether the bank used, among its scenarios, a climate-related scenario aligned with the latest international agreement on climate change; the time horizons the bank used in the analysis; and the scope of operations the bank used in the analysis (for example, the operating locations and business units used in the analysis). 	<ul style="list-style-type: none"> (v) how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets, described in accordance with paragraphs 33–36. 	<ul style="list-style-type: none"> Allows for scenario analysis that is already part of banks' existing operations and frameworks. In comparison, IFRS S2 emphasises Scope 1, 2, 3 and greenhouse gas emissions disclosures that are generic for corporations.

	<p>(d) The effects of material climate-related financial risks on the bank's financial position, financial performance and cash flows for the reporting period, as well as their anticipated effects on the bank's financial position, financial performance and cash flows over the short, medium and longer terms, taking into consideration how those climate-related financial risks have been factored into the bank's financial planning.</p>	<p>15. An entity shall disclose information that enables users of general purpose financial reports to understand:</p> <p>(a) the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and</p> <p>(b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).</p>	
	<p>(e) The resilience of the bank's business model and its strategy to material climate-related changes, developments and uncertainties.</p>	<p>22. An entity shall disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The entity shall use climate related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs B1–B18). In providing quantitative information, the entity may disclose a single amount or a range...</p>	<ul style="list-style-type: none"> • Emphasis on reporting of material climate-related financial risks only. • Defines analysis and disclosure of resilience measures that are specific to banks.
	<p>(f) The processes and related policies the bank uses to identify, assess, prioritise and monitor climate-related financial risks, including information about:</p> <ul style="list-style-type: none"> • the input parameters the bank uses (for example, data sources and the scope of operations covered in the processes); • whether and how the bank uses climate-related scenario analysis to inform its identification of climate-related financial risks; • how the bank assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the bank considers qualitative factors, quantitative thresholds or other criteria); • whether and how the bank prioritises climate-related financial risks relative to other types of risk; • how the bank monitors climate-related financial risks; and • whether the bank has changed the processes it uses from the previous reporting period. 	<p>25. [A]n entity shall disclose information about:</p> <p>(a) the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks, including information about:</p> <ul style="list-style-type: none"> • the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes); • whether and how the entity uses climate-related scenario analysis to inform its identification of climate related risks; • how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria); • whether and how the entity prioritises climate-related risks relative to other types of risk; • how the entity monitors climate-related risks; and • whether and how the entity has changed the processes it uses compared with the previous reporting period; 	
	<p>(g) The extent to which and how the processes for identifying, assessing, prioritising and monitoring climate-related financial risks are integrated into and inform the bank's overall risk management process.</p>	<p>(d) The extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.</p>	

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Beginner

Getting Started
in Responsible
Banking

Introduction
to Nature and
Responsible
Banking

Specialist

Clients and
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Climate Change

Executive

Responsible
Banking for
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SUPPORTING THE LOW-CARBON TRANSITION OF SMEs: **Exploring a Lookback Transition Loan Scheme**

By CHENG Lin, SU Yuqiao, ZENG Yuqi

BRIDGING THE SME FINANCING GAP
FOR GREEN TRANSITION.



Small- and medium-sized enterprises (SME) are a critical pillar of a national economy, an essential force in driving a green and low-carbon transformation of the economy and society, and a fundamental basis for many countries to achieve its climate targets. Taking China as an example, public data indicate that the number of SMEs exceeded 140 million in 2020, with approximately 2.52 million new firms established and more than 22,000 new registrations each day, reflecting a highly dynamic and rapidly expanding business landscape. At the macro level, SMEs contribute significantly to China's economic and social development, accounting for over 50% of tax revenues, more than 60% of gross domestic product, over 70% of technological innovation, around 80% of urban employment, and more than 90% of all registered enterprises. This could be a similar situation for many other economies. Within industrial structures, SMEs operate like 'capillaries' reaching the far end of industrial networks, injecting flexibility and robustness into the broader economic system.

SMEs also hold substantial potential in driving the green transition and reducing carbon emissions. While individual SMEs are small compared with large enterprises, their vast numbers translate into significant collective mitigation capacity. Indeed, SMEs are estimated to account for nearly half of carbon emissions in China's industrial sector, underscoring that their adoption of green practices is critical to achieving national emission reduction targets.

In summary, SMEs underpin economic growth, employment, and innovation while also representing a major lever for emissions reduction. Their active participation in the green transition is therefore essential for achieving broader sustainability objectives. To support this process, targeted financial instruments can help unlock their transition potential, accelerate the greening of the national economy and society.

FINANCING BARRIERS TO SMEs GREEN TRANSITION

SMEs rely heavily on external financing, particularly from commercial banks. This dependence makes them especially vulnerable to financing constraints, which continue to hinder their ability to advance green transition efforts. Despite their substantial potential to contribute to the low-carbon economy, SMEs often struggle to secure the sustained and sizable investments required for initiatives, such as equipment upgrades and process improvements. At the same time, existing financing mechanisms impose multiple structural limitations on their access to capital, further constraining their capacity to undertake comprehensive green and low-carbon transformations.

From an accessibility perspective, many SMEs find it difficult to obtain initial loans. The expansion of credit-based lending has been slow, and most firms still depend on collaterals or third-party guarantees — a mismatch with SMEs’ typically small asset base and fluctuating cash flows. Financing costs further compound these challenges. Although the weighted average interest rate on newly issued corporate loans fell to 3.63% in June 2024 and dropped further to around 3.3% for the rest of the year, these reductions have not been fully passed through to SMEs.

A further barrier lies in the expectations around long-term transition planning. Current market standards and many transition-finance frameworks are geared towards large corporates and require detailed decarbonisation pathways toward 2050 or 2060, underpinned by robust forecast, modelling and governance structures. Most SMEs neither have the technical capacity nor the organisational incentives to produce such plans, particularly given their shorter business planning horizons and higher exposure to market and policy volatility. Requiring SMEs to submit long-term transition roadmaps often result in boilerplate documents that do little to guide real investment decisions and can undermine the perceived credibility of their commitments. Therefore, it is both more realistic and more decision-

SMEs rely heavily on external financing, particularly from commercial banks. This dependence makes them especially vulnerable to financing constraints, which continue to hinder their ability to advance green transition efforts. Despite their substantial potential to contribute to the low-carbon economy, **SMEs OFTEN STRUGGLE TO SECURE THE SUSTAINED AND SIZABLE INVESTMENTS REQUIRED FOR INITIATIVES**, such as equipment upgrades and process improvements.

useful to focus on short- to medium-term targets, supported by financing tools that reward verifiable progress over the nearer timeframes.

On the supply side, the market development of green finance and transition finance has been uneven. By the second quarter of 2025, the outstanding balance of green loans had reached RMB42.39 trillion, a growing by roughly 22% year-on-year and far outpacing overall loan expansion. In contrast, transition finance tools, designed to support upgrades in high-carbon sectors, have progressed only modestly with their total scale remaining below 1% of green loans. These structural limitations create long-term challenges for SMEs in securing financing for green transition and continue to slow their transformation progress.

THE CONCEPT OF THE LOOKBACK TRANSITION LOAN (LTL) MECHANISM

Against this backdrop, the proposed LTL mechanism aims at offering a pragmatic way to reconcile the bank’s risk appetite with SMEs’ need for accessible and affordable finance. The core idea is to lower the front-end barrier and tie the full benefit/ incentives to verifiable performance ex



Dimension	Conventional Key Performance Index (KPI)-based Loan	Lookback Transition Loan
Decision sequence	Loan is granted and labelled as transition at origination, based on <i>ex ante</i> KPIs or Sustainability Performance Targets (SPT).	Loan is granted first as ordinary credit; transition label and full benefits are only granted <i>ex post</i> , based on realised performance.
Transition plan requirement	Requires a relatively detailed long-term transition plan (often to 2050/2060) with clear pathway, milestones and governance.	Requires simplified transition documentation focused on short- to medium-term targets and key measures; no full mid-century roadmap needed.
Timing of incentives	Interest step-downs are agreed upfront and applied during the life of the loan, conditional on KPI tests but priced into the structure from day one.	Only a small proportion of incentives is given upfront; most incentives are activated after performance is verified.
Suitability for SME segment	Better suited to large corporates with strong internal data systems, modelling capacity and stable long-term horizons.	Specifically designed to fit SMEs: recognises shorter planning horizons and focuses on achievable short- to mid-term improvements.

Table 1 Comparison of Conventional KPI-based Loan and LTL
Source: CASI

post. Instead of requiring a complete long-term transition plan at origination, banks underwrite loans using normal assessing criteria to grant credit. The borrower provides simplified transition documentation focusing on short- and medium-term targets and key measures rather than a fully-fledged pathway on transition (see **Table 1**).

The distinctive feature of LTL is that incentives are tied to *ex post* performance. During the life of the loan, the borrower's progress against measurable indicators, most often emissions-intensity reductions or energy-efficiency gains, is assessed through proportionate verification. When performance meets pre-agreed thresholds, the loan is retrospectively designated as a transition loan and the interest rate is adjusted downwards according to a predefined schedule. If performance is below expectation, the benefit is reduced; in cases of clear underperformance, the concession can be clawed back contractually. In this way, the full advantage of transition finance is 'earned' rather than granted upfront, allowing banks to reward real outcomes while limiting exposure to transition washing.

To operationalise this earn-out logic, the mechanism is typically structured into three phases. At the start, the bank decides whether to lend based

THE DISTINCTIVE FEATURE OF LTL IS THAT INCENTIVES ARE TIED TO EX POST PERFORMANCE.

During the life of the loan, the borrower's progress against measurable indicators, most often emissions-intensity reductions or energy-efficiency gains, is assessed through proportionate verification. When performance meets pre-agreed thresholds, the loan is retrospectively designated as a transition loan and the interest rate is adjusted downwards according to a predefined schedule.



on its usual credit assessment criteria such as Know Your Customer, cash flow, collateral or other security. At this point, the SME only needs to provide a simplified transition plan with short- and mid-term targets and implementation actions. Once the bank confirms that the SME is creditworthy and the transition plan is credible, it offers a small initial incentive like rate discount to establish the minimum motivation for SMEs actions.

In the second phase, if the borrower achieves the first-year reduction targets, the incentive is maintained

or moderately increased. The exact step-up depends on project quality and risk; there is no obligation to offer aggressive concessions. The focus is to secure reliable access to finance and encourage continued engagement, without undermining risk adjusted returns.

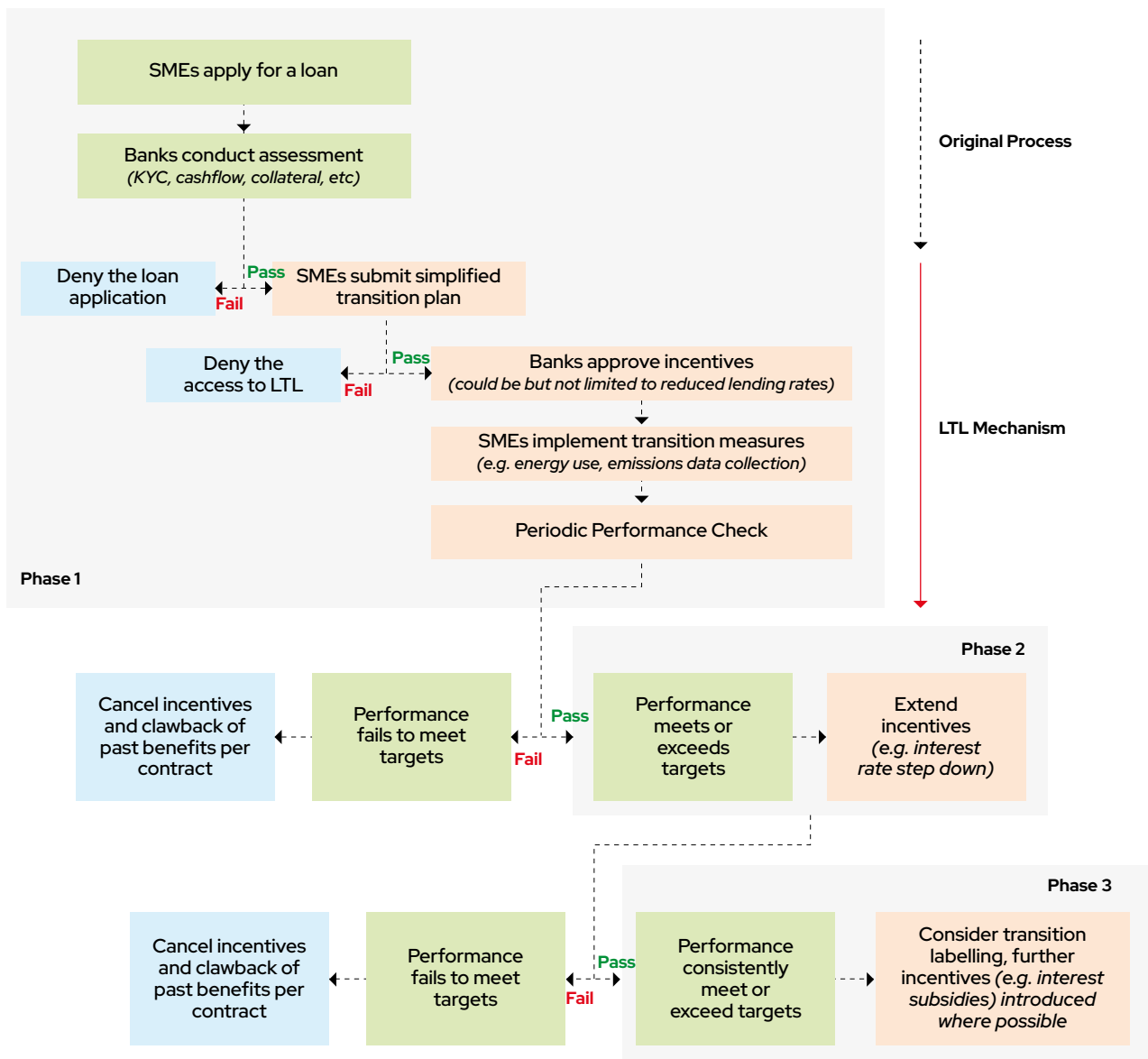
In the third phase, for borrowers that consistently meet or exceed their targets, transition labelling would be considered and, where available, interest subsidies or preferential funding lines are layered onto the pricing. Over the full maturity of the loan, cumulative

borrowing costs fall below benchmark levels. The differential to the benchmark can be seen as compensation for sustained data disclosure and compliance effort rather than as an unconditional subsidy (see **Chart 1**).

IMPLEMENTATION SUGGESTIONS

Effective implementation of LTL requires suitable institutional channels and a supportive policy framework. Under the China context, city commercial banks, rural commercial banks and other local financial

Chart 1 Flowchart of the LTL Mechanism **Source:** CASI





institutions are natural first movers. Counties and small cities already concentrate a large share of SME activity, and these banks have deep local client coverage, experience with small-ticket, high-turnover lending and relatively flexible governance. This makes them well placed to pilot LTL into existing SME and green-credit products, especially within designated green-finance and climate-investment pilot zones.

For banks, a successful LTL rollout can help build a pipeline of performance-based transition assets, improve portfolio resilience and support regulatory transition targets without sacrificing risk-adjusted returns. For SMEs, LTL offers a clearer, more realistic path to accessible funding.

The LTL framework must be underpinned by robust risk management and data verification arrangements. Banks should adopt clear internal policies to ensure that concessional pricing is always proportionate to verified transition performance and do not dilute overall returns. Defining unified indicators and sector-specific performance threshold help to keep pricing outcomes transparent and consistent. Another key objective is to minimise transition-washing risk:

Local governments and industry funds can establish shared pools for interest subsidies and fee support, explicitly linked to data quality and verified emission-reduction results.

INITIATIVES SUCH AS THE CAPACITY-BUILDING ALLIANCE OF SUSTAINABLE INVESTMENT (CASI) OFFER COMPREHENSIVE COURSES AND CASE LIBRARIES

that can be integrated into banks' and firms' training and assessment systems, helping to shorten the learning curve from concept to practice.

loans labelled as 'transition' should be demonstrably linked to credible decarbonisation.

To support this, banks need processed data tracking and verification infrastructures. Standardised toolkits such as data templates for baselines and emission-factor libraries could be an easy first step. Automated consistency checks comparing energy use with output, or reconciling reported figures with external databases, can be used to flag anomalies and prioritise files for manual review.

Finally, targeted public support and capacity building are needed to complement the financial instrument. Local governments and industry funds can establish shared pools for interest subsidies and fee support, explicitly linked to data quality and verified emission-reduction results. Initiatives such as the Capacity-building Alliance of Sustainable Investment (CASI) offer comprehensive courses and case libraries that can be integrated into banks' and firms' training and assessment systems, helping to shorten the learning curve from concept to practice.

Taken together, these measures would allow the LTL to become a practical bridge between SME financing realities and the integrity requirements of transition finance. By lowering front-end barriers, tying material benefits to verified outcomes and embedding the mechanism in a coherent data and policy ecosystem, LTL can align incentives for banks and SMEs and help ensure that transition-finance resources deliver credible, measurable impact. *

■ *Capacity-building Alliance of Sustainable Investment (CASI) is a capacity-building initiative that helps financial institutions, regulators, and market participants strengthen practical skills in sustainable and transition finance. CASI convenes global experts and local practitioners to translate standards, tools, and policy developments into actionable learning and implementation support through forums, seminars, technical assistance, and e-learning.*

DO IT FAST OR DO IT SLOW?

By Kannan Agarwal

WILL CBDC DISINTERMEDIATION REDUCE OR ENHANCE FINANCIAL STABILITY? DEPENDS ON HOW YOU COMMUNICATE IT.

The rapid adoption of digitalisation in financial services brings with it changes in consumer expectations. We have seen demand leapfrog since Covid-19 for mobile-first, near-instantaneous payment methods; the mainstream adoption of cryptocurrencies and stablecoins as mediums of exchange; the declining circulation of cash; and the creation of payment systems that focus on end-user convenience, bypassing central bank settlement gateways.

It is no wonder that the spotlight is now on central bank digital currencies (CBDCs) in both retail and wholesale segments. As at 2024, 134 countries and currency unions, comprising mostly of the Group of 20 economies, are exploring CBDCs. This accounts for close to 98% of the global gross domestic product.

How will the financial system evolve to meet these changing expectations and, more importantly, what does this entail for financial stability?

DISINTERMEDIATION 'FAST' AND 'SLOW'

The traditional thinking amongst most standard setters is that the availability of a retail CBDC would be detrimental to the global financial system, that CBDCs – which are a near-perfect substitute for cash, held at no cost, and in large volumes – would destabilise the status quo. If held in significantly large volumes, it signals that consumers had switched out of cash and reduced bank deposits; credit supply would dwindle, making it more expensive to borrow; and in the absence of appropriate safeguards, the fear of 'digital runs' would multiply. Or will it?



Recent research on the subject of disintermediation – the process where CBDCs reduce the use of banks by replacing their role as the main intermediaries for deposits – point to more nuanced analyses and outcomes.

In *CBDC and Banks: Disintermediating Fast and Slow*, the Bank of International Settlements' (BIS) July 2025 working paper authored by Rhys Bidder et al, the researchers put this question to the test. Using the results of an initial Deutsche Bundesbank survey of German households regarding their projected use of a hypothetical digital Euro (dEUR), they built a macroeconomic model to simulate three things: (i) how adoption of the dEUR could impact the banking sector, (ii) how it would perform under endogenous systemic bank runs, and (iii) its effect on welfare.

In the survey, the central bank of the Federal Republic of Germany posed CBDC-related questions to approximately 5,700 German respondents in order to analyse behavioural changes under two scenarios – during 'normal' times (known as slow disintermediation) and periods of banking stress (fast disintermediation). The results of the survey indicate:

- > **Slow disintermediation:** In normal times, 43.2% of respondents desired to hold unrenumerated dEUR. This adoption rate increases to 54.3% if dEUR offered the same remuneration as the respondents' current accounts. Among those who were keen on holding dEUR, the introduction of the dEUR saw movements out of other asset classes, with unrenumerated dEUR projected to be approximately 21% of the portfolio on average. This indicates that a significant number of respondents view dEUR as an attractive substitute for payment and store-of-wealth.
- > **Fast disintermediation:** In times of banking stress, between 49% and 58% of respondents said they would withdraw their funds to dEUR, based on the level of information furnished to them regarding the availability and convertibility of dEUR relative to bank money. Nonetheless, the dominant asset to withdraw to remains cash, irrespective of whether dEUR is an

option. As such, the introduction of the dEUR induces the substitution from cash as an asset to 'run' to and also exacerbates bank deposit withdrawals during times of general banking distress.

- > **Influential determinant:** 'Trust' in the issuing authority – which in this hypothetical instance would be the European Central Bank (ECB) – is a statistically significant determinant in the desire to hold dEUR. High trust in the ECB raised the probability of adoption by about 10 percentage points, whilst low trust is associated with a 22-percentage-point plunge.

STABILITY OR FRAGILITY?

In the BIS paper, Bidder and his co-authors distinguish between the two channels through which a CBDC affects the economy – the 'liquidity premium' and 'storage at scale' channels – and discuss their respective effects on financial stability:

- + **Liquidity premium channel:** The introduction of a CBDC reduces the demand for deposits, thus reducing the liquidity premium that banks earn from deposits. Depending on whether the economy is undergoing a time of 'slow' or 'fast' disintermediation, this liquidity premium could have opposite effects on financial stability.
- + In normal times, as banks experience a lower liquidity premium, the size of the financial sector grows correspondingly smaller. This mechanism enhances financial stability via slow disintermediation as consumers and industry have the opportunity to shift their risks and expectations.
- + During turbulent times, such as a bank run, the liquidity premium channel has a destabilising effect on financial stability. Existing banks and newly emerging ones have a tougher time attracting deposits during a run and in its aftermath.
- + Although the impact of the storage-at-scale channel is negligible during 'slow' disintermediation, it leaps to the fore during 'fast' disintermediation. This is due to the

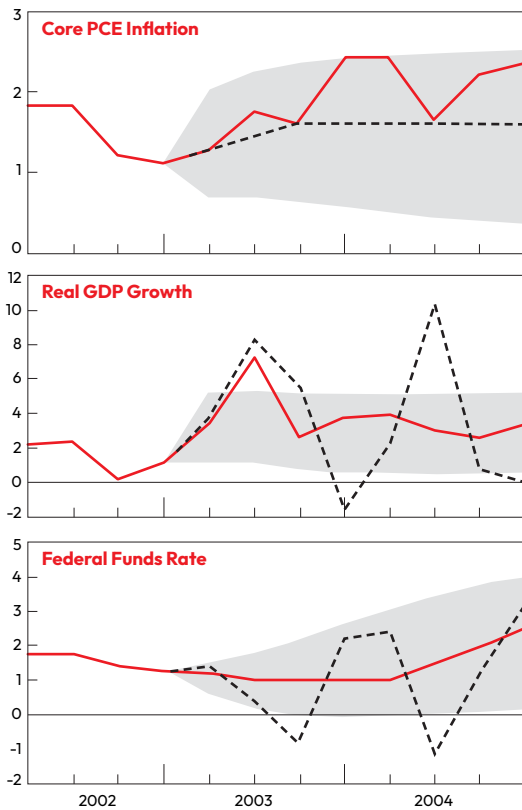


CHART 1
“No-Communication” Counterfactual

Notes: The dashed line represents the counterfactual evolution of the economy predicted by our model had monetary policy been set to achieve the path for inflation depicted in the top panel. This counter-factual is conditional on the posterior mean of the parameters. Under the “no-communication” scenario, the desired path for inflation is achieved by the choice of the interest rate shock while all other shocks are set at their Kalman smoother estimate. The shaded area represents the 75 percent symmetric probability interval for the unconditional forecast. The red line represents the observed realisation of each series. PCE is personal consumption expenditure.
Source: Authors’ calculations.

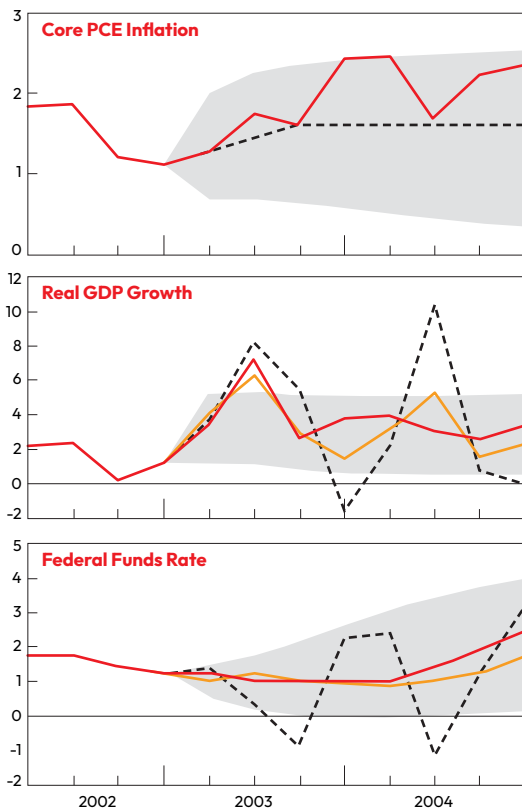


CHART 2
“Full-Communication” Counterfactual

Notes: The orange line represents the counterfactual evolution of the economy predicted by our model had monetary policy been set to achieve the path for inflation depicted in the top panel. This counter-factual is conditional on the posterior mean of the parameters. Under the “full-communication” scenario, the desired path for inflation is achieved by the choice of the inflation target while all other shocks are set at their Kalman smoother estimate. The shaded area represents the 75 percent symmetric probability interval for the unconditional forecast. The red line represents the observed realisation of each series. The dashed line is the conditional forecast under the “no-communication” scenario. PCE is personal consumption expenditure.
Source: Authors’ calculations.

▶ MARKET-TALK THERAPY

In **Chart 1**, we present the outcomes associated with what we call a ‘no-communication’ monetary strategy (**dashed line**), while in **Chart 2** we compare these results with those that would emerge under a ‘full-communication’ strategy (**orange line**).

Under the no-communication strategy, the path for the interest rate compatible with the desired evolution of inflation is achieved each period through “surprise” departures from the historical rule. In contrast, under the full-communication strategy, the Federal Reserve implements the same path for inflation by announcing an inflation target that is consistent with it. The crucial difference between the results obtained under the two scenarios stems from the key role that expectations play in the DSGE model.

Under the full-communication strategy, inflation expectations are immediately affected by the announcement of an inflation target. These expectations in turn have



a direct effect on actual inflation without requiring a contraction in real activity to force businesses to contain their price increases...

[T]he differences between the results of the two policy strategies are striking.

In the no-communication case, inflation can be stabilised only through wild movements in the federal funds rate. As a result, GDP growth is also extremely volatile: it falls below zero in 2004, but then recovers to a quarterly (annualised) growth rate of 10% and ends the period at zero. These movements in output are indeed extreme. They lie well outside the 75% forecast probability interval reported in the chart. In fact, the quantitative details of the evolution of output and the interest rate under the counterfactual simulations should not be taken literally, since they depend significantly on the details of the model and on the assumption that the central bank insists on perfectly stabilising current inflation. However, the qualitative

pattern of higher volatility under the no-communication strategy is a robust feature of models in which expectations matter.

Under the full-communication strategy, in contrast, the desired path for inflation can be achieved with much less pronounced fluctuations in real growth and an almost unchanged policy relative to the actual path.

Interest rates need not rise and output need not fall significantly because a shift in expectations brought about by clear communication of the Federal Reserve's inflation objective largely brings inflation under control.

Note that the results of these counterfactual exercises should be interpreted with caution. Their objective is not to prescribe an alternative to the policy followed in 2004, but rather to investigate how a different path for inflation might have been achieved. In fact, according to Krugman (1998) and Eggertsson and Woodford (2003), an increase in inflation expectations might be the best monetary strategy to escape a liquidity trap.

nature of CBDCs which, unlike cash, can be scaled up with (theoretically) no technological constraint and households can move much larger sums into CBDC compared to cash in a non-CBDC world. The survey indicates that consumers would hold four times more CBDC than cash during a bank run.

These findings and other literature on CBDCs have influenced the discussion amongst regulatory authorities surrounding its design.

Firstly, the researchers recommend that there should be close control and limits imposed on how much CBDC can be held. "Setting a limit that is 'high enough' in normal times, but not 'too high' in runs," explains Bidder, "exploits the benefits of 'slow' disintermediation, while limiting the damage from 'fast' disintermediation."


Second, regulators should consider the remuneration of CBDCs by calibrating a positive or negative return on CBDC holdings based on the business cycle. Essentially, the researchers opine that a credit boom would make CBDCs more attractive compared to deposits and constrain the credit expansion of the banking sector, which would lead to increased financial stability. "During a run," they explain, "the remuneration turns negative, limiting the appeal of CBDC, and moderating 'fast' disintermediation."

However, what could perhaps tip the scales in favour of policies by regulators is how well the message is conveyed to the general public.

IT'S FUNNY HOW WE DON'T TALK ANYMORE

...especially in banking and finance, where clarity in communications have a direct impact on managing market and consumer expectations.

In previous issues of *Banking Insight*, we discussed the shift within central banks towards a more proactive stance in communicating crucial technical knowledge to regular folks as a way to increase buy-in of their policies. This is especially important given the current niggling doubts brought about by the fast-growing private-credit



The main lesson that we derive from the exercise is that the most effective approach to controlling inflation is through the management of expectations, rather than through actual movements of the policy instrument. This lesson seems to be well understood by the public, given the amount of attention and speculation that usually surround the pronouncements of central bankers on their likely future actions. DSGE models have the potential to broaden this understanding by adding a quantitative assessment of the link between current policy, expectations, and economic outcomes—and thus to clarify the effect that different systematic approaches to policy have on those outcomes.

Source: Adapted from *Policy Analysis Using DSGE Models: An Introduction*; Argia M Sbordone, Andrea Tambalotti, Krishna Rao, Kieran Walsh; Federal Reserve Bank of New York Economic Policy Review; October 2010.



industry, which poses a major risk to financial services.

The BIS research findings are significant as it builds a working DSGE (dynamic stochastic general equilibrium) model for central banks, allowing policymakers a more formal way to formulate and communicate their policy decisions to the general public. Although DSGEs have been in use for a long time by industry, only recently have regulators adopted this as a strategic tool to ‘show, not tell’ the average citizen how its policy can impact everyday life.

It is crucial to note that all predictive models – including DSGE – are imperfect. Under the microscope of real-life pressures, expectations surrounding inflation, prices, interest rates tend to be adaptive instead of forward-looking. It is in such critical moments, when there is a breakdown between policy and reality, that effective communication of such policies can mend the rift. Indeed, the DSGE framework performs best when coupled with a strong communication strategy in order to maximise its effectiveness as a tool to manage expectations and influence future behaviour.

What does communication have to do with future CBDC policy and instrument design? Well, quite about everything.

When Aleš Michl, Governor of the Czech National Bank, was confronted with its DSGE prediction to increase interest rates to more than 10% (an over three

percentage point increase) in order to check inflation expectations, he famously ignored the model and explained why.

In an interview with the online portal *Central Banking*, Michl explains: “Models are not yet perfect...In the automotive industry, there’s a concept called ‘automation complacency’, where an overreliance on automation can lead to neglect in monitoring, potentially resulting in performance errors...Ultimately, we chose to ignore the DSGE model’s recommendation, a decision that has since proven correct.”

The central banker then leveraged the power of conventional and social media in order to communicate this policy decision in layman’s terms to a mass audience.

“In my living room,” he said, “I picked up a bottle of ketchup, recorded a video on my phone, and posted it on my X [formerly Twitter] account. This marked the beginning of a media campaign aimed at lowering inflation expectations and helping the public understand that part of the inflation caused by supply bottlenecks was temporary. My fantastic fellow board members were also actively involved in communicating with the public.

“Through interviews with Czech tabloids and posts on social media platforms, I used the analogy of a new ketchup bottle: when you turn it over, nothing comes out at first because the ketchup is stuck in the narrow neck. Then suddenly, a lot comes out at once, and eventually, it flows smoothly.

This illustrated that, just as the ketchup eventually flows normally, we anticipated that supply chain issues would resolve themselves and prices would stabilise.

“While I don’t have precise data to confirm which aspects of this campaign were most effective, the ketchup bottle even became a meme, and in today’s world, memes on X are powerful tools of communication. It really helped.”

KETCHUP BOTTLENECK UNCLOGGED

The Czech experience exemplifies the need for policies to be built in tandem with an effective communication strategy. Its effectiveness in smoothing out bumps, especially in times of turbulence, should not be underestimated in any economy, big or small.

This critical lesson is what the Federal Reserve Bank of New York (FRBNY) discovered in *Policy Analysis Using DSGE Models: An Introduction*, which ran in the October 2010 issue of the *FRBNY Economic Policy Review*. It propounds that “an important lesson derived from the [DSGE modelling] exercise is that the management of expectations can be a more effective tool for stabilising inflation than actual movements in the policy rate; this result is consistent with the increasing focus on central bankers’ pronouncements of their future actions.”

This is proven in the FRBNY’s simulation and analysis of a monetary policy that is rolled-out in two different ways: a ‘no-communication’ versus ‘full-communication’ strategy, which bore divergent outcomes. “The differences between the results of the two policy strategies are striking.” See *Market-talk Therapy* on page 70 for details.

In short, even the best-designed CBDC is sub-optimal if policymakers, regulators, and banks do not actively manage expectations by embedding effective communication strategies.

This truth holds, in fast and slow times too. *

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