Gurdeep Singh, CB, Deputy Chairman of AICB's Chief Credit Officers' Forum and Regional Head of Retail Risk at CIMB Bank Bhd
Risk & Reward

BANKING INSIGHT

IDEAS FOR LEADERS | DECEMBER 2024

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Trustless

Banking's next iteration calls for a radical shift within.

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Financial Fragmentation: How Geopolitical Risks Are Altering Global Payment Flows

CHECK POINT: ASEAN TAXONOMY VERSION 3

DATA GOVERNANCE AT THE FORE

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Risk & Reward

Reporting by the Banking Insight Editorial Team

Keeping banks relevant in the face of tomorrow's turbulence.

As emerging financial technologies reshape the banking landscape, ***GURDEEP SINGH, CB, DEPUTY CHAIRMAN OF AICB'S CHIEF CREDIT OFFICERS' FORUM AND REGIONAL HEAD OF RETAIL RISK AT CIMB BANK BHD***, weighs in on the challenges and opportunities that have shaped his perspective as a risk professional, how these values resonate with markets, and why he believes banks continue to be a force for good in society.

Q ***Given your illustrious career in banking, what have been some of the highlights that have kept you in the sector?***

In my banking career of 20 years, I have worked in two banks across two countries, and have seen two major economic crises. Considering, banking was never my career aspiration at the start of my tertiary education, it has been an interesting journey so far.

The best learning experiences in risk management are usually during a crisis. From a risk management perspective, it was an extremely challenging and satisfying experience navigating through the Covid-19 pandemic. Helping our borrowers during the pandemic, while safeguarding the bank, was a fulfilling experience, especially given that the events unfolding at the time were unprecedented. It helped emphasise the vital role that banks play in advancing the customers' needs and society's as well as in fostering greater economic empowerment.

Professionally it has been a satisfying journey – from learning the nitty-gritty of retail risk management at the beginning of my career to being in a position where I can shape things and influence decisions while adapting to new trends. Along the way, I have had numerous learning opportunities to enhance my technical skills to help me do a better job and adapt to new technologies as the banking industry evolves. I have also had the privilege of working under visionary leaders and excellent colleagues.

In the last 20 years, as the banking industry has evolved, so has the regulatory landscape; forcing banks to adapt to remain competitive. Banking is again at the precipice of change, with digital challengers coming in to compete with traditional banks. I continue to do my part to ensure CIMB Bank remains competitive in this changing landscape. I am pleased that the learning opportunities continue, ensuring that things do not get mundane.

One thing which has remained constant throughout my career is that banks continue to

TRUSTLESS

By Angela SP Yap

Banking's next iteration calls for a radical shift within.

What is trust?

In an industry which draws much of its value from an intangible like trust, it is a question that doesn't get asked often or deeply enough.

Basel III's emphasis on capital adequacy, stress tests, and liquidity thresholds were devised in a post-2008 world to restore trust in banking after the global financial crisis. Close to two decades later, is this framework sufficiently relevant to tackle the challenges that have emerged since?

Today, innovations in decentralised finance or DeFi – financial services that are performed with no centralised authority – are challenging the status quo of traditional banking. The growing use of blockchain-based technologies for lending, investing, and trading has created a seismic shift that is edging out trusted third-party authorities like financial institutions in favour of trust through technological consensus.

In commonspeak, we are moving from 'trust' to 'trustlessness'; with trust in the financial system now being substituted for automated verification processes in the blockchain. Generative artificial intelligence (GenAI), machine learning (ML), smart contracts – these are touted as a cut above traditional banking. Are they?

MY CODE IS MY BOND

In a 2022 speech at the Eurofi Financial Forum, Pablo Hernández de Cos, then Chair of the Basel Committee on Banking Supervision, said: "A trustful and trusted banking system also depends on a scaffolding of regulatory safeguards, including with regard to conduct, safety and soundness, and market integrity.

"Why do I mention all of this? A narrative accompanying some of the emerging streams of financial innovation is centred around the concept of 'trustlessness'. This is often touted as a superior and more efficient model than today's system of banking, allowing individuals to transact in a quasi-pseudonymous manner, with trust being substituted by automated verification mechanisms. 'Trust me, I'm a coder' is almost a mantra in this world.

DATA GOVERNANCE AT THE FORE

By Dr Amanda Salter

BALANCING BUSINESS INTEREST IN LIGHT OF THE LATEST LEGISLATIVE TRAJECTORY.

"There ain't nothing safe in this world," as Billy Idol growls in the 1982 hit song *White Wedding.* Most organisations would ruefully agree.

Just recently in October 2024, a malware attack incapacitated India's hill state of Uttarakhand, bringing the government's entire IT infrastructure to a standstill, impacting critical services including the state's Secure Internet Service and the State Wide Area Network. The resulting shutdown of 186 department websites lasted at least days; two weeks later, 32 of those sites were still offline due to outdated systems and expired security software licences.

The attack also revealed crucial gaps in the Uttarakhand government's business continuity plans, leaving officials scrambling to restore critical citizen services and protect sensitive data. In response, a new cybersecurity task force has been proposed together with regular safety audits, mandatory updates for antivirus, and security software at all government offices. A new Chief Security Officer post has been mooted as well as a disaster recovery centre. No doubt, harsh lessons have been learned.

Critics may tut and shake their heads but there can be no righteous stone-throwing by the rest of us glasshouse dwellers. Cybersecurity attacks are ever increasing in sophistication and frequency and similar disasters lie in wait. To appropriate a well-known data security saying, there are only two types of banks: those that know they've been compromised and those that don't. To survive, regulation and legislation are critical in efforts to future-proof the critical sectors like banking.

The following is a quickfire summary of the most interesting changes in data governance and data security laws across Asia Pacific.

WATERSHED LEGISLATION

There are some common legislative trends emerging in the area of data security, such as an increased level of scrutiny around operational resilience and enhanced data breach notification obligations. However, there is still a broad spectrum of disparate legislative requirements coming into force across multiple countries, which is likely to inflate compliance costs for banks.

CHALLENGES FOR THE BOARDS OF THE FUTURE

By Bob Souster

The future differentiator between 'excellent' and 'good' in organisations.

One of the most important drivers of good corporate governance is leadership. In most banking organisations, the responsibility for leadership lie with the board of directors. It is the directors who decide the organisation's medium- to long-term 'road to travel', commit resources to enable the achievement of organisational goals, as well as putting processes in place to keep the organisation on that road.

The board structures of banks have remained remarkably stable for many years, despite the many upheavals that the banking industry has faced. This article describes the alternative structures that can be adopted, considers some of the challenges that boards may have to face in the future and discusses how this may affect the ways in which boards operate.

SINGLE-TIER BOARDS

A single-tier board is the most commonly used structure in both private and public limited companies.

The board structures of **BANKS HAVE REMAINED REMARKABLY STABLE FOR MANY YEARS,** despite the many upheavals that the banking industry has faced. This article describes the alternative structures that can be adopted, considers some of the challenges that boards may have to face in the future and discusses how this may affect the ways in which boards operate.

It is typically made up of **executive directors**, who are full-time employees of the company, and **non-executive directors**, who are appointed as external officers. While executive directors have a contract of service, the non-executive directors are engaged under a contract for service. In most jurisdictions, both types of directors are agents of the shareholders (owners) of the company and have the same legal duties.

Over time, best practices in corporate governance have come to reflect the importance of having proper 'checks and balances' in place to ensure that power and authority at the board and executive levels are not concentrated in too few hands. As a result, many codes of corporate governance now highlight the crucial roles of non-executive directors, with some codes stating that the board of directors should have a majority of independent non-executive directors who can offer an objective view of strategy options as well as providing scrutiny and oversight. Some codes also stress the importance of **segregation of roles**, such as having different persons occupying the role of Chairman of the board and Chief Executive Officer.

TWO-TIER BOARDS

The two-tier board is an alternative structure adopted in several countries, notably in Europe. As the term suggests, a two-tier board has two levels. The **Supervisory Board** sits at the apex of

Financial Fragmentation: How Geopolitical Risks Are Altering Global Payment Flows

By Julia Chong

The radical uncertainty of this risk type should not be underestimated.

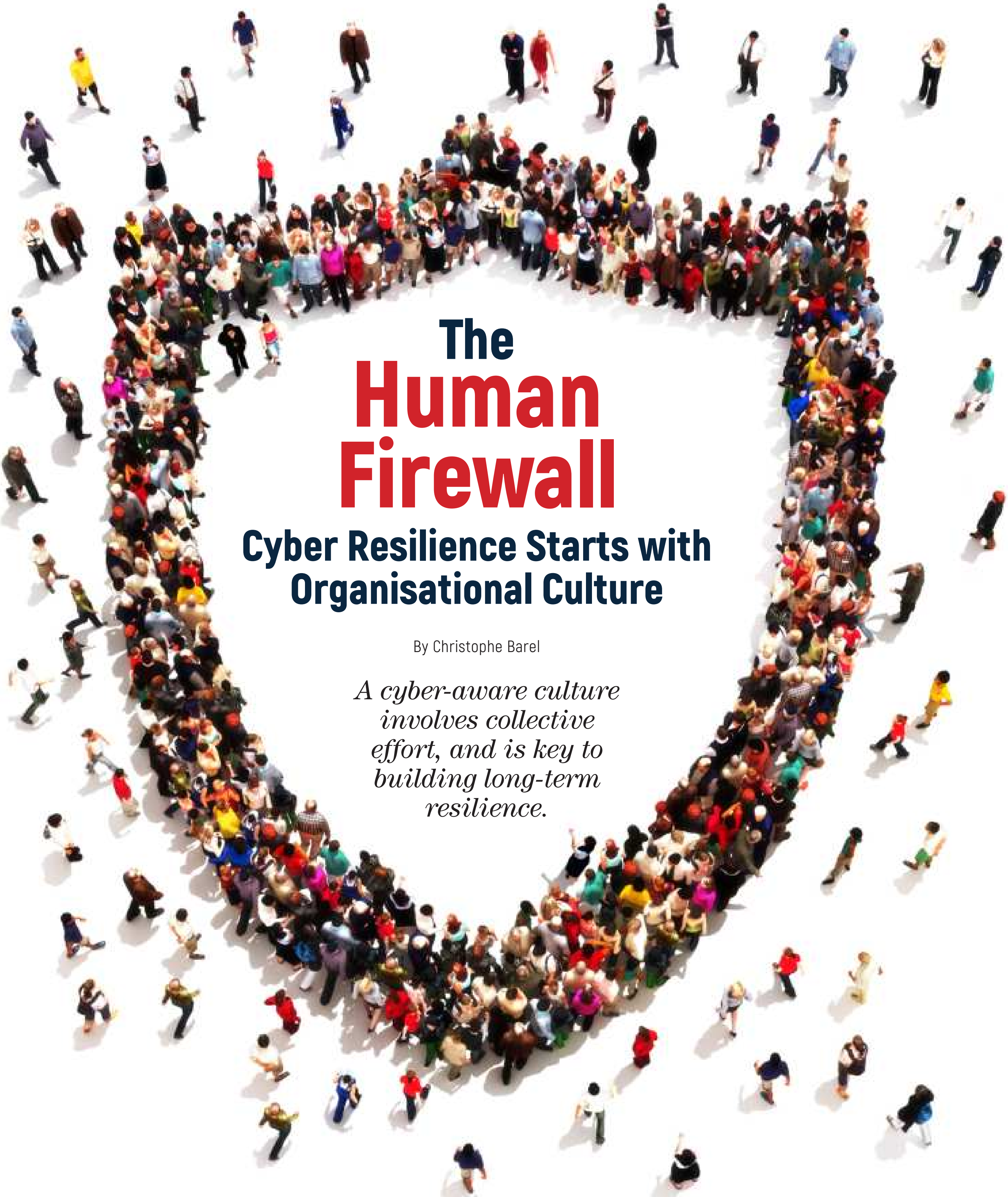
In this year's *Global Payments Report,* management consulting firm McKinsey estimate that global payments flow in 2023 hit an all-record high of USD1.8 quadrillion with a revenue pool of USD2.4 trillion on the back of 3.4 trillion transactions. This represents a 35% share of total banking revenue and indicates the severe knock-on effects a change in global payment systems can have on the financial system.

UNEQUAL RISKS

The fact that these record numbers come at a time of heightened geopolitical upheaval is cause for concern. Notably, the Russia-Ukraine conflict and deteriorating US-China relations have negatively impacted cross-border investment portfolios and bank credit allocation.

In banking, although the risk function sits squarely under the chief risk officer's purview, the treatment of geopolitical risk is often left out of the equation, or at best, treated as a subjective touchy-feely sort of analysis mostly because it is viewed as an ambiguity compared to other quantified risks under the Basel regime.

Unlike loan default rates or tiered capital allocation rules, financial institutions cannot rely on traditional, quantifiable risk indicators when measuring geopolitical risk. The closest guidance that the Basel Committee on Banking Supervision has



The Human Firewall

Cyber Resilience Starts with Organisational Culture

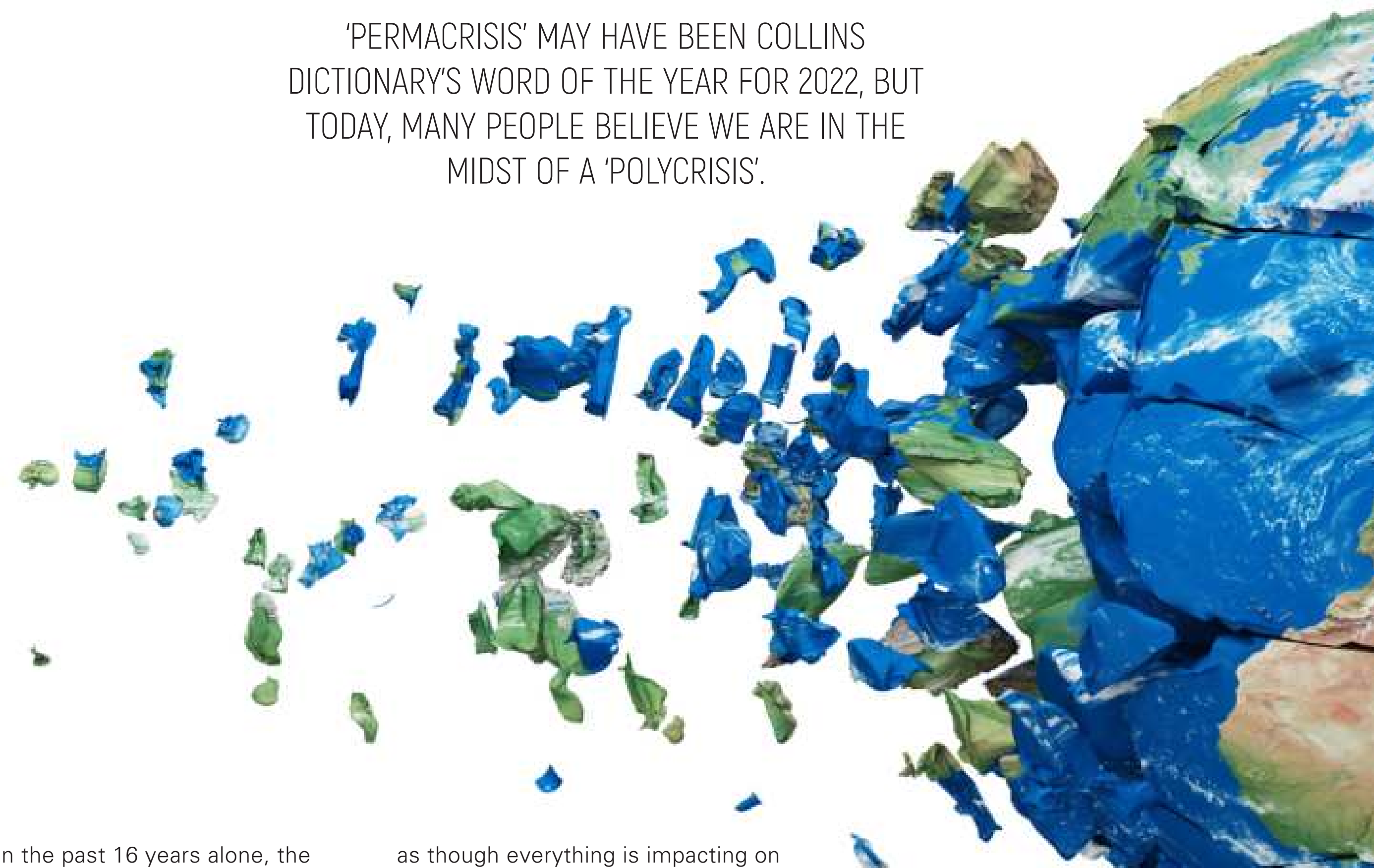
By Christophe Barel

A cyber-aware culture involves collective effort, and is key to building long-term resilience.

POLYCRISIS? WHAT POLYCRISIS?

By Chartered Banker Institute

'PERMACRISIS' MAY HAVE BEEN COLLINS DICTIONARY'S WORD OF THE YEAR FOR 2022, BUT TODAY, MANY PEOPLE BELIEVE WE ARE IN THE MIDST OF A 'POLYCRISIS'.



In the past 16 years alone, the world has lurched from a global financial crisis to a climate crisis to a pandemic to a cost-of-living crisis. The world has experienced unprecedented weather-based activity – ranging from droughts and floods to devastating wildfires – and has recently felt the very real threats of slow growth, superpower rivalry and a potential third world war.

In late 2022, Columbia scholar and *Financial Times* contributor Adam Tooze popularised the term polycrisis, which describes the simultaneous and overlapping crises facing the world today.

"If you've been feeling confused and as though everything is impacting on you all at the same time" he said, "this is not a personal, private experience. This is actually a collective experience."

The roots of the word polycrisis, according to Tooze, come from an idea that was launched by French theorist Edgar Morin, which was then picked up by Jean-Claude Juncker, the President of the European Commission, in 2016.

Juncker was describing the challenge of governing Europe in the face of the Greek debt catastrophe in the aftermath of the 2008 global crisis, Putin's initial aggression against Ukraine in 2014 and the refugee emergency in Syria triggered by the violent state crackdown in March 2011, which spilled over into Europe, all against the backdrop of Brexit. But it was at the annual meeting of The World Economic Forum in 2023, often referred to as Davos, where, prompted by our most recent combination of worldwide emergencies, the word came to the attention of those within corporate risk.

A FRACTIOUS AND FRAGMENTED WORLD

David Coleman, Vice President, Chief Risk Officer, European Bank for Reconstruction and Development,

Financial Abuse: When Banks Can Become Agents of Change

By Liam Lisu

How financial institutions can recognise, respond, and prevent the cycle by empowering its victims.

Financial abuse is a pervasive issue that, unlike physical abuse, operates invisibly through bank statements, loan applications, and account transactions. Although still on the fringes of finance, financial abuse is slowly but steadily gaining visibility.

Banks can do more than manage transactions — they can provide lifelines to victims seeking independence, transforming from passive service providers to proactive protectors. By identifying the signs, establishing strong support systems, and partnering with domestic violence organisations, banks can play a crucial role in protecting such vulnerable individuals.

UNDERSTANDING FINANCIAL ABUSE

Who Are the Victims?

Although many view this as an issue that affects women, the reality is that financial abuse can occur in any relationship – husband-wife, mother-child, elder-carer – irrespective of gender. While anyone can fall prey to financial abuse, certain groups are disproportionately affected more than others:

- **Single Parents:** Nearly 48% of single parents surveyed by financial charities StepChange and Gingerbread in 2021 experienced economic abuse, including controlling resources and limiting access to funds.
- **BAME (Black, Asian, Middle-Eastern) Women:** BAME women face higher vulnerability due to systemic barriers, financial dependence, and cultural isolation.
- **People with Disabilities:** Disabilities increase dependency on partners, leaving them more vulnerable to financial exploitation. They also have a harder time accessing higher-paying employment opportunities.

While more common in low-income households, financial abuse also occurs in affluent ones, where wealth may mask financial control.

How Does it Happen?

According to UK charity Surviving Economic Abuse, financial abuse manifests in three ways:

- **Blocked Resources:** Perpetrators may prevent victims from accessing education, employment, benefits, or financial accounts.
- **Controlled Resources:** Victims have their purchasing decisions dictated, are forced to justify expenses, or lose access to shared assets like vehicles or property.
- **Prolonged Exploitation:** Abusers create coerced debts, misuse joint accounts, or damage property to impose long-term financial burdens on victims.

LONG-TERM IMPACT ON VICTIMS

Financial abuse leaves long-lasting scars, often burdening victims with debts that damage credit scores and limit access to housing, loans, and other financial services. Abusers may also sabotage careers or confine victims to low-paying jobs, deepening financial instability.

Because of this, rebuilding independence may be nearly impossible for many victims, especially those without essential documents like formal identification or passports. When children are involved, the impacts also become intergenerational, perpetuating cycles of economic insecurity and dependency.

THE ROLE OF FINANCIAL INSTITUTIONS

With an understanding on how financial abuse can impact victims, the UK Financial Conduct Authority (FCA) created the Vulnerability Guidance Framework below to assist financial institutions to detect,

NEVER TO BE BEDFELLOWS?

By Angela SP Yap and Kannan Agarwal

THE DIVIDE BETWEEN CRYPTO AND BANKING PROPER LOOMS LARGER THAN EVER.

On 27 January 2023, the Federal Reserve Board (FRB) rejected the application of Custodia Bank, a special purpose depository institution (SPDI), for the opening of a master account with the Federal Reserve System.

Founded by its CEO and ex-Morgan Chase banker Caitlin Long, Custodia is an uninsured state-chartered bank that provides a regulated path for crypto companies to access banking services. A master account with the Federal Reserve would have given the bank direct access to the national payment and settlement system, cutting out the high costs it currently incurs through intermediary financial institutions because of its SPDI status.

The FRB denied its application based on two grounds: that Custodia's risk management frameworks were not sufficient to address crypto risks; and that it also was involved in "novel and untested crypto activities that include issuing a crypto asset on open, public and/or decentralised networks."

NAVIGATING THE INTERSECTION OF NATURE, FINANCE, AND HUMAN RIGHTS:

The Adoption of TNFD by Financial Institutions and Companies in Malaysia

By Divyaasiny R Rajaghantham, Koong Hui Yein, and Fatin Zani

Taking a 'whole-of-society' approach is essential.

In 2019, Malaysia lost its last Sumatran rhino, and with fewer than 150 Malayan tigers remaining, the nation's biodiversity decline mirrors a global crisis. The World Wide Fund for Nature's (WWF) *Living Planet Report* reveals a staggering 73% decline in wildlife populations from 1970 to 2020. Overexploitation of natural resources has led to the loss of half the world's corals and 40% of forests annually. This decline threatens not only ecological balance but also human well-being as we rely on ecosystem services like water, food, and climate regulation — essential for economies. Studies indicate that over half of the world's gross domestic product (GDP) is moderately or highly dependent on nature, rendering businesses and financial institutions vulnerable to ecosystem degradation.

For Malaysia, a mega-diverse country, the stakes are high. Mangroves, covering over 600,000 hectares of the coastline, provide essential services like storm surge protection, carbon sequestration, and fishery support, saving the government billions in avoided flood and storm damage costs. The Ulu Muda Forest Complex, another critical asset, supplies 90% of Kedah's water, 80% of Penang's, and 40% of Perlis', securing food production in Malaysia's 'rice bowl' while meeting domestic, industrial, and commercial needs, supporting the livelihoods of over 4,900 villagers. A World Bank study forecasts that even a partial ecosystem collapse could reduce Malaysia's GDP by 6% annually by 2030. Furthermore, a WWF-Malaysia study using the Biodiversity Risk Filter reveals that seven of Malaysia's top 20 companies on the FTSE Bursa Malaysia KLCI, particularly in agriculture, healthcare, and energy, face high risk from extreme weather events, potentially disrupting supply chains, raising operational costs, and destabilising the economy.

Risky Business

By Chartered Banker Institute

While the challenges that chief risk officers have to be aware of are apparent, their specific roles within their organisations are often less known. Two industry experts to shed light on current best practices.

The chief risk officer (CRO) role is by no means a well-established one. In fact, it's widely believed that James Lam became the first person to formerly hold this title at GE Capital just over 30 years ago. And since its incarnation, this position has evolved from solely monitoring risk to having the ability to veto strategic decisions. Today, to say that CROs are of the upmost importance is somewhat of an understatement. Take Silicon Valley Bank (SVB), which folded last year and had been without one for eight months prior to its shock collapse.

Laura Izurieta stepped down from her role as CRO of SVB Financial Group in April 2022, and formally left the company in October. Her permanent successor, Kim Olson, did not join until 4 January 2023, a mere matter of months before the bank failed. It is unclear how the bank managed risks between the departure of one CRO and appointment of another, and this fact formed part of the Federal Reserve's investigation into the bank's demise.

Alan Greenspan, the American economist who served as the 13th Chairman of the Federal Reserve from 1987 to 2006, went as far as to state that better risk management may be the only truly necessary element of success in banking. But what exactly does the function entail? How, for example, are emerging risks tracked and cascaded throughout the organisation?

THREE LINES

David Coleman, Vice President, CRO, European Bank for Reconstruction and Development (EBRD), initially looks to answer this question by introducing a 30-year-old concept – the three lines of defence, now known just as 'three lines'.

The first line of defence, he explains, is everyone. "All of the people in an organisation have to accept that they have a role to play in identifying, reporting, managing and mitigating risks," he says. "But because many people are given business goals linked to bonuses, that leads to a slight bias away from reporting risk.

Banking Transformation in Southeast Asia: Insights from Banking Leaders

By Sash Mukherjee

Bringing down barriers to fulfill industry's tech promise.

Southeast Asia's banking sector is poised for significant digital transformation. With projected net interest income reaching USD148 billion by 2024, the market is ripe for continued growth. While traditional banks still hold a dominant position, digital players are making significant inroads. To thrive in this evolving landscape, financial institutions must adapt to rising customer expectations, stringent regulations, and the imperative for resilience. This will require a seamless collaboration between technology and business teams.

To uncover how banks in Southeast Asia are navigating this complex landscape and what it takes to succeed, Ecosystm engaged in in-depth conversations with senior banking executives and technology leaders as part of our research initiatives. Here are the highlights of the discussions with leaders across the region.

ACHIEVING HYPER-PERSONALISATION THROUGH ARTIFICIAL INTELLIGENCE (AI)

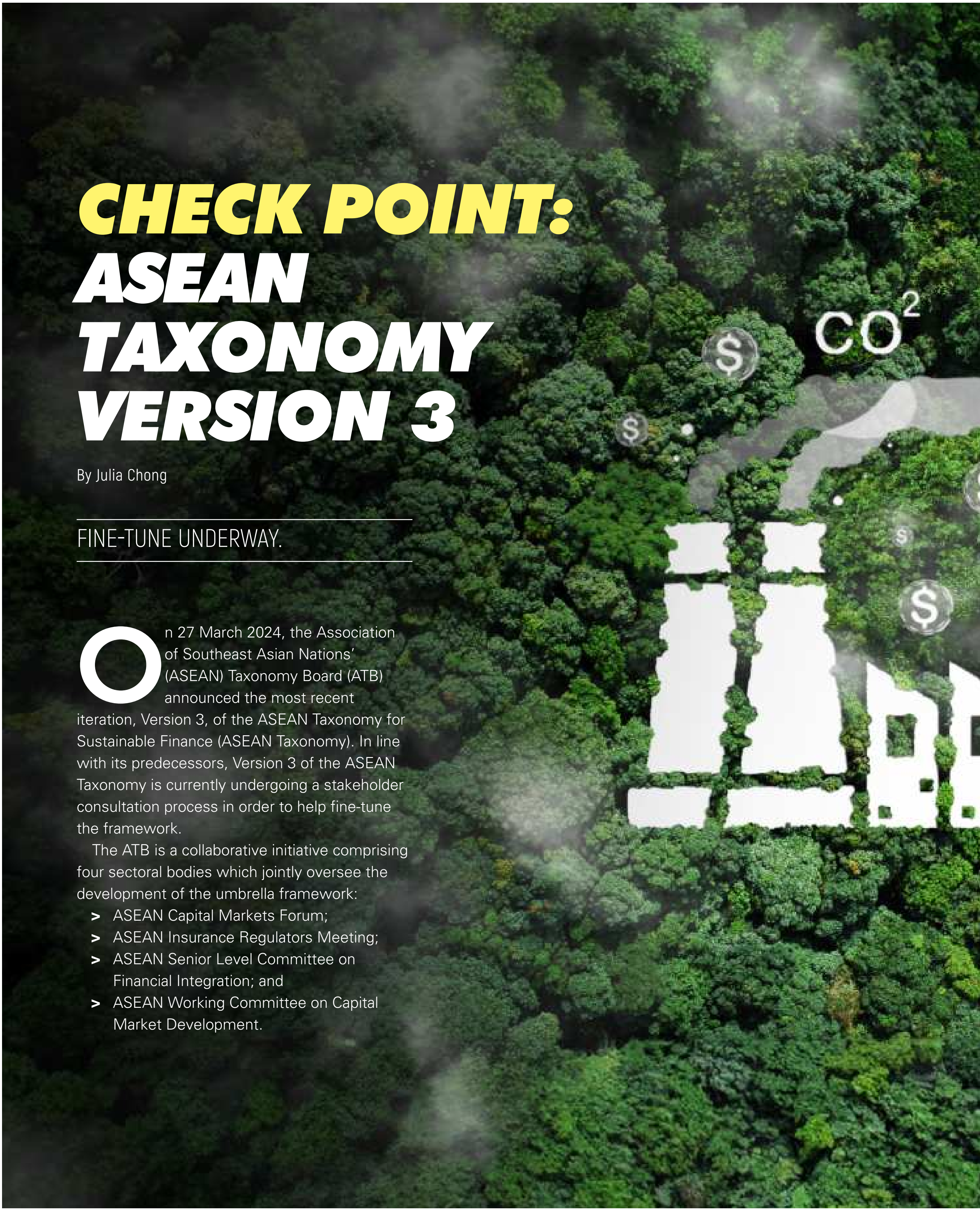
As banks strive to deliver highly personalised financial services, AI-driven models are becoming increasingly essential. These models analyse customer behaviour to anticipate needs, predict future behaviour, and offer relevant services at the right time. AI-powered tools like chatbots and virtual assistants further enhance real-time customer support. Ecosystm research finds that 74% of banks in Southeast Asia view enhancing customer experience and improving back-end processes as the key outcomes of AI adoption.

Hyper-personalisation, while promising, comes with its challenges – particularly around data privacy and security. To deliver deeply tailored services, banks must collect extensive customer information, which raises the question: how can they ensure this sensitive data remains protected? A head of customer experience at one bank explains their approach. "Most of our AI efforts focus on improving customer experience through internal applications designed for employees. But we do have one customer-facing generative AI (GenAI) app. The key here is that it's entirely disconnected from our databases. It generates a customer score by analysing responses and basic demographics, which helps us boost engagement without compromising data security."

AI projects require a delicate balance between innovation and regulatory compliance. Regulations often serve as the right set of guardrails within which banks can innovate. However, banks – especially those with cross-border operations – must establish internal guidelines that consider the regulatory landscape of multiple jurisdictions.

BEYOND AI: OTHER EMERGING TECHNOLOGIES

AI isn't the only emerging technology reshaping Southeast Asian banking. Banks are increasingly adopting technologies like robotic process automation (RPA) and blockchain to boost efficiency and engagement. RPA is automating repetitive tasks, such as data entry and compliance checks, freeing up staff for higher-value work. CIMB Bank in Malaysia reports seeing a 35%–50% productivity increase, thanks to RPA. Blockchain is being explored for secure, transparent transactions, especially cross-border payments. The Asian Development Bank successfully trialled blockchain for faster, safer bond settlements. While augmented reality and



CHECK POINT: ASEAN TAXONOMY VERSION 3

By Julia Chong

FINE-TUNE UNDERWAY.

On 27 March 2024, the Association of Southeast Asian Nations' (ASEAN) Taxonomy Board (ATB) announced the most recent iteration, Version 3, of the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy). In line with its predecessors, Version 3 of the ASEAN Taxonomy is currently undergoing a stakeholder consultation process in order to help fine-tune the framework.

The ATB is a collaborative initiative comprising four sectoral bodies which jointly oversee the development of the umbrella framework:

> ASEAN Capital Markets Forum;
> ASEAN Insurance Regulators Meeting;
> ASEAN Senior Level Committee on Financial Integration; and
> ASEAN Working Committee on Capital Market Development.

NUDGING ALONG: HOW BEHAVIOURAL ECONOMICS INSPIRES PRODUCT, PRICING & LOYALTY

By Kannan Agarwal

In an increasingly competitive landscape, a different lens brings fresh perspective.

Are humans rational? Through the lens of behavioural economics, the answer is clearly 'no'.

In a recent Banking Transformed podcast, Melina Palmer, CEO of The Brainy Business and author of *The Truth About Pricing: How to Apply Behavioral Economics so Customers Buy,* explains:

"The first and most important thing for everyone to know is to understand how our brains really work because that shows how important it is to be considering psychology. When we look at the way we make decisions, we like to think that the supercomputer in our head is very logical and going by the book for everything all the time and making rational choices about absolutely everything and that we're in full control of any decisions that we are making.

"In reality, the subconscious is actually making the bulk of decisions that we have at any given time and it's using rules of thumb, it's using predictability, it's using habits to make those decisions. Research has shown that each person makes 35,000 decisions a day on average. When we put it in that context, we realise how many decisions we're actually making. I love to ask people, 'How many decisions do you remember making yesterday?'"

The reason why we do not register the bulk of our decisions is because much of our decision-making is done at the subconscious level. "The rules that the brain is using to make decisions," says Palmer, "is the field of behavioural economics and in behavioural science."

EMPIRICAL THOUGHT

For many, behavioural economics is currently basking in the sun. Psychologist and Nobel Laureate the late Dr Daniel Kahneman, one of the founding fathers

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