ABS ANNUAL DINNER
26 June 2013
Speech by incoming ABS Chairman Samuel Tsien

Your Excellency, Dr Tony Tan Keng Yam, President of the Republic of Singapore
Mr Tharman Shanmugaratnam, Deputy Prime Minister, Minister of Finance and Chairman of the Monetary Authority of Singapore
Mr Ravi Menon, Managing Director, Monetary Authority of Singapore
Distinguished guests
Fellow Council Members & Bankers
Ladies and Gentlemen,

Good evening and a warm welcome to all of you. Thank you, Mr President, we are deeply honoured to have your presence tonight, as the President of this Country and also as the second Chairman of ABS between 1975 and 1978, as we celebrate ABS' 40th Anniversary.

Thank you, Piyush, for your words of encouragement, and thank you for your outstanding leadership at the ABS over the past two years which have been, to say the least, eventful.

OCBC was the first Chairman Bank of ABS 40 years ago, in 1973. The late Mr Teo Cheng Guan, our General Manager then, was ABS's first Chairman. He was succeeded by President Tony Tan, as I mentioned earlier. It is therefore particularly meaningful that OCBC returns to be the Chairman Bank on the 40th anniversary of ABS. It is a special honour.

I look forward to serving ABS, and I hope the operating environment will be kinder to us - greater market certainty, higher economic growth rates in all our key markets and no new regulations. My wishes, I believe, are however as hazy as the skies we saw last week.

Turning 40 is a significant milestone for any institution, as it is for any person. There is a popular saying that life begins at 40. As we celebrate ABS' turning 40 tonight, let's take stock of our past and present, plan ahead in anticipation of developments in our industry, and find the renewed vigour to bring our banking industry to an even higher level of international competitiveness, with guidance from MAS.

Since the global financial crisis, we have been living in volatile times. Overall, Asia has fared well, with strong balance sheet, prudent fiscal policies and rising domestic demand. In retrospect, the Asian financial crisis of the late nineties and early 2000 was a blessing in disguise. It provided us with an early warning to de-leverage and take note of the importance of liquidity management. The spectacular growth of China over the last decade and its spill-over effects to the rest of the Asian economies had provided banks in the region with real economic activities to finance, rather than being driven into financing creative financial instruments which came back and haunt the system. Credit should also be given to the MAS and the Government, for their sound policies and prudential oversight of the banking sector leading up to the crisis, which together with the structural reforms introduced in the aftermath, had helped Singapore to not only weather through the crisis, but emerged stronger as an economic force and a leading financial centre.

However, several risks remained on the horizon, including the widely expected move by the US Fed to scale back its quantitative easing programme, which carries the risks of an abrupt market response to investment holdings and a disorderly reversal of funds flow, not to mention the higher interest burden for higher leveraged companies. The good news is that Singapore's banking system remains in good shape, with strong capital ratios, healthy balance sheets and sound asset quality.

A key lesson that we have learned from the global financial crisis is the need for us to return to basics, in particular, in adopting a disciplined approach to risk taking. We have also learnt the importance of Fair Dealing, Honesty and Integrity, and the importance of having an appropriate compensation framework that fosters the right behaviours. More robust corporate governance coupled with enhanced capital and liquidity management should help the industry weather future volatilities.

Challenges Post-Global Financial Crisis

Having said that, there are a number of challenges that the industry faces today, which would drive the agenda of the Association going forward.

First, the costs of compliance to the increasing - - and increasingly complex, rules and regulations. They are all better known by their alphabets – FSB guidelines, FATCA, LCR, PDPA, EDD, TRM, KYC and KYCC, etc. The list of acronyms continues to grow. Apart from the cost of putting in place processes to ensure that they are being implemented, there are significant costs associated with systems enhancements for data extraction and activity monitoring.

Moreover, there is the growing inclination for national regulators to ring-fence the liquidity of overseas branches and subsidiaries in their own jurisdictions, resulting in raising the overall cost of group liquidity maintenance. Coupled with higher capital requirements under Basel 3, a consultant had estimated that Asian banks' average ROE may drop between 2-4 % in the absence of mitigating actions.

As bank management, it is our direct responsibility to make certain that we understand the rules and we develop adequate processes to comply with the rules and regulations. Working with regulators, we also need to promote greater consistency in international regulatory approaches including implementation, cross country supervision, national requirements versus international standards. As an industry, we need to work together to find ways to both meet the intent of regulations and manage the cost of implementing them.

The second challenge that the global financial industry faces is to improve and preserve the reputation of banks in general. Recent events such as rogue trading, benchmark rates submissions, foreclosure abuses in the US, allegations of bank-assisted tax evasions, etc, have done nothing to engender public confidence in bankers. While the public's confidence in banks and bankers in Singapore and Asia have remained largely intact, we need to make sure we take tough, determined and decisive actions to address any wrongdoings to ensure there is no erosion of public confidence in banks. We need to lift our game in terms of raising the standards in our banking practices, ensuring the continued effectiveness of control, and improving transparency in our interactions with customers.

On this latter point, we at ABS will continue to put priority on consumer education. As much as we need to know our customers, they too need to know what they are buying from us. This is the only acceptable model for the sustainable long-term growth of the industry.

Over these past few years, the Association has established benchmarks through the Code of Consumer Banking Practice which sets minimum standards of good banking, and the rights and responsibilities of customers. The ABS also collaborates with MAS' MoneySense on various consumer education programmes, targeting audience groups ranging from school children to retirees.

The third area of challenge is the building of the talent pool in Singapore and the upgrading of industry competencies. We need to tackle them collectively as an industry. This is a major challenge for the industry, no less because the employment situation continues to be tight in Singapore. There is a talent shortage in specialised skill sets as well as senior general management roles, and the competition for talent is global. Instead of competing for resources with one another, which will only increase our operating costs, let us work together, and with the Government to expand the talent pool through training and development so that there are enough resources to support our future growth. In this respect, the recent opening of a S$60 million dedicated training centre by a local bank will certainly help in this area.

Last but not least is the challenge of cyber security. With the Internet increasingly becoming an integral part of our lives, the rise of cyber crimes is becoming an increasingly acute risk for many industries, and particularly the financial sector. For example, in March this year, the attacks on the computer networks of three major banks in South Korea left many customers stranded, unable to withdraw money from ATMs.

There is clearly an urgency for banks to work closely, and in a proactive and collaborative manner. The MAS has just released the new Technology Risk Management Guidelines last week, which is a comprehensive paper that addresses reliability, availability and recoverability of critical bank systems. The ABS has also recently formed a new Committee, the Cyber Security Standing Committee, to develop an industry-wide strategy and solutions to counter cyber threats, working in conjunction with key government agencies.

I would, however, like to add that strengthening systems resiliency and security often has the unintended consequences of inconveniencing customers. Examples include having to carry multiple tokens, calling their banks to activate their magnetic stripes before going overseas, etc. The general public needs to understand that there is a cost to them as well.

The Opportunities Ahead

Despite the challenges I've listed, the outlook for the industry remains positive as we see the numerous opportunities that are here for us to tap.

We believe that despite the slowdown in China, Asia will continue to be the economic engine of the world for some years to come. Domestic demand is expected to continue to be strong, reinforced by the increasing flows of capital, trade and people in the region. At the ACI 52nd World Congress in March this year, DPM and Minister of Finance Tharman Shanmugaratnam highlighted the opportunities for Singapore arising from the development and growth of an offshore RMB market. This is now for real, with Singapore becoming an offshore RMB clearing centre since the end of May. There are also new opportunities associated with the creation of the ASEAN Economic Community by 2015.

Through COFIT, which is ASEAN Banking Council's Committee on Co-operation in Finance, Investment and Trade, we can play a key role in driving forward the ASEAN Financial integration agenda.

An open and consultative relationship between the regulators and the regulated entities forms the bedrock of any industry transformation. Regulators have more breadth in industry and market knowledge, while direct market participants have more depth of knowledge in market dynamics. By working closely with one another, we will be able to develop effective and pragmatic solutions to evolving issues that will bring us to our next level of accomplishment and make Singapore the unrivalled world-class financial centre.

Thank you.

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