Muhammad bin Ibrahim: Harnessing human capital investment and forward looking leadership

Remarks by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the launch of the Asian Banking School's Cambridge Summer School Programme, Kuala Lumpur, 18 April 2017.

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I would like to take this opportunity to congratulate the Asian Banking School on the launch of the Cambridge Summer School programme. This is an exciting collaboration with Cambridge University, an institution synonymous with academic excellence and thought leadership. The advent of this programme represents yet another important milestone in the transformation journey on which we have collectively embarked, for both the Asian Institute of Chartered Bankers and the Asian Banking School.

Participants of this programme can look forward to being part of a landmark initiative that will provide vast opportunities to expand knowledge, experience and networks. Cambridge University is truly prestigious. Many ideas by scholars from this great institution have transformed entire professions, understanding and thinking.

Some of the ideas resonate to this day. Over 300 years ago, Isaac Newton, a Cambridge University alumnus and one of the most brilliant scientists in generations, first introduced the law of inertia – "The tendency of an object to resist change". While Newton's principles referred to physical objects in motion, it is equally thought provoking when considered in other contexts, including the pace of change in the banking sector.

Today, we find ourselves at the centre of a digital revolution, perhaps the most significant breakthrough in financial services of our time. Change is upon us. The tsunami of digital technology will forever change our banking landscape. Yet, like Newton's observation centuries ago, the path of embracing change is fraught with resistance – or, as Newton elegantly called it, inertia. In the words of the renowned scientist, this power of resisting is one in which every object endeavours to "preserve its present state". At its core is a realisation that, individually and institutionally, we are not inherently calibrated for change. In fact, we instinctively resist change, whether intentionally or passively. Change doesn't feel natural, even when it is positive or unavoidable.

While the expectation of disruption is not new to us, the greater issue of interest to banking leaders today relates to our readiness in navigating changes. We must learn to break down inertia within our institutions.

I will elaborate. Let me contextualise this subject from two sources of corporate inertia, which I think are critical to the future of the banking system:

i. Human capital investment; and
ii. Forward looking leadership.

Human capital investment requires a new model: Learning that adapts and is continuous

The approach towards talent development and career learning is rapidly shifting. Traditional learning systems are no longer sufficient. Data from a recent study revealed that the "ability to learn and progress" is the principal driver of a company's employment brand among Millennials today. Yet, only one-third of Millennials believe employees are using their skills well, and 42% say they are likely to leave because they are not learning fast enough. We must reinvent and modernise the existing model of human capital investment if we are to recruit, develop and retain the very best of talent.

Prioritising and channelling greater resources to the talent development function are important first steps. Currently, the average annual training expenditure for the banking industry is around 3% of employee payroll, in contrast with international comparisons of around 4% to 4.5%. The Malaysian banking industry’s allocation for training and development is still below global benchmarks.

It is, however, not enough to solely focus on outright spending. Equally important is the quality of training investments.

In my mind, this begins with transforming existing corporate learning systems to enable continuous lifelong learning and ongoing skill acquisition. The banking sector ought to have an “on demand, ever ready” learning system that empowers talent to take ownership of self-development. This means diversifying from the traditional form of structured learning that only takes place at rigid fixed intervals. Aspiring talent ought to be empowered to personalise learning content according to individual preference and pace. Indeed, knowledge should be accessible to all who seek learning. Learning should take place at any time. Learning should be democratised.

The rise of innovative digital content providers such as Coursera, Codecademy and edX has further increased the viability and attractiveness of an “on demand, ever ready” learning system. edX, for example, includes over 130 economics and finance courses offered by prestigious providers such as Harvard, MIT and IMF.

In short, both the quantity and quality of human capital investment matter. Agility is also a key aspect. Human capital investment must adapt and evolve with its operating environment. The fintech wave has taught us an important lesson; opportunity favours the bold and the well-prepared. More so in times of change. Experience has shown that it is not easy to change even a single function, let alone an entire organisation. That brings me back to another observation of Newton: “The larger the mass, the larger the inertia”.

While Newton’s law holds true in physics, bankers can yet defy this axiom by thinking innovatively and being prepared well in advance. The next wave of innovation, growth and emerging industries is primed for release from its current state of inertia. At the moment, financing remains concentrated in traditional economic sectors. Less than 1% of SME financing approvals are directed to new growth areas. While up to 74% of financial sector talent is high-skilled, financing future industries for long term economic growth requires us to think ahead, with new and fresh perspectives. We need talent that can identify and distil the needs and risks of these new growth areas. For a bank, this may mean recruiting and developing not only conventional bankers, but also software engineers, data scientists and technology strategists.

Professional and transformational leadership: Leading beyond your institution

Human capital development is of course incomplete without the presence of leadership. Leadership is a force like no other. Leadership drives organisations to new levels of performance and achievement together. But leadership can also be a source of inertia. As innovation continues to draw deeper lines of interconnectivity, successful future leaders are no longer those who only steer their institution, but those who can influence and collaborate with others to drive the growth of the industry towards brighter prospects. The future of banking lies very much in the collective vision of its leaders.

Much of our developments in the past have been regulatory-driven. This approach is not sustainable. Drastic change is required. Collectively, industry leaders need to be more involved in playing a pivotal role to shape the future banking ecosystem. While it is natural to strive for individual or institutional success, the industry must break away from the tendency of working in isolation, or worse, waiting for others to lead. Instead, collective responsibility is needed in areas where common solutions are required for the betterment of the banking sector.

Bank Negara Malaysia has already identified several priority areas, particularly in the fintech space, which will benefit from greater joint participation by the industry. While this is a start, it should not limit the possibility of industry leaders coming together to address other areas of shared interest. I certainly hope to see this becoming a norm in the near future. Only through a collaborative approach in the banking industry can "the whole be greater than the sum of its parts", if I may echo the wise words of Aristotle.

Transcending individual and institutional results for the collective good demands a special sort of person. A person who can surmount extreme inertia. A transformational leader. The foremost quality that distinguishes a transformational leader from others is the drive for more than just results. It is a leadership that is driven by virtue, with professionalism at the core. We should never forget that investment in human capital also means investment in future social capital. We should recognise that investments in social capital have long term consequences. The banking industry today stands strong and resilient because the generations before us had built a foundation of trust, nurtured over many years. Indeed, it takes many generations to build what we have today, but mere moments for this to crumble. It is now our turn to continue this legacy.

Professionalism to my mind ought not to be a competitive advantage. Rather, it is the minimum expectation that should define the banking sector. Professionalism and trust are especially critical in an industry that is becoming highly complex. Exercising the right judgment calls and demonstrating the right behavioural traits, at all levels, demand more than just a competent banker. It needs the combination of competency, integrity and an unwavering sense of mission. In short, true professionalism.

Closing remarks

The presence of inertia in our lives is just one piece of the story. In fact, Newton has left us with more than one insight. Newton surmised that once inertia is overcome, an object achieves momentum and acceleration, but not without force being applied first. In a similar way, the same areas of corporate inertia today can be harnessed to drive the momentum of tomorrow. But only through a combined force of action and leadership can we truly achieve this.