

Anselmo L S Teng: Conference on human resources issues (closing remarks)

Closing remarks by Mr Anselmo L S Teng, Chairman of the Monetary Authority of Macao, at the 12th Conference of Central Banks of Portuguese Speaking Territories on Human Resources, Macao, 16 September 2009.

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Dear Delegates,
Ladies and Gentlemen,

In the past two days, we have listened to a series of professional and indepth deliberations on the big topic of human resources. The knowledge imparted to us will no doubt provide food for further thought and subsequent practical implementation. I am here today not to repeat what have been said, but to present to you my observations on human resources issues related to the recent financial tsunami.

What caused the financial crisis which triggered a recession not seen since 1930? The post-mortem report will tell you a number of reasons, such as excess liquidity, savings glut, carry trade etc. I would however share with you some of the causes which are related to human resources, the main theme of this conference.

The most popular motto on the Wall Street before the financial tsunami was “greed is great”. Remunerations of originators, traders and top level executives were based on profit of current period. Such a policy increased appetite on the part of employees to take unwarranted risks on behalf of the institutions they were working for.

It is never too late to mend. After all, we all learn from mistakes. It is therefore imperative in human resources management to devise a fair compensation scheme for financial institutions. It is my personal conviction that compensation for risk taking should be based on the following principles:

- 1) An executive compensation scheme should adequately reflect the performance of the executive in the medium and long term. Therefore, executives and traders should not be compensated based on current year revenue but the average income of a financial institution in a defined period.
- 2) Executives and traders who are compensated on deals done basis should never get their shares immediately after the completion of the transaction. There should be a vesting period to make sure that the profits are not illusory.
- 3) Compensation schemes based on deals done should be symmetrical. That is to say, when failures ensue, penalty should be imposed. This is to avoid the one way traffic of paying out enormous rewards once the transaction has been completed while the responsible staff would come out unscathed when the deal turns sour later.

To avoid another financial tsunami, a financial institution should adopt a check and balance approach in management. In the heyday, deal makers in a financial institution are the golden boys. They tended to disregard those who are supposed to control risks. Normally, when there was an argument over whether a certain deal should be done, the senior management, whose year-end bonus may depend on the current year revenue, or who are more concerned with the profit and loss account of the institution, would invariably stand on the side of the deal maker. This is usually the root of huge losses to be incurred later. To harness risks, the risk management function should be vested with more authority. The internal control function should go to board level. There should be a minimum level of knowledge of internal control to be required for all audit committee members. Knowledgeable internal controllers and anti-fraud experts may be hired by financial institutions to implement

risk-assessment and fraud prevention measures. Measures and procedures are to be implemented to prevent management overriding internal control systems.

The greatest safety to ensure the stability however comes from self disciplined practitioners of the financial sector. Legislations and regulators are serving merely as directions and referees. It is the professional skills and ethics of practitioners which will give the greatest comfort and protection to a financial institution and hence the financial system as a whole. It is therefore the endeavour of human resources function to provide adequate training in these respects, especially ethics, in order to have a long term solution which warrants the stability of the financial system.

Macao returned to China in 1999. This year is the 10th Anniversary of the founding of the Macao Special Administrative Region. Under the principle of "One country, two systems", "Macao people ruling Macao" and "High degree of autonomy", Macao's economy has grown by leaps and bounds. The financial sector has burgeoned in tandem with the spectacular performance of the overall economy. We have witnessed a surge in deposits, assets and profits in our financial sector. Capital adequacy ratio for the banking sector is well above what is required by the Basel Committee while non-performing loans ratio lingers at a low level. Our financial system is not immune to the financial tsunami but it has emerged unscathed. There is however no ground for complacency. The financial sector and the regulators are adopting a prudent and cooperative approach and have been working in harmony in the best interest of the community. We are doing our best to attract qualified people to join the financial work force with a view to maintaining the stability of our financial system.

Nowadays, the official languages of the MSAR are Chinese and Portuguese. In the wake of globalization, we have to utilize English as the medium language to communicate with other parts of the world. It would be perfect if all our staff are conversant with 3 languages. However, I should admit that personnel of such a qualification are very hard to find. We are striving to provide training to our practitioners in the financial sector so that financial practitioners are well versed in at least two of them. We believe a good communication is a job half done.

Last but not the least, please allow me to express my heartfelt thanks on behalf of the Monetary Authority of Macao to all participants and to my colleagues including, of course, Mr. António Félix Pontes, for the great effort in making this Conference a success.

Finally, I do hope you will enjoy Macao and that we shall meet again in the not so distant future. Meetings and conferences held in Macao embody Macao as a service platform for economic and commercial cooperation between China and Portuguese speaking countries.

Thank you again, please enjoy the rest of your stay in Macau and have a pleasant trip home!