

Muhammad bin Ibrahim: Forces of change profoundly influencing the Asia-Pacific region

Speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the Asian-Pacific Association of Banking Institutes Conference 2013, hosted by the Institute of Bankers Malaysia, Kuala Lumpur, 7 October 2013.

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It is with great pleasure that I welcome you to the 2013 Asian-Pacific Association of Banking Institutes conference hosted by Institute of Bankers Malaysia. I would also like extend a special welcome to all overseas delegates, *Selamat Datang*, as we say in our national language.

Given the greater economic and financial integration that is taking place today, it is indeed timely for institutions of learning that focus on the financial sector to come together to deliberate on contemporary issues and trends affecting the region, and its implication on talent needs and development going forward. My remarks today will focus on the forces of change that are profoundly influencing the economies of the Asia Pacific region, and by extension, our financial systems, as well as some thoughts on the implications of these changes to the banking industry, with a particular focus on human capital development.

I want to touch on three forces that are reshaping the banking industry across Asia and the Pacific. The first is on emerging markets' and in particular Asia's emergence as a dynamic centre for the global economy. Whilst risks to the outlook for global growth continue, with new events unfolding daily, Asia's economic growth remains strong and transformation is expected to expand well into the future. This growth is set to drive increasing trade in goods and services, as well as the flow of capital between the region and the world. At the same time, Asia is also intensifying intra-regional financial and economic integration that would contribute towards accelerating the region's growth prospects. Adding to these transformative trends is the march towards urbanisation which will continue to stimulate demand for infrastructure development. All these factors will have an important influence on the way in which the financial services industry responds to new growth opportunities in the region. To support Asia's growth, financial markets in Asia must continue to grow in size and sophistication to intermediate capital towards productive investments. We can expect increasing demands being placed on Asian banks for services and expertise in trading, risk management, structured financing and loan syndication, infrastructural financing, and capital raising. Equally, recent efforts focusing on strengthening regional financial integration to facilitate the increasing intra-regional trade and investment, such as the ASEAN Banking Integration Framework, will offer tremendous opportunities for banks with the right credential to establish their presence as regional players.

On the retail side, there exists vast potential for growth – owing much to the demographic transformation in the region. Asia is now home to a growing middle income population, the number of which is projected to reach 3 billion by 2030. The region will also be faced with an ageing population in the years ahead. With rising affluence, coupled with the need to achieve higher levels of income to support the increasing longevity, Asian consumers will increasingly demand innovative, better quality financial products and services. At another end of the product spectrum is the scope for enhancing financial inclusion and reducing inequality for the traditionally underserved, such as poor households and small and medium-sized enterprises (SMEs). To unlock the potential of this segment as a driver of growth not only requires product innovation that delivers cost-effective, high-quality and innovative instruments, but also the use of new business model and technology to expand the reach of financial services, especially in poor and remote areas.

Second, the strong growth of Islamic finance across Asia in the recent years is another trend that is characterising the region. This dynamic segment will continue to offer strong growth

prospect going forward, backed by its increasing importance as a tool for enhancing financial inclusion and reaching out to the underserved segments, the growing demand for socially-responsible investment and ethical financial services in this post-crisis era, and the increase in the wealth of individuals in Asia. Islamic finance has also proved to be a competitive and innovative financial intermediation channel that could strengthen global financial and economic linkages, led by the high growth segment of the sukuk market which has now become an important avenue for international fund raising and investment activities.

Third, the impact of global regulatory reform in response to the global financial crisis is another important force that would continue to drive change in the financial landscape. The Asian financial sector was resilient throughout the crisis. But Asia is not immune to the volatility and uncertainty that is constantly changing our financial and economic landscape. Some areas of the regulatory reforms, notably capital and liquidity requirements, have now progressed into the implementation phase. Integrating the new regulatory enhancements will have a fundamental impact on how banks in Asia manage risks in their businesses, particularly in the context of optimising capital to support growth in the region. Banks that are able to develop a strong governance framework to link business and regulatory change effectively, will be a step ahead when it comes to managing growth in the new regulatory environment.

This requires a fundamental change in mindset – from treating risk management for regulatory compliance – to being, a fundamental part of strategic executive decision-making. The regulatory change comes with the expectation for banks' enhanced capabilities around stress testing, capital and liquidity planning, risk governance and regulatory reporting. I believe financial institutions with foresight will take the opportunity to turn these regulatory enhancements into sources of competitive advantage, by developing a comprehensive and deeper level of awareness of their business and risks from the data aggregation, analysis and reporting work, to evolve new, more risk-focused business strategies.

This brings me to the next point on the competitive breakthrough that Asian banks can achieve through technological innovations. Since the onset of the digital revolution, information flows and networks have spread across borders. We are now in a new era of technology since the advent of cloud computing. More than ever, technology pervades nearly every aspect of our lives. Whilst Asia is home to some of the world's most digitized and innovative economies, *I believe the potential of technology is yet to be fully realised in the region's banking industry. With the constant challenge from the vast amount of data*, banks that can successfully capitalise on rapid access to critical information and able to act quickly and effectively will distinguish themselves in the future. This challenge becomes magnified in post-regulatory reform, as demand is growing across the financial services industry for greater transparency, better information and analytics and improvements to risk management.

There is also increased expectation for financial institutions to tap on the new targeted segments of the unbanked. *This is where the force of technology can come into play.* Technological advancement such as business analytics and mobility solutions can be tailored to markets across Asia to *access a wealth of data that can be used beyond strategic risk management* to open up the previously inaccessible and unprofitable customer segments – in reaching new customers without the cost of establishing extensive branch networks, and in improving relationships and cross-selling prospects with existing customers.

These forces of change present immense opportunities for Asia's banking industry. Asian banks already have the advantage of deep understanding on local and regional market conditions and are relatively well-capitalised, an outcome of comprehensive reforms undertaken in the wake of the Asian financial crisis. They are therefore well-placed to seize new opportunities that emerge in the region. Financial institutions that can develop the right capability to execute the right strategy will be availed with the potential of positioning

themselves ahead in the race of being Asia's Premier banking player, and even position themselves as global force.

To move markets into the next phase of growth, financial institutions must be willing to innovate and improve offerings in new growth segments. This has to be supported by good risk and capital management practices, or even develop entirely new skills to embrace new technology and business models. Moreover, Asia's local banks with the aspiration to expand their regional or global footprint will need to develop talent to enhance their capacity and capabilities to compete beyond borders. This changing landscape should see the level of technical expertise, and skilled resources in the industry advance to new heights. The rapid pace with which change is occurring is not only demanding shorter time to competence, but also heightening demand for professionals with a broader range of skills including leadership and interpersonal skills as well as global business acumen.

It is with this in mind that we advocate for professional development standards to be raised. It is clear that a transformation strategy endeavor for any nation, industry or organization, cannot be achieved without the right quality of human capital. This is particularly the case for banking as a knowledge dominated industry. Capacity building programs to mould and generate the right skills, mindsets and values consistent with changing market dynamics will be the key success factors. It is therefore imperative for learning institutions around the region to continue to review and update their respective syllabus, contents and learning methodologies and ensure that education remain relevant and effective in meeting the talent needs in the region.

On this note, I commend the commitment of the Institute of Bankers Malaysia (IBBM) to transform from; a provider of courses to a facilitator of professional education, from a consumer to a producer of intellectual capital, and from a national to a regional, or perhaps as a global service provider.

We are now looking at a new landscape for our banking education infrastructure and plan to announce soon on the developments and delivery of a broad range of industry programmes that will embrace professional standards that are more applied and reflective of the times. It might include multi-disciplinary research that covers areas such as thought leadership, publications and flagship conferences. We aspire the transformation of IBBM into a forward-looking, world-class provider in the development of professionals for the dynamic financial sector.

The transformation of IBBM represents part of an overall capacity building and infrastructural development efforts to raise the standards on education in financial services. Less than a month ago the FAA – Finance Accreditation Agency, an entity responsible for reviewing the quality of the learning programs that serve the industry was launched. This agency complements the initiatives by the International Centre For Leadership In Finance (ICLIF) to produce capable and competence leaders. Taken together, these efforts reflect our motivation in ensuring comprehensive talent development solutions for financial sector professionals throughout their career progression from entry-level up to leadership positions.

Equal emphasis is also given in the area of Islamic finance. Talent development has been identified as a key thrust to support industry growth and development, both domestically and globally. The role of several talent development institutions dedicated to serving the industry has been instrumental in contributing towards achieving this goal – the International Centre for *Education* in Islamic Finance (INCEIF) which is as a global university offering academic and professional qualifications in Islamic finance, the International Shari'ah Research Academy for *Islamic Finance* (ISRA) which is a centre for applied research in Shariah and Islamic finance, as well as IBFIM or the Islamic Finance and Banking Institute Malaysia – an industry-owned training entity for Islamic finance professionals. Despite being relatively new in existence, these institutions have now become increasingly recognised as leading providers of expertise in Islamic finance, providing the Islamic finance global community a reference centre for knowledge and talent development.

I am most inspired by the optimism set by theme of this year's conference – “Waves of change, Oceans of opportunities”. The theme very aptly sums up the business conditions we face today. Rapid change is the new normal in today's dynamic world. The rise and interconnectivity of Asia as well as its demographic changes, the impact of regulatory changes and new technologies are all combining to transform the financial landscape of the region. Survival and success in today's challenging environment will depend on being able to exploit new growth opportunities that come with change. But this journey will not happen without determined action to lay the foundation for future success of the industry.

In closing, I wish you an insightful and productive deliberation and trust that your discussion will be useful and will leave you with additional insights to tackle the challenges that you face. To our overseas guests, I hope you will leave KL with pleasant memories of your brief stay here.