



21ST ASEAN BANKING CONFERENCE & 46TH ASEAN BANKING COUNCIL MEETING

Held from 27 to 30 November 2016, in Bangkok, Thailand



Heads of Delegates with Guest of Honour, His Excellency Dr Veerathai Santiprabhob, Governor of the Bank of Thailand.

The 21st ASEAN Banking Conference and the 46th ASEAN Banking Council Meeting were successfully held from 27th to 30th November 2016, at the Anantara Siam Bangkok Hotel, Bangkok, Thailand. The Conference was hosted by The Thai Bankers' Association (TBA) with a pertinent theme of **"Enhancing and Strengthening the Roles of Regional ASEAN Banks in the context of Growing the ASEAN Economy Community (AEC)"**. This event served as a platform to explore the strategic enablers and emerging trends that are within the ASEAN context and identify areas of mutual collaboration. It is also a forum to share and promote best practices and experiences as

well as to further enhance cooperation among members of ASEAN Bankers Association (ABA) and act as one of the catalysts towards the realisation of the ASEAN Economic Community (AEC) agenda.

This year's event was well attended by more than 300 banking executives, regulators, professionals and subject matter experts from the ASEAN countries. The commitment of all ASEAN countries was demonstrated by the fact that each delegation was well represented by senior banking executives from a spread of prominent banks in their respective countries. **E**



His Excellency, Governor of Bank of Thailand, Dr Veerathai Santiprabhob, presenting his keynote address.



Mr Predee Daochai, Chairman of the Thai Bankers' Association, presenting a token of appreciation to His Excellency.



Mr Kartika Wirjoatmodjo, Chairman, ASEAN Bankers Association, welcoming His Excellency.

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Panel Discussion: How should banks adapt in the Digital & FinTech Age?



Her Excellency Deputy Governor of the National Bank of Cambodia, Neav Chanthana, was welcomed by Dr Veerathai Santiprabhob and Mr Predee Daochai.



Panel Discussion: How can banks adopt the framework of sustainable finance?



Gala dinner at Head Office of Kasikornbank.



Dinner cruise hosted by Bangkok Bank.



Dinner at Zense restaurant hosted by TMB Bank



The Permanent Committees of ASEAN Banking Council in simultaneous sessions: Cooperation in Finance, Investment & Trade (COFIT), ASEAN Inter-Regional Relations (IRR) and Banking Education.



Sightseeing



FROM THE DESK OF THE SECRETARY GENERAL

The bi-annual Conference of the ASEAN Bankers Association (ABA) is one of the capstone events in its calendar. This year's event, the 21st ASEAN Banking Conference and the 46th ASEAN Banking Council Meeting that took place in Bangkok, Thailand in November 2016 has seen resounding and remarkable success, with more than 300 participants attending the Conference, followed by the Council Meeting.

On behalf of ABA, we want to express our heartfelt and deepest appreciation to The Thai Bankers' Association (TBA) for the warm reception, flawless hospitality and meticulous attention to organisation details. We are also very grateful to TBA for inviting His Excellency, Dr Veerathai Santiprabhob, Governor of Bank of Thailand to this event. His Excellency in his keynote address at the Conference shared his thoughts on how financial services could be transformed to meet new business needs in the growing ASEAN Economic Community (AEC). On this backdrop, panel discussions were held around the theme "Enhancing and Strengthening the Role of Regional ASEAN Banks in the context of growing the AEC". Panelists discussed how banks should adapt and leverage in the digital and FinTech age, facilitate more regional trade and investment, adopt the framework of sustainable finance and fill in the gap in regional infrastructural financing needs.

At the Council Meeting, the three Permanent Committees provided their reports and updates from their meeting sessions and agreed on key actions to be taken. In the Digital and FinTech space, there are plans for workshops in 2017 in API and blockchain applications. In alignment with the focus on the FinTech eco-system and to gain greater understanding of the market in China, a study tour to Shanghai, China is being planned. A workshop to share information on sustainable/responsible financing guidelines is also in the pipeline. The training institutions of our National Bank Associations (NBAs)

will identify areas in banking to harmonise standards of skills for cross-border accreditation acceptance. This will be done in consultation with their respective regulators/responsible bodies.

The economic outlook for ASEAN in 2017 will be underpinned by mediocre global economic growth and heightened policy uncertainty associated with rising tendency towards protectionist economic policies in advanced economies. Nonetheless, within the ASEAN bloc, expected high public and private consumption, strong spending on infrastructure, intra ASEAN trade and easing of fiscal policy will help ASEAN economies to stay resilient in 2017. ASEAN banks must however persevere in seizing growth opportunities and embracing technological advances in the ONE ASEAN spirit towards realising the ASEAN Economic Community goals.

Moving forward into New Year 2017, let me wish all who are celebrating the Lunar New Year a blessed, prosperous and bountiful year. GONG XI FA CAI!

The year 2017 is also an auspicious year for the ASEAN Community, as it celebrates her 50th Anniversary. On behalf of the ASEAN Bankers Association, I would also like to wish the Community a very happy, memorable and joyous Golden Anniversary. ■

Mr Paul C G Gwee



CALENDAR OF EVENTS

PROGRAMME	DATES	VENUE	HOST/ORGANISER
ASEAN Integrated Card Workshop	24 Feb 2017	Jakarta, Indonesia	PERBANAS, Indonesian Banks Association
ABA Digital Forum	6 to 7 March 2017	Bangkok, Thailand	The Thai Bankers' Association (TBA) and The Association of Banks in Singapore (ABS)
Blockchain and Its Applications	5 May 2017	Jakarta, Indonesia	PERBANAS and The Association of Banks in Singapore (ABS)
COFIT Workshop on Sustainable/ Responsible Financing	7 or 14 July 2017 (TBC)	Phnom Penh, Cambodia	The Association of Banks in Cambodia (ABC) and The Association of Banks in Singapore (ABS)



FUTURE OF ATM NETWORKS IN ASEAN – ATM UTILITIES?

By Mohit Mehrotra, Lead Partner Monitor Deloitte Southeast Asia (momehrotra@deloitte.com) and Hedde Velema Manager in Deloitte Southeast Asia (hevelema@deloitte.com)

The number of ATMs in ASEAN countries is growing rapidly (see Figure 1). ATM transaction numbers are growing quickly as well (see Figure 2). Operational costs to manage the ATM estate is increasingly significantly. However, fee income is not growing at the same pace. On top of that customers expect many of the ATM related features and value added services to be offered to them free of charge by their banks in many markets in ASEAN. Few ATM operators are able to operate their ATM estate profitably¹.

Figure 1 Number of ATMs per country

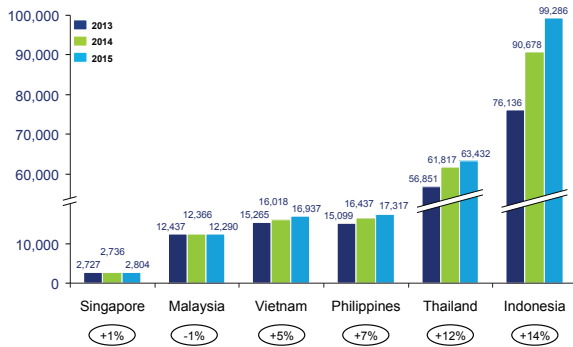
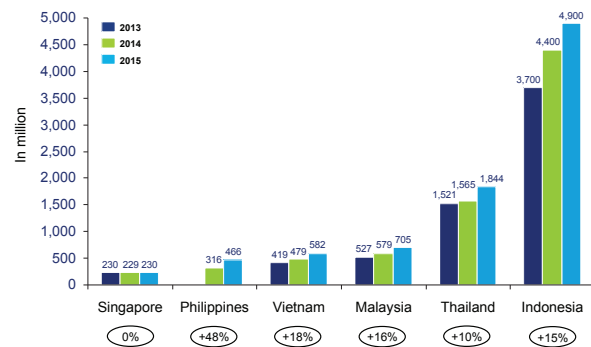
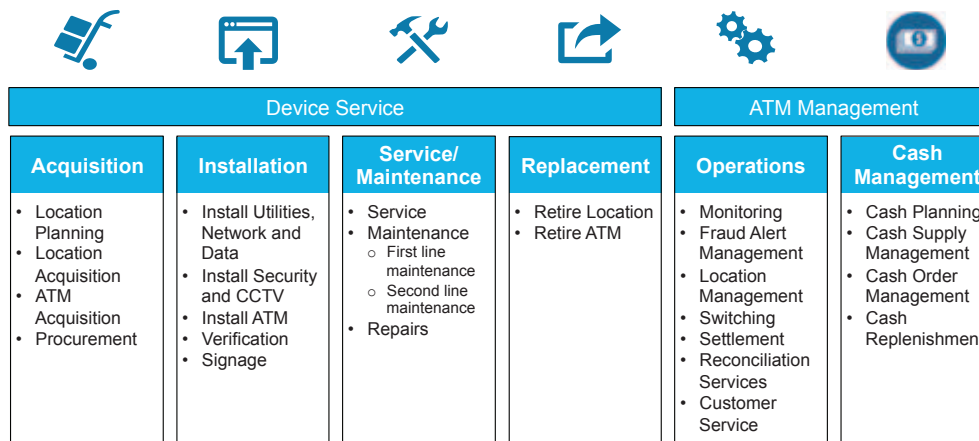


Figure 2 Number of ATM Transactions



Operating an ATM fleet requires the execution of more than 25 different activities across six domains ranging from acquisition of locations and hardware, installing ATMs, servicing and maintaining ATMs, replacing ATMs, ATM Operations, and Cash Management (see Figure 3). This requires large investment from the banks and they face the challenge of looking for ways to operate the ATM estate as efficiently as possible.

Figure 3 ATM value chain



The development of ATM utilities is getting increasing interest from banks. An ATM utility provides both the ATMs, and their associated service, operations, and cash management as a utility service to member banks. Building an ATM utility is fundamental in changing the economics of the ATM estate. By collaborating with other banks and making the physical ATMs shared infrastructure, banks are able to reap five key benefits:

- Increased availability:** Each member bank in the utility can offer a larger ATM estate to its customers without investing in additional locations and hardware.
- Fewer ATMs:** The ATM utility will be able to optimize the ATM network and reduce up to 20-25% of locations in many markets, with that reducing the cost for all participating banks significantly.
- Optimize routes:** The ATM utility will be able to reduce the time spent of service providers travelling from one ATM location to ATM location by optimizing service routes.
- Negotiation power:** The ATM utility will be able to negotiate more economic rates with ATM manufacturers, cash-in-transit companies and other service providers in the ATM value chain.
- Best in class outsourced processes:** The ATM utility will be able to introduce a culture of continuous improvement and reduce cost on a per transaction basis.

¹ Source: global ATM benchmarking study, ATMIA 2016

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Case study on development and launch of an ATM Utility

Deloitte was engaged to work with three leading banks and the central bank to establish an ATM utility. The banks had individually optimized their ATM estate, however the rapid increase in the cost of the ATM channel made the case unsustainable and the central bank stepped in to ensure availability of cash throughout the country. Deloitte was asked to define the operating model for an ATM utility, design the processes, define the implementation approach, and execute the implementation.

Key issues addressed during the case were largely around the approach to develop an effective governance process and decision making process, taking into consideration the following factors:

- Balance between the business model improvements of the banks with creation of a viable joint venture business model.
- Fair compensation model for unique services and capabilities that banks bring into the ATM utility.
- The most effective way to operate the utility.
- List of services for which external vendors will be used. There is a fine balance between the economic gains and risk as larger ATM utilities will gravitate towards becoming the market standard.
- The approach to mitigate risk around losing cash in the highly frequent and complex logistical process of forecasting demand, replenishing ATMs, and executing quality control on notes in circulation.
- Optimized cash delivery and service routes across many cash points.

Lessons learnt

- **Single Language:** setting up an ATM utility involves managing a large group of very different key stakeholders and it is important to use pragmatic and simple language to ensure clear lines of communication and understanding.
- **Everybody wins:** The banks and ATM utility will need to cooperate well now and in the future. The only viable long term option for decision making is consensus building.
- **Tailored approach:** Setting up the ATM utility poses many challenges, some are executional matters, some straightforward issues, while others will be layered and multi-dimensional wicked problems. Each of these types need a different and tailored approach to ensure resolution.
- **Small consortium:** Adding an additional member to a consortium, adds significant additional complexity in stakeholder management and consensus building, and starting with a smaller consortium will make the process easier.
- **Software as a service:** Designing the ATMs so that each bank can provide their own menu and features to their clients required the incentives to be set right. Cooperation is required on the costly infrastructure and competition on the client centric menu and feature sets.

In conclusion, ASEAN banks will continue to face increasing pressure with the increasingly operational cost associated with managing their ATM network. Banks can fundamentally improve the cost base of their ATM fleet by collaborating in an ATM utility as this will bring the benefits of increased availability, fewer ATMs, optimized routes, negotiation power and optimized outsourced processes. ■



2017 OUTLOOK FOR BANKS IN EMERGING MARKETS

Source: Extracted from "2017 Outlook – Global Banks", December 2016, Moody's Investors Service

Emerging market banks' high capital levels will be tested by asset risks stemming from slow growth and low commodity prices.

- Asset quality will deteriorate, given slow regional and global growth, weaker trade flows, lower commodity prices, and the build-up of corporate and household leverage in some emerging markets. The expected rate increase by the US Federal Reserve will likely add to the pressure as, for example, emerging market currencies depreciate and foreign investment flows turn negative for a sustained period.
- Nevertheless, profitability and capitalization appear sufficient to maintain solvency even in the face of some asset quality deterioration.
- Emerging market banks generally have strong funding and liquidity profiles. Credit growth has been largely funded by deposits, with low reliance on wholesale funding, indicating that declines in capital inflows would have little material impact on bank funding.
- Banking authorities across the emerging markets have made good progress in rolling out their Basel III frameworks and adopting macroprudential policies that address pro-cyclicality.
 - > However, certain reforms under the FSB's macroprudential agenda have not been adopted, as none of these systems currently have bail-in provisions, while an increasing number of emerging market banks (i.e. Chinese banks) have been designated as globally systemically important banks (G-SIBs).
 - > Moody's Investors Service's assumptions of a relatively high profitability of government support for many emerging market banks are unlikely to change in 2017, because their regulators are not keen to embrace wider bail-in measures as early public support remains their preferred way to prevent banking stress.

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Slow growth, low commodity prices and weaker currencies will continue to pressure emerging market banks.

- Accommodative monetary policies in emerging markets have supported economic growth. However, going forward, we expect emerging market growth to remain low by recent standards. Moody's Investors Service's forecast of slightly stronger emerging market growth in 2017 compared to 2016 is mostly due to Brazil, Russia and Argentina exiting recession, rather than a broad-based acceleration among emerging markets.
- Further accommodative monetary policy appears unlikely for many emerging markets due to above-target inflation rates and/or persistent pressures on their currencies as US policy rates rise.



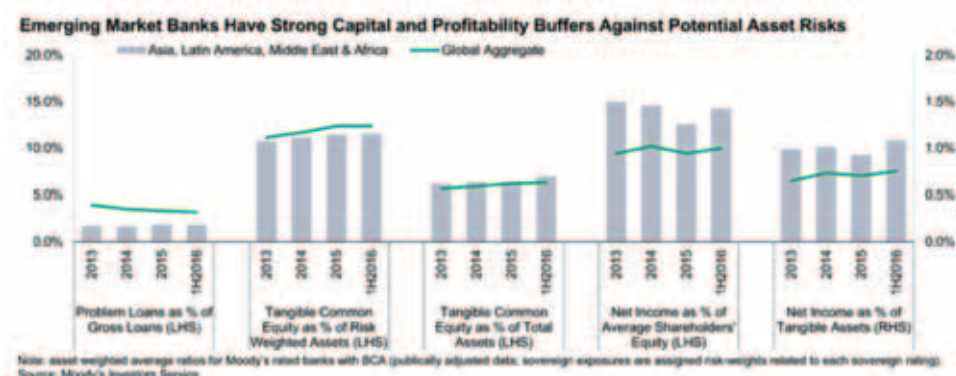
Rising interest rates could further dampen external financing flows and increase asset risks.

- As growth in many emerging market countries have been largely funded by increased bank lending – rather than through wholesale markets – any market price correction could test banks' solvency.
- Capital inflows to emerging markets could be further dampened, putting pressure on currencies and inflation, with any compensating rise in domestic rates hurting borrowers' repayment capacity.
 - > The IMF estimated that emerging market corporate leverage (i.e. total liabilities to EBIT) rose to 5x in 2013 from around 4x in 2008, while the BIS indicated that corporate debt repayments over 2016-18 are 40% higher than for 2013-15. A rise in US rates and an associated strengthening of the US dollar could expose several emerging market banks to a sharp correction in asset prices, as the US dollar is used to anchor monetary policy and denominate trade.



Strong capital and profitability buffers will protect against rising asset risks.

- Profitability levels are high for emerging market banks, providing them with sufficient resources to absorb expected rises in credit costs.
- Further, regulatory capitalization levels also remain high and leverage levels low, even following a long period of elevated credit growth
- Separately, credit growth has been largely funded by deposits, meaning a decline in capital inflows would have less impact on bank funding. ■



Source: Extracted from "2017 Outlook – Global Banks", December 2016, Moody's Investors Service



UPDATES FROM NATIONAL BANKING ASSOCIATIONS

The Cambodian Sustainable Finance Initiative



The Cambodian Sustainable Finance Initiative (CSFI) of the Association of Banks in Cambodia (ABC) will be developed over a period of two years and is an initiative involving Cambodian banks, developed under the leadership of ABC, supported by USAID, Pact, Wildlife Conservation Society (WCS) and Mekong Strategic Partners. The cooperative partnership between the ABC, the National Bank of Cambodia and the Ministry of Environment will ensure this is a worthwhile and successful initiative.

In April 2016, ABC agreed to embark on a new initiative to develop and strengthen finance sector safeguards and risk management standards related to social and environmental impacts which are potentially created through the private sector. The decision was made to undertake a bottom

up approach that is led and owned by the banks with support from international partners. The intent is to develop and design environmental and social standards which are appropriate for Cambodia.

The pursuit of sustainable development is a policy priority and commitment of the Royal Government of Cambodia's National Rectangular Strategy – Phase III, as well as the Cambodian National Strategic Development Plan, 2014-2018. As such, we welcome the cooperation and collaboration of the Ministry of Environment, the National Council for Sustainable Development, alongside the National Bank of Cambodia in supporting and joining ABC in this important initiative.

The sustainable financing principles will take into consideration environmental protection, preservation of our unique culture, our way of life, history and values, and orchestrate it in harmony with sustainable livelihoods and education, health and the lifestyle of Cambodians.

On 19 September 2016, the Cambodian Sustainable Finance Initiative (CSFI) was officially launched at Hiwamari hotel. There were more than 60 participants from banks, the central bank, the Ministry of Environment, USAID, Pact, Wildlife Conservation Society (WCS), Mekong Strategic Partners and the media. The Statement of Intent: Developing Sustainable Banking Practices in Cambodia was signed by Mr Charles Vann, the ABC Acting Chairman and witnessed by H.E. Eang Sophalleth, Under Secretary of State of the Ministry of Environment, and H.E. Chea Serey, Director General of the National Bank of Cambodia.



STUDY TOUR TO TOKYO, JAPAN



The delegation on a guided tour of the Tokyo Stock Exchange

The Association of Banks in Malaysia (ABM) as the chair of the Permanent Committee on ASEAN Inter-Regional Relations (IRR), after a survey done in March 2016 with members of the ASEAN Bankers Association, selected Tokyo, Japan as the venue for the 2016 study tour.

Twenty five delegates comprising senior bankers from nine ASEAN countries namely Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Singapore, Thailand, Vietnam and Malaysia participated in the study tour from 31 October to 1 November. The primary purpose of the study tour was to build and foster inter-regional relations with Japanese banks, industry associations and the banking and financial services industry.

The feedback from participants on the study tour to Tokyo was very positive. They found the study tour to be fruitful, enlightening and informative. It provided an excellent insight into the financial services industry in Tokyo as well as the recent developments and innovations in its banking sector.

Much appreciation goes out to various parties who made this study tour possible and a success, namely the delegates for their active participation and camaraderie, and to the gracious Japanese hosts for their warm hospitality and engaging sessions.

Visit to	Topics/Areas Covered
Japan Bankers Association (JBA)	<ul style="list-style-type: none"> • Role of JBA • Overview of the Japanese Banking System
Bank of Tokyo-Mitsubishi UFJ (BTMU)	<ul style="list-style-type: none"> • Overview of Mitsubishi UFJ Financial Group/BTMU • Fintech
Financial Services Agency (FSA)	<ul style="list-style-type: none"> • Bank Supervision and Regulation in Japan • The Mission and Organization of FSA • Restoring Confidence in the Banking Sector: Supervisory efforts in late 1990s to early 2000s • Supervisory Challenges under a New Environment • Implementation of Prudential Standards • FSA's Response to the Post-Crisis Basel 3 Reforms
Sumitomo Mitsui Banking Corporation (SMBC)	<ul style="list-style-type: none"> • Overview of SMBC Asia Strategy • Market Trend of Developed Countries
Tokyo Stock Exchange (TSE)	<ul style="list-style-type: none"> • English Guided Tour: • JPX PR video • Explanation of TSE Arrows from the 2nd floor gallery
Mizuho Bank	<ul style="list-style-type: none"> • Introduction to Project Finance and renewable projects • Equator Principles
Bank of Japan (BOJ)	<ul style="list-style-type: none"> • Current situation on Japanese financial system based on the FSR issued in October 2016

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LETTERS TO THE EDITOR

As part of our aim to promote regional exchange of ideas and information, ASEAN Banker hopes to open a dialogue on issues of importance to our readers. We invite your comments on the stories presented in these pages and welcome articles of relevance to ASEAN Banking. All letters must be signed and include an address with contact telephone or fax number. Letters may be addressed to Mr Paul C G Gwee, Secretary General of ABA.

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ABOUT ASEAN BANKERS ASSOCIATION

The ASEAN BANKERS ASSOCIATION was founded in 1976. From the original five members, namely Indonesia, Malaysia, Philippines, Singapore and Thailand, it became six when Negara Brunei Darussalam joined as a member in 1984. In 1995, Vietnam was admitted into ASEAN as the seventh member and in May 1999, Cambodia was admitted as the eighth member. In July 2001, Myanmar was admitted as the ninth member. In 2004, Lao Bankers' Association was admitted as the tenth member thus making the constituent membership of the Association complete.

TODAY THE MEMBERS ARE:

The Brunei Association of Banks

The Association of Banks in Cambodia

Indonesian Banks Association (PERBANAS)

Lao Bankers' Association

The Association of Banks in Malaysia

Myanmar Banks Association

Bankers Association of the Philippines

The Association of Banks in Singapore

The Thai Bankers' Association

Vietnam Banks Association

OBJECTIVES OF THE ASSOCIATION ARE:

- to raise the profile of ABA and the ASEAN banking community;
- to strengthen the 'voice' of ASEAN in policy advocacy efforts globally or regionally;
- to contribute to the ASEAN Economic Community (AEC), provide private sector support in alignment with AEC's goal;
- to share banking 'know-how', provide education to promote best-in-class banking practices amongst members countries; and
- to promote active collaboration of ASEAN banking institutions, foster friendship and cooperation amongst bankers.

PRINCIPAL ORGANS OF THE ASSOCIATION

ASEAN BANKING COUNCIL (ABC). The Council, being the executive arm of the Association, meets annually to formulate policies and coordinate activities of the Association which are carried out and implemented through the various Committees.

THE THREE PERMANENT COMMITTEES

which discuss ideas and make recommendations to the Council are:

- Permanent Committee on Cooperation in Finance, Investment and Trade (COFIT) chaired by The Association of Banks in Singapore.
- Permanent Committee on Banking Education chaired by the Bankers Association of the Philippines.
- Permanent Committee on ASEAN Inter-Regional Relations (IRR) chaired by The Association of Banks in Malaysia.

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