

## **Muhammad bin Ibrahim: Bankers as guardians of the financial system**

Remarks by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the AICB Graduation Ceremony 2018 "Bankers as Guardians of the Financial System", Kuala Lumpur, 12 May 2018.

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Thank you for inviting me to speak at this commencement ceremony. I hope today marks a meaningful milestone for you in your journey as a banker. For those who will receive an AICB award today, congratulations! Do wear it with pride and keep up the good work. You make us proud.

At last year's ceremony, I pointed to the parallels between the conduct of the banking industry and the Hippocratic Oath. Behind the oath, to do no harm, are three principles bankers can learn: competence, character and the deep sense of calling.

I will aim higher this year and outline the case for bankers as guardians of the financial system. As guardians, bankers are to exhibit professionalism, wisdom and agility.

### **Guardians of public trust, a responsibility to safeguard integrity of the system**

Bankers have gained notoriety over the past few decades over their role in the Great Financial Crisis. Derogatory terms were used to insinuate excessive wealth, power and undue influence of bankers over the economy. This reflects everything that is wrong with the banking system. Reputation lost is not easy to regain. It is an uphill task to win back trust and confidence once it is lost.

The spotlight on bankers is not entirely misguided. There is a strong case to place them to a higher level of responsibility. This is understandable. Banking, or credit in particular, is deemed to be the lifeblood of the economy. Through provision of credit to businesses and consumers, the banking system spurs productive economic activities. Lack of trust and confidence in the banking system might lead to disintermediation and cause slower economic growth, rise in unemployment and decline in wealth generation, just to name a few. The consequences are dire, and the stakes are high.

Since the financial crisis, more than USD\$240 billion have been levied on banks for various cases of misconduct and breach of trust. As recent as three weeks ago, a major bank was fined USD\$1 billion. Both of these are astronomical amounts. In Malaysia, over the past three years, Bank Negara Malaysia has imposed close to RM110 million in penalties. To strengthen the system against these abuses and breaches of rules and regulations, a Code of Conduct and Principles was issued last year by Bank Negara Malaysia.

In a more positive light, there is evidence that public trust in banks around the world is improving. This is something we can build upon. The right place of finance is to be the catalyst for the economy.

As guardians of public trust, bankers must protect the system against any threats. This means protecting against abuse, misconduct and exploitation. No banker should tolerate misselling of products to customers which are not suited to their needs. No banker should tolerate charging excessive and hidden fees to unsuspecting customers and use these fees to excessively enrich themselves. No banker should tolerate unethical and illegal behaviour of a fellow colleague. No banker should tolerate any wrong doing or misconduct. The currency of bankers is not money but trust. Loss of trust is calamitous for the profession.

For us in Malaysia, our approach to ensure professionalism, trust and confidence rests upon a two-pronged strategy. The first is to create a system that upholds the values of honesty and integrity. Professional organisations such as AICB play a crucial role in this, with the Chartered Banker accreditation as a tool. The syllabus for this qualification places importance on ethics and professional standards. The requirement for fresh graduates to undergo an induction course on ethics is also a good starting point. There are other initiatives in store, we will step up efforts to ensure that the roles, responsibilities and accountabilities of leaders of financial institutions are clear and transparent. To this end, consultations with the industry will be conducted this year on proposals to sharpen accountability of individuals holding senior roles.

The second complementary strategy is to create an enabling environment to empower financial institutions to make informed and sound hiring decisions. Effective 1 July 2018, it will be a requirement for financial institutions to screen all new hires, except those performing ancillary functions. This includes their employment history and criminal records. Financial institutions will be required to keep proper records related to employees and to provide the required information when requested by another institution.

This will guard the system against disreputable staff and enact barriers against potential threats to the integrity of the system.

As guardians of the system, bankers need to look at these requirements as useful enabling tools or defenses that help with their mission to successfully protect the integrity of the system.

### **Guardians of knowledge and wisdom**

The complexity scientist, Samuel Arbesman in his study of how knowledge develops, postulates that knowledge behaves like radioactive decay. Every fact has a 'half-life' and it will inevitably decay. It means that the frontier of knowledge also changes constantly. What we know today may be untrue tomorrow. This rings true for matters concerning banking.

The immediate manner in which our knowledge becomes obsolete certainly ties in with our experience in banking and society at large. For one, the complexity of economic, environmental and social challenges seems to increase exponentially. Furthermore, much of the knowledge frontier remains unexplored. Consider this. We only utilise less than 0.5% of our existing data. There is a long way to go. The potential is enormous.

In all likelihood, what we know today will be vastly different in two, five and 10 years into the future. We see this happening already in the banking sector, with the greater use of technology and in particular, more creative use of data analytics to better serve consumers and business needs.

We are entering an age of new ways to harness knowledge. As knowledge is dynamic, not static, our approach to learning also needs to be in sync. This calls for lifelong learning, interdisciplinary thinking and the ability to convert knowledge into action. An innovative and effective banker would need to constantly push the boundaries of knowledge. One cannot assume that the 'facts' that we know today will remain true. Just as in science, we should not take anything for granted, and remain open to insights from other fields of study. This is why the Bank has encouraged greater professionalism through professional qualifications and lifelong learning. As Benjamin Franklin famously said, "An investment in knowledge pays the best interest."

It is from this perspective that we can look forward to the completion of the Financial Education Hub located within the vicinity of Bank Negara Malaysia. The hub is envisioned to advance education, research and nurture innovation in financial services. This will be achieved through its state-of-the-art staff training facilities, a financial services library that will serve the entire financial services community, innovation labs for information technology, a software development hub, a cybersecurity centre and an integrated security command centre.

Future generations of financial services professionals will be nurtured and cultivated within this space. By congregating tens of thousands of finance practitioners within close proximity, we believe that great and exciting synergies will materialise to develop talent and raise professional standards of the industry. This meeting of great minds will be the path towards building future leaders and respected finance professionals. It will be a hub where the best minds in finance will come together to contemplate, reflect and discuss on the frontiers of finance.

In the pipeline are also plans to develop a mentorship programme supported by financial industry leaders, including bankers for fintech startups. This will expand horizons for ideation, enable cross-fertilisation of knowledge and boost startups in their journey to be successful ventures. This will be launched by the end of the year.

## **Guardians of the future**

With the acceleration of technology, the financial sector of the future will be vastly different from what it is today. Fintech innovation, regulatory reforms, deepening integration and shifts in consumer demographics and preferences are some of the forces that will drive this change. Future bankers of the Malaysian financial sector will encounter opportunities and challenges not seen before.

New jobs will be created and existing jobs will change or become extinct. Automation will change the back and middle office functions. Artificial intelligence will change how banking services are delivered to the consumer. Data science and big data will change the way financial and data analytics are conducted.

Yet, the fact remains that we cannot predict the future with great certainty. In one of my speeches last year, I mentioned four possible scenarios on how the future of finance may unfold. The possibilities are exciting and almost limitless. The central bank's role is to create an enabling environment for innovation to mushroom. In this environment, many will flourish but bankers who will really thrive will be those who are agile, pragmatic and flexible.

I am optimistic, as bankers in Malaysia are well placed to do this. Most bankers are highly skilled. As at end of 2017, high-skilled workers formed around 75% of the banking workforce. The salaries of bankers are also supported by relatively high levels of productivity. If there is any profession that is able to quickly adapt for the future, I believe it is the banking sector.

This is proven by data. Over the last three years, the banking sector has created close to 20,000 jobs, reflecting its continued ability to anticipate and address shifts in the workforce needs. As job functions evolve, some will be dislocated. In this respect, it is critical for the industry to have in place mechanisms that support workforce transition, through retraining, reskilling and outplacement assistance.

To facilitate this, in collaboration with the industry, Bank Negara Malaysia will be working to formulate an assessment of the current and future state of the banking workforce. A report is expected to be published by the end of the year. The assessment will include identifying the quantum and nature of jobs that are potentially at risk of displacement in the coming years.

This should assist the industry in evolving complementary job roles, and formulating strategies to facilitate staff transition to new roles. This is indeed an ambitious and complex project, and we need your support and cooperation.

I am very optimistic on this venture as the collective body of professional bankers in this room today can achieve great things if we act with professionalism, courage and vigour in our respective roles. I believe that all of you here today, the brightest minds of the banking sector, will rise confidently to the challenges and opportunities that lie ahead, armed with a strong foundation in banking knowledge with a renewed commitment to the nobility of the banking profession.

Before I end, let me say a few words about the post-election environment that we are in. The Monetary Policy Committee of Bank Negara Malaysia last Thursday, the 10th of May, and we reaffirmed that the outlook of the Malaysian economy remains strong, healthy and robust.

Moving ahead, the Bank will continue to ensure orderly conditions in the onshore financial markets. Malaysia is no stranger to short term volatility given that we are an open economy that is highly integrated with global markets. Our experience tells us that we must be careful not to overreact to market noises, especially when it is caused by factors which are temporary in nature. The negative but much reduced influence of the NDF market should not detract the ringgit movements over the longer term.

In the medium and long term, the ringgit will reflect Malaysia's strong economic fundamentals. Our strength can be seen from the current account surplus, a strong reserves position, low level of external indebtedness and strong capital buffers in the banking system.

We expect these strong conditions to persist. As many of you here can testify, our financial system is resilient and robust. On numerous occasions over the past decade, we have been able to manage market volatility in our stride. To a large extent, this was due to the continuous measures taken over the years to develop our financial markets. Our market now is balanced, deep and liquid to provide the structural support for orderly market conditions.

## **Conclusion**

Let me conclude with the wisdom of the great philosopher Socrates. He viewed that any state should be led by wise, noble and exemplary 'guardians'. These guardians will "...unite themselves in philosophy and spirit and swiftness and strength...and they ought to be wise and efficient."

As bankers and guardians, let us aspire to exemplify these traits; to pursue professionalism, agility and wisdom.

Thank you and congratulations again to all the graduates. A bright and exciting future awaits you.