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"TRANSFORMING FINANCIAL SERVICES TO MEET THE NEEDS OF THE GROWING ASEAN ECONOMIC COMMUNITY (AEC)"

Chairman of the ASEAN Bankers' Association
Chairman of the Thai Bankers' Association
Deputy Governor of the National Bank of Cambodia
Chairpersons, CEOs, and Top Executives of ASEAN Banks,
Distinguished Guests,
Ladies and Gentlemen,

Sawasdee Krub
A very good morning to you all. It is a great pleasure for me to be here today to share with you my thoughts on the upcoming challenges for the ASEAN banking industry. Before I begin, I would like to thank the Thai Bankers' Association for the invitation to this annual gathering of ASEAN bankers. Let me also extend a warm welcome to the executives of ASEAN banks who have travelled here for this special event. From my calculation, in aggregate, you all manage assets of around 120 percent of total ASEAN GDP.

Ladies and gentlemen,

We are going together through profound changes in the global economic environment. The economic condition called the "new mediocre" together with the transformation towards digitization have been key driving forces for a volatile, uncertain, complex, and ambiguous environment or the VUCA world in short. Against this backdrop, we as commercial bankers and regulators have to move together to ensure growth, prosperity, and sustainability for our region. Let me elaborate on the key issues we are facing.

The "new mediocre" is a state of multiple "lows" – low-growth, low-investment, low-trade volume, low-interest rate, low commodity prices, and low-inflation. Compared to ten years ago, global growth has been relatively subdued, with no significant pickup in sight. The latest IMF economic forecast puts global growth next year at 3.4 percent, a slight improvement from a disappointing 3.1 percent this year. Slow growth momentum is most pronounced in the core advanced economies, with 1.8 percent forecast for 2017. Yet, while this state of the "new mediocre" is more often associated with the advanced economies, there is risk that some emerging countries including ASEAN countries will sooner or later experience it as well due to spill-over effects and domestic structural constraints.

The spill-over effects of the "new mediocre" go beyond the growth dimension, but well into the realm of financial stability. Given the low-interest rate and low-yield in advanced economies, investors have shifted their portfolios to many emerging economies including ASEAN in search of higher yielding financial assets. This "search-for-yield" behaviours with capital inflows, rise in asset prices, and higher debt ratio have already resulted in pockets of financial vulnerabilities in many countries.

Yet the "new mediocre" is not only impacting the stability of the financial system and economic growth, but is also catalysing social tensions and geo-political changes. As Christine Lagarde said at this year's IMF annual meeting, global economic growth has been "too low, for too long, and benefiting too few."

Across a spectrum of countries not only is the growth low, but it is also not inclusive, particularly for people at the lower end. The widening wealth gap, coupled with lower yields on savings has led to the feeling of less hope of a better future. Amidst this frustration with the status quo, sentiments of anti-present economic establishment such as anti-globalisation, anti-trade, and even anti-bankers have become more widespread. We see increases in non-tariff trade barriers and oppositions to trade deals, polarization of views among people, Brexit, and the US Election. Populist and nationalist policies are flourishing among middle and lower income people in many countries.

Against this backdrop, we also face fast changes in technology. Not since the industrial age, have we witnessed such rapid adoption of technology and innovation, thanks in part to the digital revolution.

Although technology increases economic productivity and improves people's standard of living, it can be a source of stress for the working-age population. Many, even the highly skilled, such as investment professionals, fear being replaced by robots and artificial intelligence. Current business models are rapidly rendered obsolete by new business models and the sharing economy such as Uber or Airbnb.

Owing to changing economic environment, social sentiment, and technological advancement, I see five imperatives for ASEAN's banking sector going forward.

First, innovative technology is fast changing financial business landscape and we have to be proactive in embracing technology. Given the low-growth and low-interest rate environment, banks' income is facing pressure from declining spread and fees. Consumers' needs and behaviour have changed and they now demand faster and more convenient services. In light of this trend, many banks have already embraced technology into their businesses for lowering costs, increasing efficiency, and better serving their customers. However, technology has developed at a faster pace than the past. To remain competitive, banks will have to adopt new financial technology fast enough while making sure that the organizational structure, corporate culture, and business models are agile and adaptive.

More importantly, large non-bank fintech players are becoming significant players in our financial landscape. Banks cannot afford to wait and see the landscape change before taking action. Every day, new business models are being developed. Technology adoption by banks is therefore unavoidable should they wish to stay ahead. As Ravi Menon, MAS Managing Director, recently said at the Singapore Fintech Festival, "In an industry facing the headwinds of lower economic growth and heavier regulatory burdens, innovation must be the way to refresh and re-energise the business model."

Fortunately, financial technology is being adopted in many ASEAN countries, notwithstanding their different stages of development. Singapore is testing a blockchain-based system for interbank payment to simplify the payments process and reduce costs. In Cambodia, Wing Money Transfer and Payment Services are popular among local people.

In Thailand, the government and the Bank of Thailand, together with the banking industry, are committed to supporting the use of technology for greater efficiency and productivity in the financial sector and the economy as a whole. Early next year, Prompt Pay or the fast P2P payment system will be implemented. Prompt Pay will be an impetus in changing consumers' behaviours to use electronic payment for everyday goods and services. Transactional banking could be easily completed online or via mobile phone rather than going to bank branches. This move towards less reliance on cash will reduce the cost of cash handling thereby increasing efficiency of the banking industry and the Thai economy as a whole.

On the downside, technology comes with associated risks. In recent years, cyber threats have increased dramatically in frequency, sophistication and their widespread effects. This year, at least four financial institutions in Bangladesh, Vietnam, Ecuador, and the Philippines became victims of cyber heist involving the SWIFT system while ATMs in Japan, Taiwan, Thailand, and recently in many European countries have been hacked. IT security and cyber security need to be addressed for secure transactions and to ensure trust among customers. The Bank of Thailand and the Thai Bankers Association (TBA) have collaborated to set up an Information Sharing Group (ISG) or financial-sector CERT. The group enables comprehensive information sharing and connects to other involved parties such as cyber security specialists, vendors, and legal enforcement agencies, to develop defensive, preventive and responsive plans. This is a first step for Thailand. Given the borderless cyber world, collaboration on cyber security among ASEAN countries needs to be enhanced. ASEAN banks have to step up efforts and join hands in setting up processes and tools for sharing cybersecurity incidents, exchange of information and knowledge, conducting cyber attack exercises, and developing cyber security experts.

Secondly, there has to be sufficient immunity against the boom and bust of financial cycle. We have seen many financial crises over the years. The Global Financial Crisis, whose total magnitude of economic costs are still being tallied is the latest example. As the financial cycle is one of the main drivers of financial instability, taking action to counteract pro-cyclical behaviours and reduce potential systemic risk build-up is necessary. The Basel III framework of pro-cyclical capital buffer and systemically important financial institutions (SIFIs) capital surcharge are among the first initiatives by a global standard setter. Having good buffers in place will provide the financial system with an immunity against the large swing of financial cycle and financial volatility, as going forward, the potential of policy normalization in advanced economies and yield snapback could trigger capital reversal and foreign exchange liquidity squeeze in many emerging countries.

Changes in regulations and a greater emphasis on financial stability by policy makers, however, is only half of the solution. Equally important are the roles of commercial bankers who contribute directly to the stability of the financial system. Banks need to remain vigilant and look through the cycle while assessing credit risk and building up buffers. Buffers such as provisions and capital have to be built-up during good times to absorb any losses during rough times. In short, decisions need to be based more on long-term views rather than short term views.

Basing decisions on long-term views is an important factor for commercial banks' practices. During periods of low growth and low yield, banks should refrain from unsound search-for-yield behaviours or facilitating aggressive search-for-yield behaviours that could build-up systemic risk and cause financial instability.

Thirdly, behaviour and culture within financial institutions must gear towards good governance, soundness, and sustainability to pre-empt unwarranted risks. During the last Asian and global financial crisis, excessive risk-taking behaviour was one key driver. Short-sighted views on risk were embedded in the practice of management and employees. This was defined and reflected in the structure on rewards, accountability, personalities, as well as check and balance mechanisms, or lack thereof, within the organization. More recently, the manipulation of the London Interbank Offered Rate (Libor) which has done serious reputational damage to the banking industry and reduced public trust was an example of misbehaviour fostered by inappropriate cultures.

While events such as the financial crisis, and other scandals have continuously triggered waves of regulatory reforms, those are not enough and our work is far from over. Today, there are still examples of poor corporate governance and misconduct resulting from the root-cause of inappropriate behaviour and culture within banks. Recently, fraudulent practices in a large global bank were exposed where bank accounts were opened without customers' consent or knowledge. Banks themselves need to create culture that encourages management and employees to have the right values and behaviour.

This behaviour and culture cannot be detected quantitatively and similarly to the way we assess financial data, or risk-taking investment. Let me demonstrate by using an iceberg to paint a clearer picture. The tip of an iceberg above the water is what we observe through banking performance, financial information, and investment portfolios. Although the tip may show good performance records, the larger portion of the iceberg under water is what determines its strength or fragility. Unawareness of small cracks in the iceberg could result in its unforeseeable disintegration. Corporate culture and behaviour is a part of this portion under water and is an influencer of decisions within the organization. Building corporate culture and behaviour that fosters good governance, soundness, and sustainability therefore has to be instilled into the organization.

For ASEAN banks, we have learnt our lesson from the Asian Financial Crisis and bankers who had endured through that period are fully aware of the associated risks and their consequences. Going forward, however, with new and younger generations of bankers, these lessons may not be as fully appreciated. Newer generations may be less aware of the costs associated with excessive risk-taking behaviours and the aggressive search for higher yields may be prevalent. In this transitional period, it is therefore even more imperative that the proper culture and behaviour be embedded into every level of the organization, starting from the highest level at the board and cascading down to every level of management and staff.

Fourthly, financial institutions need to embrace sustainable banking to ensure sustainable success. The concept of sustainability plays an increasingly important role in our global and regional development. Global warming, growing inequality of wealth and opportunity, and continued exploitation of natural resources, have elevated the issue of social responsibility across all players in the society.

If we look at the Dow Jones Sustainability World Index (DJSI), which is used to measure sustainable performance of listed companies worldwide through analysis of various factors in economic, environmental, and social dimensions, we see only one bank from ASEAN included in the Index for the first time this year. I congratulate this Thai bank and certainly hope other ASEAN banks will soon follow.

Sustainable banking encompasses wide-ranging areas from codes of business conduct, responsible lending, environmental policy and financial literacy, as well as financial inclusion. These initiatives have to be incorporated into banks' way of doing businesses. Banks as the main players in the allocation of resources, play a key role in ensuring sustainable growth of the whole economy.

A strong culture of ethics and responsibility of banks should also be in place. This ranges from employees' integrity, customers' data privacy, anti-bribery and corruption, to strictly complying with laws and regulations.

Socially, banks' responsibilities should start with the design of products that meet the needs of customers. Financial literacy will also increase customers' financial discipline and understanding of financial products and associated risks. Nowadays, as banks also provide digital services, financial technology literacy is another aspect that needs to be deepened to improve awareness of cyber security and promote greater usage of digital products.

Increasing financial access is another channel through which to drive equal opportunity for all. ASEAN has a large population that is currently underserved with average exclusion level at 44%. Reducing this exclusion level means an increase in opportunities for people and businesses and contribute to sustainable growth of ASEAN.

Lastly, ASEAN banks need to intensify our commitment to strengthening regional financial connectivity. The ASEAN region remains the world's beacon of hope and a bright spot. One driver of growth in our region is the increased intensity of connectivity via trade, investment, and people as we reach our integration goals. Tangible benefits of increasing intra-regional trade and investment have been witnessed; however, much work remains with regards to financial connectivity. More long-term benefits for regional growth need to be realized, and financial connectivity reinforced.

There are a number of important initiatives that both regulators and bankers in ASEAN need to collaborate to further connect our ASEAN financial systems. There will be greater business opportunities through the strengthening of partnerships amongst ASEAN banks and increased usage of cross-border financial services by introducing proper infrastructure and fee structure. Expansions of banking presences through the Qualified ASEAN Banks (QABs) will enable greater efficiency and reduce costs of businesses for both bankers and customers alike. At present, Thailand is in the process of negotiating bilateral QAB frameworks with Malaysia and Indonesia. And yesterday, in Nay Pyi Taw, the Central Bank of Myanmar and Bank of Thailand signed a letter of intent to start the QAB negotiation process.

ASEAN regulators have taken on a number of initiatives to reduce costs of businesses through the support of greater connectivity, mutual recognition agreements and greater cohesiveness of rules and regulations. Additionally, usage of local currencies as a means of payment and settlement will facilitate our intra-region trade and investment. Common infrastructures for cross border payment and settlement such as through the Asian Payment Network are important to increasing efficiency of doing businesses and reducing costs of remittances and transfers.

If we all work together in our various capacities we can together strengthen our region and improve ASEAN people's standards of living.

Ladies and Gentlemen,

To sum up, I strongly believe that bankers play a critical role in the future of ASEAN economies and people's lives. ASEAN banks, given their large scale and power of intellectual and capital resources, must be the force that drives our region forward and improve people's quality of lives. During this period of VUCA world and changes in economic environment with technology disrupting business landscapes, we must focus on longer term goals. Working together, ASEAN banks must commit to strengthening our regional growth and to ensuring sustainable development. Instilling proper behaviours and cultures into the organization and practicing sustainable banking will strengthen us from within.

Looking at today's agenda, I am delighted that ASEAN bankers will engage and work together to find ways to meaningfully impact our region on issues ranging from digital and fintech to sustainable finance. Close collaboration is a win-win strategy I believe will truly benefit us all. The benefits of integration must be felt by every part of the society. Ladies and Gentlemen. The future of ASEAN as a region rests within your hands.

I wish you all a successful and fruitful conference.
Thank you.