Abdul Rasheed Ghaffour: Bankers without borders

Opening remarks by Mr Abdul Rasheed Ghaffour, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Report Launch for East Asia and Pacific Region - Global Financial Development Report 2017/2018: Bankers without Borders, Kuala Lumpur, 12 April 2018.

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Thank you for inviting me to speak at the launch of this very important report.

The issue of globalisation has featured very prominently in the headlines, especially in recent times. In fact, it has been very trendy over the past decade to herald the end of financial globalisation and international banking. However, the fact that this topic keeps recurring, to me, is a testament that various issues remain unresolved. As such, I am pleased that we are able to have an informed discussion on this issue today. For my brief remarks, I will focus on the theme of the report "bankers without borders".

Finance and globalisation have been an important part of the ASEAN story

The title of the report, lends to a very specific definition of the word borders, the conception of finance unrestricted by national boundaries. Conventional economic theory posits that capital will flow from capital rich to capital poor countries to fulfil the productive needs of the economy. This implies that any form of boundary is not only undesirable but may hinder growth.

In fact, when we consider a broader view of economic history, the past few decades have seen one of the greatest reduction in poverty, and a major driver of this is the breaking down of borders between countries, that is, globalisation. This mirrors the experience of Malaysia and the ASEAN region. Openness to trade and finance has been proven to be key in the development of our economies. ASEAN's openness, as measured by its share in world trade has reached almost 10% in 2016. Since 1990, ASEAN intra-regional trade has grown from 18% to 23% of its total trade in 2016, while intra-regional investment activities have increased tremendously since 2000, from 4% to 25% of its total investment in 2016. The strong commitment towards greater openness is also enshrined in the move to realise the ASEAN Economic Community. Moving to the future, continued openness, integration and cooperation will be key for the regional economies to meet the challenges of the future.

Hence, the theme bankers without borders fits well within the ASEAN perspective given the fact that the banking sector is one of the key drivers in the financial sector. This is further motivated by the approach of the 'ASEAN Way', which is premised on the region's belief and recognition of strength in diversity. Important regional agreements such as the ASEAN Banking Integration Framework have encapsulated the principles of inclusiveness, attainment of mutual benefits and individual country readiness in supporting the regionalisation of ASEAN banks.

However, an important point that should not be forgotten is that the financial sector encompasses a wider scope than just banks. In fact, policymakers in ASEAN have been successful in enlarging the borders of our financial markets by developing more diverse sources of funding for the economy. This is best reflected in the building of deeper and more liquid bond markets arising from the experience of the 1997 Asian Financial Crisis. We are also seeing a shift in the financial landscape through the usage of technology, something that I will elaborate more on later. Thus, the term bankers without borders, should perhaps, be expanded to be finance without borders.

Yet, despite the positive outcomes from these and the continued strong need for openness, the conviction for globalisation and international banking seems to be waning. For one, post the global financial crisis, we have seen the rationalisation of operations by many international banks.

We read regularly on the prospects of trade protectionism, how globalisation has created widening inequality and how globalisation is like a train running out of control. No doubt, a key driver of the 2007/2008 financial crisis was indeed financial liberalisation going too far. Interestingly, some, including economists at the Bank of England have also begin to consider the theory of "peak finance" – that global finance has peaked and financial de-globalisation has begun, while others at the BIS have argued otherwise.

International banking and finance – a new model for a new era

While this debate will surely continue to unfold over the coming years, perhaps the more pertinent question is how we can evolve the model of international banking such that it becomes more desirable and beneficial for the needs of the future.

It is worth considering a new model – one that is inherently more sustainable and inclusive. If I may postulate, the starting point is perhaps an honest appraisal that international banking ought to be much more than just a commercial decision. Beyond considerations of revenue, margins and returns, international banking should fundamentally be more attuned to and invested in the developmental journey of the host country. Existing and traditional considerations on profitability, while important, should not become a border that limits the potential of transforming international banking for the benefit of the future.

Here, the mindset is not one of a "winner takes all", but rather one where the benefits of development are equitably "shared by all". This, again, resonates with the 'ASEAN Way' of greater shared prosperity and is perhaps a useful reference.

There are at least three ways in which international banking can further this new model. Firstly, by actively identifying the economic needs of the host country and working to serve these needs. These include, for example, national infrastructure development needs, financing gaps for certain segments of society as well as adoption of productivity-enhancing technology by firms.

Second, is to bring in successful innovation and expertise from all parts of the world. With operations in multiple economies, international banking is uniquely placed to realise this aspiration. However, it has yet to be utilised fully. All too often, while international banks have been genuinely innovative in some advanced countries, such innovation and expertise are not dynamically translated to the operations in developing economies, despite being part of the same bank. It is equally important that such innovation is accompanied by appropriate safeguards on the part of national authorities to preserve financial stability.

Third – and this is where I would like to push the borders of conventional thinking – a new international banking model should also be one that intertwines itself into the very fabric of the local community, seeking to address social issues that concern the nation and its people. This should come as no surprise. In this way, international banking is no longer an outsider or an aloof bystander, but an integral part of the socio-economy in the country.

One can imagine the strength and ethos of a banking sector that promotes issues of home ownership, urban poverty, social inequality, financial literacy and resilience of households to financial shocks. This would truly be "banking without borders".

This is a critical point given the increased expectations globally on multinational companies. The recent example of the Facebook data scandal, where personal data of up to 87 million people was improperly shared, strongly illustrates the point that there are social repercussions to the actions of multinational companies beyond just the bottom line. In my view, international banking is no different. Beyond the traditional goal of providing *financial* capital, there is a very compelling case for international banking to also develop *social*capital. In this way, finance, often thought to be destructive, can be a very transformative force as well.

Regionalisation and digitalisation are changing the rules of the game

So where does this leave us? As highlighted, the future of international banking is not necessarily bleak. With further calibration and evolution, it can continue to have a prominent role in serving global interests. The good news is this evolution is already taking place. Previously dominated by the elite few, in this case large global banks, international banking is now increasingly open to a larger group of market participants. On one hand, the circle of banks is expanding, from large global banks to smaller regional banks.

This is an important point that is also highlighted in the Global Financial Development Report, reflecting the growing extent of banking relationships between developing countries, particularly in this region.

On another front, digitalisation is ushering in a new era, expanding the borders of international banking to now include non-bank fintech players. These players have the distinct potential of transforming global banking as we know it today. Around USD13 billion was invested by venture capital players in fintech startups in 2017, the third highest annual total this decade.

Among these, the most impressive transformation is perhaps in cross-border payments. Allow me to share an anecdote highlighting the magnitude of the change that is happening. Earlier this year, eight Chinese tourists went on a six-day trip to Finland courtesy of a Chinese online payment platform company. This trip was significant for two reasons. First, payments for the entire journey was cashless and performed through a mobile app, from the payment of flight tickets to food, ground transportation and other retail purchases. Secondly, Finland, located as far as 6,000 km away from China, became the first country where this Chinese app can be used to make virtually all payments. This is just the beginning. As fintech companies expand to other markets and enable seamless cross-border payments for other users, one can already imagine a future where one can travel the world with just a smartphone in hand. Not only that, another related consequence of such a future is that essentially all we know of "international banking" today could be performed without an actual bank.

Naturally, we ask ourselves what are the implications of these changing boundaries of international finance? For financial customers, it means adapting to a new banking paradigm. A more regional and digital banking ecosystem could lead to increasing localisation, personalisation and efficiency of financial products and services. While these are welcome developments, they have to be accompanied with the necessary financial education to enable safe and effective participation in the financial sector. From the regulators perspective, it means ensuring the regulatory and supervisory system is robust enough to cater to the evolving needs of the financial system, whilst at the same time safeguarding financial and economic stability.

Conclusion

Allow me to conclude with an analogy of the nine-dot puzzle. The puzzle, which appeared as early as 1914, proposes an intellectual challenge of *connecting* nine dots by drawing four straight lines without lifting the pencil. As many may know, the solution is simple, but can only be found by drawing lines outside the imaginary box formed by the dots, thus popularising the term "thinking outside the box". The heart of the challenge lies in overcoming the imaginary boundary or *border* we perceive.

The potential for international banking remains vast, if utilised appropriately. As the world ponders on how best to *connect* our economies together and the role of international banking in this aspiration, let us not be afraid to consider new perspectives, to search beyond traditional *borders* – real or imaginary. Only then, can we truly realise the benefits of an international banking model that is sustainable, inclusive and without borders.