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SPEECH BY
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ASLI'S 21ST MALAYSIAN BANKING SUMMIT
BANKING IN A NEW ERA- DISRUPTIVE TECHNOLOGY SHAPING THE FUTURE OF BANKING

Date : 25 May 2017 (Thursday)
Time : 9.00 am
Venue : Shangri-La Hotel, Kuala Lumpur

SALUTATIONS

(TO BE PROVIDED)

INTRODUCTION

1. First of all, I would like to thank the Asian Strategy & Leadership Institute (ASLI) for inviting me to deliver the Keynote Address at this 21st Malaysian Banking Summit. I wish to commend and congratulate ASLI for organizing this Annual Series of Malaysian Banking Summits for the 21th year. It is indeed an honour to be here this morning among the distinguished speakers and guests.

2. Ladies and gentlemen, as players in the banking and financial industry, I am sure that the buzz words, such as "Industry 4.0", "Fourth Industrial Revolution" and "digital economy" are not alien to you. Globally, much have been said and written about this, and regulators as well as institutions are following this development very closely.

3. While we roughly know what to expect, we certainly do not possess all the answers to the various hypothetical but yet valid questions concerning the disruptive technology. Particularly, on how it will affect and shape the way we operate and do business today. Premised on this observation, I believe this year's theme is very apt and timely indeed and I look forward to the views from the distinguished speakers and audience.

THE LANDSCAPE, FUNCTIONING & RESILIENCY OF MALAYSIA'S FINANCIAL SYSTEM

Ladies and gentlemen,

4. A robust financial system is a key component in a well-functioning economy. Effective financial intermediation necessitates greater mobilisation of savings and allocation resources to fund new investments, and thus providing the basis that support sustainable economic growth. Therefore, in our efforts to grow and strengthen our banking industry, it is necessary that we approach it holistically and appreciate the depth and breadth of our financial system as whole. This include on how banking industry interacts with other components of the financial system.

5. For the past 50 years, Malaysia's financial system has been transformed from a rudimentary system dominated by the banking sector into one that is highly diversified with greater market orientation, as well as more consolidated and rationalised. Today, capital market intermediaries and Non-Bank Financial Intermediaries, the likes of Provident and Pension Fund and Co-Operative Societies, equally play substantial roles alongside banking intermediaries in the increasingly integrated Malaysia's financial system.

6. Further, within the same period, our financial system has also developed significantly in terms of institutional building, financial market development and putting in place the right infrastructure. In terms of institutional building, we have succeeded in establishing and empowering well-functioning regulatory institutions to oversee specific components of our financial systems. In terms of financial market development, specialised development financial institutions were set up to provide financial services to sectors that were not serviced by existing financial institutions. We have also succeeded in developing a comprehensive Islamic financial system over the past two decades, and today we are recognised globally as among the market leaders in Islamic Finance.

7. As a result of continuous and coordinated efforts, which were supported by an extensive legal framework, today, we can take pride in the depth of our financial market. As of 2016, the size of our financial system is recorded at RM 5.3 trillion, 430% of our GDP with banking assets amounts to RM 2.4 trillion (46% of the financial system), stock market capitalization at RM 1.7 trillion (32% of the financial system) and bond market outstanding at 1.2 trillion (22 % of the financial system).

8. Driven by key fundamentals and the right infrastructure, our financial system is not just functioning well providing uninterrupted financial intermediation to support growth, it is also proven as resilient and thriving. Over the last two decades, we have faced two major crises namely the Asian Financial Crisis in 1998 and Global Financial Crisis in 2008/2009. Subsequently, Malaysia's GDP growth contracted by 7.4 % post the Asian Financial Crisis and 1.5 % post the Global Financial Crisis. Nevertheless, against the backdrop of a more resilient financial system and diversified economic structure, the domestic economy rebounded strongly to record positive growths of 6.1 % in 1999 and 7.4 % in 2010.

9. In a more recent period, despite turbulence in the financial markets and prolonged volatility in energy prices, Malaysia continues to register positive growth rates for six consecutive years since the recovery from Global Financial Crisis in 2009. In fact, with receding uncertainties in external conditions and improving prospects domestically, growth is expected to improve in 2017 between 4.3% to 4.8%, following a 4.2% expansion in 2016. These examples are indeed testaments to the solid foundations and the resiliency of our financial system, which accorded us the flexibility and the strength to rapidly rebound from any economic hardship.

DISRUPTIVE TECHNOLOGY SHAPING THE FUTURE OF BANKING

Ladies and gentlemen,

10. As we are transitioning into an era of mass adoption of technology, it is inevitable that the way we live, work, and relate to one another will be fundamentally altered. This is an age of digital disruption, where everything will be driven through automation, and we will see the rise of the "sharing economy", and other technology-driven innovations that will change the world—in fact, our lives—in ways we are only beginning to understand.

11. For the financial industry, disruptive technology is indeed shaping the future of financial services. To begin, FinTech is already challenging the status quo with respect to the way financial intermediation is being conducted. Customers now have credible alternative to banks and other existing intermediaries in the financial system to get end-to-end financial services (i.e. access to funding, to save, transfer money, and make payment). To the masses, FinTech presents them with more choices and better-targeted services at a better pricing.

12. Further, for small and medium sized enterprises (SMEs) which are the backbone for economic growth and jobs creation, FinTech provides access to more diverse funding options. Innovative FinTech products can be better tailored to the needs of small businesses. These include marketplace (peer to peer) lending, merchant and e commerce finance, invoice finance, online supply chain finance and online trade finance.

13. By reducing information asymmetry in the marketplace, FinTech is not only improving the ability to match investors, lenders and borrowers; but providing a more level playing field that allows retail investors to have greater participation in the market. In China for example, Tencent's 'WeChat' now allows users to apply for uncollateralised loans of up to US$30,000 and

get a decision in under a minute, while individuals can transfer money to each other. More interestingly, how much a person spends on restaurants and cabs, which also part of WeChat's web of e-commerce, might help determine the person creditworthiness. Ultimately, FinTech intermediaries help bring additional liquidity to the market, and also contributing to greater financial inclusion into the financial system.

14. Beyond convenience and speed, however, we should also look into the other areas where disruptive technology is affecting the status quo of banking and other components of the financial system. Firstly, as the FinTech future envisages the sharing of data across a wider set of parties, including banks, the challenges that we have to deal is on how best to protect customers' data from cyber-attacks and cyber threats.

15. Secondly, systemic risks might also evolve. For example, changes to customer loyalties could influence the stability of bank funding. In the long run, the volatility of banks' deposits could pose a higher liquidity risk to the banks. As our financial system becomes more integrated, so are risks. Specific risks posed by FinTech in a specific none-banking entities or sectors can be quickly transferred to banking entities or industry, and vice-versa. Indeed, such risks can now be a source for systemic risk for the financial system as a whole.

16. Thirdly, as with any financial innovation in the past, there remains challenges in striking the right balance between supporting technologies as an enabler of growth and mitigating the potential risks at the same time. While regulatory compliance remains essential, greater proportionality in financial regulation will also mean that development goals need not be compromised in the face of financial prudence. Given that FinTech is still in exploratory mode, we are likely to observe new approaches in regulations and supervision to internalise such changes. This will be key in shaping the future of the industry in the digital era.

<u>EMBRACING THE DIGITAL ERA</u>

Ladies and gentlemen,

17. Against all these observations and developments, one huge question remains. Where do traditional banks stand in the face of the age of digital disruption? My personal believe is that traditional banks are still very much relevant and will be here to stay, for now at least. It seems very unlikely that traditional banks will be superseded altogether, given how banks are entrenched in our economic and social structures, and most importantly, they have consumer trust.

18. Nevertheless, banks must be quick to embrace the changes and must be as agile as their competitors to match the ever-increasing expectation of the consumers. Consumers will now demand for faster and quality services and at a lower cost, which unsurprisingly can be offered by a number of tech savvy and entrepreneurial minds out there. Especially the ones who are not shackled by the complexity of corporate structure, administrative details or taxing bureaucratic decision making processes.

19. To remain competitive, banks must take the right bold approach to embrace and prioritise digital technologies. Among others, banks should embark on serious collaboration with the right parties, including technopreneurs, budding app developers, academia and start-ups. If necessary, banks and intermediaries should consider "commoditising" services provided by FinTech providers, and given your existing client base and client relationship, I am sure that

these providers are more than happy to partner with you.

20. Banks also should consider providing direct investment into start-ups and host more incubator-style programmes to foster trust and build mutually beneficial collaboration. By working with banks, start-ups have the opportunity to acquire comprehensive sets of user data which can help inform innovations at a product level and gain invaluable understanding of an established customer base within their market.

21. Further, as banks adopt FinTech as part of their businesses, banks should enhance their cyber preparedness against cyber threats and cyber-attacks. To do so, leadership teams of banks must take a strategic and holistic approach to cyber preparedness by putting in place the right governance and enhance the awareness at all levels. Among others, special attention has to be given on banks' cyber maturity covering prevention of cyber risk, detection of and recovery from any cyber security issues. Such measure would ensure that personal information and transaction data from customers are secured and not compromised, which ultimately will provide comfort to stakeholders that banks are prepared to protect such sensitive information.

22. At the government's end, as I have mentioned earlier, we will continue to strike the right balance between promoting digital technology as an enabler for growth while at the same time reducing the risks. For example, acknowledging FinTech's ability to enhance access to funding, the government through the Securities Commission in 2015 has played the role to become the pioneer in the ASEAN region to legalise the Equity Crowdfunding, followed by being the first in the region to roll out a regulatory framework for Peer to Peer Financing (P2P).

23. Bank Negara Malaysia on the other hand has also issued details for the Fintech regulatory sandbox framework, further paving the way for greater innovation in the banking system. Most recently, the SC has issued the Digital Investment Management framework, to enable the offering of automated discretionary portfolio management services to investors or better known as "robo-adviser". At its core, the approach that the government is taking is that we want to facilitate FinTech within the proper regulatory framework to create an open, safe and conducive environment to all players.

CLOSING

Ladies and gentlemen,

24. Challenging as it may be, this is not the first time that the banking industry is faced with situations where changes is urgently required. Over the five decades, banking industry in Malaysia have been adapting to changes very well, including the first wave of computer and technological innovation in the 1980s and 1990s. Therefore, I have no doubt that our banking industry will continue to adapt and ultimately benefit from the Fourth Industrial Revolution.

25. Before I conclude, I would like to congratulate ASLI once again for successfully organising the 21st Malaysian Banking Summit and I wish everyone all the best.

Thank you.