

COVER STORY

Changing with the times

BY ADELINE PAUL RAJ

Veteran banker Tan Sri Azman Hashim has been in the industry for almost six decades. He has weathered the peaks and troughs of economic cycles, seen the industry go through a tough consolidation and has displayed chameleon-like versatility in adapting to the changing times. But the challenges and disruption brought about by the digital revolution in recent years is unlike anything he has seen before.

“Now, the change is too fast. It can happen overnight, it can happen tomorrow. Somebody comes up

with an idea ... and the change is viral and it affects everybody,” says the chairman and major shareholder of AMMB Holdings Bhd, who turns 79 in July.

In a candid interview with *The Edge*, Azman — speaking in his capacity as chairman of the Asian Institute of Chartered Bankers (AICB) — gives his views of the changes taking place, what banking and the future generation of bankers may be like in three to five years, and how the older generation need to have an open mind if they want to have a place.

The Edge: The saying that “banking is necessary, but banks are not” seems to ring truer than ever today, with things like fintech and the digital revolution disrupting the financial services industry. You’ve been in the industry for many years now, Tan Sri — how do you view the changes and disruptions that are taking place?

Tan Sri Azman Hashim: (I’ve been in the industry) from the time I returned to Malaysia (from Australia) in 1960. I was in Bank Negara Malaysia for four years right after I came back. I’ve been through all the governors, from the first one, (Tan Sri William) Wilcox, and then Tun Ismail (Mohd Ali).

The world is changing so fast, especially in this digital era. It’s difficult for me to predict what’s going to happen. But what’s happening today, I think, is wonderful also ... because things are being done so fast, so quickly, so efficiently. Of course, there are some (things) that disrupt banks. But, I think banks have to get involved. We have to also get into the game wherever we can. Of course, we are regulated — quite strictly, actually.

(These new things) do cause problems for regulators. They don’t want (these things) to be able to affect the system. But they’ve also got to see whether they can accommodate. If it’s good for the banking system, why not use them? ‘Use’, in the way that they can be regulated, they can be controlled. It can be good for the people as well, you know ... things can be done much faster and so on.

So, maybe as banks, we need to go into it ourselves and see what we can do in that space. And where we cannot beat them, we join them as partners. We can cooperate as partners, but where we can do things our-

selves, we do it ourselves. I see some banks are already in partnership ... with Alibaba, Alipay, etc. I think there’ll be more of that in future.

You come from a generation of bankers that did things very differently. For you, it was about building relationships, seeing customers face to face. So, this must be very different...

No, that will be there still. The core of banking is trust. People put their money in the bank and they trust the bank. I think this is where we have our strength, that is, the banks have built up the trust over the years. Of course, sometimes we also lose the trust because of the scandals and crises that happened, in the US especially. But over a long time, there’s been this trust between the customer and the banker.

In the digital space, I think they will have a problem there because there’s a lot of leakages, a lot of cyberattacks going on in that area. They don’t see people face-to-face ... you don’t know who you’re dealing with most of the time. Over time, confidence in that space has to be built up. But, for now, I think there is still that (uncertainty). Like bitcoin, people are still not sure whether you can invest or not ... in the meantime, you lose money. So, brick-and-mortar (branches) ... I’m not entirely sure that this will go off completely because there are still people who need to have that relationship. And banking covers such a wide area — there’s retail banking, for instance, but maybe that can see less of a face-to-face (type of banking) because you have retail customers (with) small amounts of banking transactions. But then you have

also the investment banking side, advisory side ... these require face-to-face (contact) because the people like to know who they’re dealing with and the issues are more complicated. So, I think banks will still be there (three to five years down the road). But we will evolve into something better, smarter, quicker, using digital technology as well.

Tan Sri, with all these changes taking place, and so fast as well, do you think you and your generation of bankers will still be relevant?

Oh, sure, because we have to keep up (laughs). For example, to me now, the digital space is very important to us. We put in a lot of effort there and see what we can do better. And I have to listen to all the “language”. Although I may not be as expert on the subject, I am open to ideas.

We need to have an open mind, actually, and always welcome anything new, especially in the digital space ... because if you’re not in it early, you’re left behind very quickly.

Are we embracing these changes fast enough or are we behind the curve?

I don’t think we’re behind. You know, banking is an international thing, even in Malaysia. We are a local bank, but we have to compete with the likes of Citibank, HSBC, StanChart ... these are international banks and they are here in KL with all the latest things, so we cannot be behind. There’s no second thought about it, you have to be there. But the good thing about technology is, you can be there. In fact, this is one area where you can be as good as the next fellow if you have the technology. You don’t have to wait ... like last time, you have to learn how to do

the new things and it takes years to build up and catch up with the international banks. But now, no more. With technology, in fact, we can leapfrog. If we’re smart enough, we can do it maybe better than them. Look at Alibaba ... from nowhere, they have leapfrogged other people.

What do you reckon will be the biggest challenges and what are your key concerns for the industry as these changes take place?

Right now, and it’s not only here but internationally, the issue of cyber security is on everybody’s mind. The sad thing is that everybody admits you cannot stop cyberattacks (from happening). And we’ve seen it in Malaysia too. Cyber security is a real threat. This is a universal problem.

And regulations. Because of money laundering (ML), drug money and all these things, you can see billions of dollars have been laundered over the years, and some of the big international banks are also fined billions of dollars. So, because of that, the rules now on anti-ML are so stiff. To me, it’s a burden on the banks. We have to install systems, train everybody to be conscious. Because with ML, there could be a lapse anywhere down the line, you know ... from bottom up. And the penalties are very severe. So, banks now spend a lot of time, effort and money setting up all the systems, training people, and they have to be updated all the time because these money launderers come up with all sorts of new tricks, and it’s very costly for banks ... and it doesn’t contribute to the bottom line. It doesn’t affect just my bank, it affects every bank ... we’re all on a level playing field.



What does the future of banking look like in Malaysia? In three to five years, how much different will banking be in Malaysia?

I can't tell, it's so difficult because developments especially in the digital space are happening so fast. But anyway, I would think for us, there'll still be some time. We'll still be having the basic, fundamental, core things like face-to-face banking ... all that will still be there for quite a while.

In terms of some of the banking businesses, also, we're not that mature yet. For example, with SMEs, there's a lot of scope there for growth, expansion, for a lot more people to be involved, to be doing small and mid-sized businesses. This, I think, is a space we can grow and by a lot, and that will give a lot of business to the banks.

So brick-and-mortar banks will still be there in three to five years, but ...

But less. People are not looking at expanding brick-and-mortar branches anymore, and are looking at even reducing them and probably installing (more) technology. We may have machines instead of branches (laughs) because machines can do everything now; they can take/give money and not only that, even ATMs have the capacity to trace who the customers are, etc. So, in future, ATMs can be doing all sorts of other things.

What are the businesses that would be less relevant for banks to do as digital and fintech increasingly come into play?

I'm not so sure. We're still doing all the things we've been doing all these years.

But can that keep going the way it is?

So far, we are still doing it, unless there is

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— Azman

some other disruptor that can completely take it all. But so far...

What about bread-and-butter type business for banks, like mortgages? It's been said that people eventually won't need to go to banks to get a mortgage or a loan. There are already things like crowd-funding and peer-to-peer lending. So, how do you see the business of banks changing?

So far, I don't see that happening much. If it's so easy and so good, how come it's not happening much? Of course, in the US, for example, some of the financing for retail goods like cars, for example, is being done by the (car) companies themselves, because they have enough funds. They are big enough to get the funding. Basically, they must have enough funding to finance all this. It's huge funding. And that's where banks come in. And that's why the banks

are still there. The need is still there for banks to fund the houses, cars and so on.

So you don't see the business changing in Malaysia for things like mortgage?

No. Not as soon as three to five years, at least.

What about the banking landscape in general? In three to five years, there may be only one owner-run bank left.

Why should that be? I'm not going anywhere. I'm still chairman of AMMB Holdings Bhd.

I don't know whether it's a good thing to have only four banks, for example, like in Australia. I don't know whether the customers like that. I don't know whether the banks will undercut each other or not. The Australian banks make much more profit than the banks here in Malaysia, in terms of their profit margins. And I think that's partly because there are only four of them, and they probably don't undercut each other.

In Malaysia, we undercut each other like crazy. Because there are so many banks, there are choices, there's competition. So, profit margin is being narrowed all the time. That's why it's very tough for us to grow (profitability). Even Public Bank used to have an ROE of 26%, now it's down to 14% or 15%. The rest of us are around 10%. It's not great, you know, 10%. Australia is more like 14%, 15%. I think if we cut it down to three or four banks in Malaysia, you might find that ... in fact, customers are a bit nervous about having too few banks. They prefer having choice, variety ... because if four banks turn you down, you don't have anywhere else to go. But there's also room for smaller banks, I think. Smaller banks can focus on niche areas and specialise.

So what do you think is the ideal number of banks for Malaysia to have? We are down to eight now.

Maybe what we have today is ideal ... you never know (laughs). But I think that is (up to) market forces. I cannot say for sure because it could be that operationally and viability wise, maybe bigger is better. That's what they say. But in quite a lot of cases when you merge, the outcome is not as good as they think ... there are a lot of issues. So, I think for now, eight banks is not that many. It used to be a whole lot more!

But anyway, in the end it's up to market forces to see what is best, and that will be left to the individual banks, I guess.

You talked about margins and ROE. Are the days of ROE — like you said, mid-20% for Public Bank, and even at 15% now, they are the benchmark setter — are the days of that kind of growth over?

I hope not. Our banks are healthy, we're not losing money. Of course, as a banker, I'll say I hope it can improve. We can always improve. But the competition is tough. But, it's good to have competition as well ... it's good for the customer, it's good for the public. And it's healthy. So maybe, as long as the regulators keep a sharp eye on things and we don't undercut ourselves too much, maybe it's okay. Even at 10% ROE, it's okay, the banks will still survive well. But of course, the banks all hope to get better results. And we have to do it through other means like efficiency, cost-cutting, technology ... it will come through that, which is good. It makes us all work!

Maybe (we won't get the 20% type of ROE), but I would say we can still do double-digit ROE. Double-digit is still good, relative to other industries, because this is a very well-regulated, strong, healthy industry.

Tan Sri, where will the new revenue streams come from in three to five years

as we move towards the new phase of banking?

To me, in Malaysia, we are still in the lending business. So, our revenue will mainly come from interest income ... from the loans, fee income. Fee income is quite dependent on how strong the economy is and a lot of corporate exercises and things like that. But still, the main source will be interest income.

So you don't see that changing greatly from now?

Not so soon, I think. I mean, it's the same thing even with the overseas banks. Interest income is still their main source. Even fee income, however big it is, compared to your loan size, (loans) are still the biggest contributor.

Since AICB's role is to educate and groom bankers, what attributes do you think the future generation of bankers should have?

I think our curriculum is always evolving at AICB and the banking school. So now we incorporate digital things, it's quite clearly there. Especially for the senior bankers, when they go for their courses in Cambridge and so on, one of the areas there is the digital space ... it scares them when they hear the latest on what's happening, but it opens their mind, their outlook.

And of course, we also introduce a lot of professionalism and ethics, because values to me are very important. That's why we had a lot of problems with bankers in Wall Street when we had the crisis, you know — the scandals and all that. They were selling fraudulent instruments knowingly to their clients. So, this, to me, is completely about there being no moral values. And these were smart people ... they have their MBAs from all sorts of universities. So we want to instil in our bankers high standards of conduct, ethics and professionalism. That's why we have the FSPB (Financial Services Professional Board), which has a code of ethics for the financial services industry. I was their first chairman. We found it necessary to have a formal code of conduct that banks will accept. Banks also have their own code of conduct. And the chartered banker, the code of conduct is also just like that ... very strict, and we have to all abide by that.

Do you see a new breed of bankers emerging and how different would they be from you and your generation?

I'm different. I'm an entrepreneur. My thing was building up the bank, from 200 staff to over 11,000, and, from just an investment bank to a complete financial services group. That was my main role, actually.

Malaysia in those days — I started in 1982, I think, building up AmBank Group — the whole economy was growing. All the big-time fellows you see now were all small-time then. They were growing up with me as well. It was a different climate. Today, I would say Malaysian banks are very mature already. They are comparable to the international ones, and we are also just as regulated as the international banks. So now it's more a question of compliance with the rules, laws and everything else ... and also keeping up with what's happening in the world. There has to be progress.

So, you have to be a banker with a big, open mind. I'm not sure whether (one has to be) less of an entrepreneur. I mean, it still requires an entrepreneur's spirit ... because you still need to venture into new areas like the digital space, a new area. You're not quite sure what the outcome will be, but you've

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Banks will need more professional managers

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got to be there and have people trained in that area, prepare yourself to be ready for whatever comes.

I built it (the bank) up in an environment where the economy was not mature yet ... everything was growing. So, maybe it was easier because things were growing so fast anyway. But now, we're there ... even to grow loans is an effort. Last time, it was not a problem, so we grew very fast.

So how do you reckon the new generation of bankers would be like? How should they be?

I think there'll probably be more professional managers. You need more professional manager types. Banks are big organisations ... they require corporate thinking. I think individuals like me are probably more suited outside now. I can do my own thing, not be too much regulated. I'm more of an entrepreneur, I think.

What's AICB doing to stay relevant to the changing times?

We are making sure that our training

What the AICB does

In 2013, Bank Negara Malaysia and the Asian Institute of Chartered Bankers (AICB), together with key industry leaders, developed an education blueprint for the industry aimed at raising the professional standards of bankers in Malaysia.

AICB was tasked with identifying, adopting and introducing professional standards and ensuring that these were met by the banking industry. This was to be done through appropriate methods of membership admission, development and examinations. The Asian Banking School was established to focus on the training delivery.

Today, the AICB has more than 12,800 members. Almost 80 bankers have completed its Chartered Banker programme – its flagship qualification – while another 1,300 members are currently pursuing the programme. This year, it expects another 50 people to graduate as chartered bankers.

and our content keep up with the environment. Not (a complete revamp), but adjustments and enhancements here and there. Some of the basic things are still there. You still need to have an internal auditor, but now you have to incorporate how you audit technology, how you incorporate the digital space, all that. It was not

there before at all. Risk management, for example, was not there in the old days, and now it's everywhere because we suffered from it last time. We weren't doing enough covering the risk side. So, these are new things coming in.

Cryptocurrencies are increasingly gain-

ing ground, with some countries (such as Japan and Germany) already accepting bitcoin, for example, as a legal means of payment. As a banker, what are your views on cryptocurrency? Is it something to be feared and clamped down on, or encouraged?

Well, there are still countries that don't accept it, so this thing is still in the air. There're still people who say this thing is going to crash, people are going to lose money ... it can go up one day and then go down 30% another day. Things that go up and down like that, like a yo-yo, are very dangerous for people to invest in. You know, if you're so dependent on it and then the next day you're 30% down ... it's not a good thing. But anyway, these things are still in the air. But you never know what can happen. These things are new inventions.

You've got to know what it is first. I'm not an expert on this thing. So, I suppose you've got to just watch it, let it be ... if it's good, it's good; if it's bad, it's bad. If it's bad, close it down. If it's good, let it expand. ■