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Forum with Bank of Yingkou, Anxin Trust and CIMB
Sheraton Hongqiao, Shanghai

GROWING, A JOURNEY

Our esteemed guests from Bank of Yingkou
Mr. Liu Qingshan, Chairman
Mr. Zhou Xiaoliang, Deputy Chairman
Mr. Xue Yingju, Chairman of Supervisory Board

Management and senior staff of Bank of Yingkou and Anxin Trust
Ladies and gentlemen

Good morning.

Introduction

First and foremost, I'd like to express my sincere appreciation to Chairman Liu and everyone from Bank of Yingkou for coming to Shanghai and for being here. I was really looking forward to seeing Yingkou again, but, unfortunately, we were advised that I shouldn't travel to the northeast at this strange geo-political time. Thankfully, we're still able to all meet.

For this talk, I've been asked to share my experience in growing and leading CIMB. I'm going to be a bit personal and share with you some of the lessons I've learnt as a leader. While growing CIMB, I grew a lot too. Change – the ability to adapt to change and the need to change to survive – was a consistent theme for me in meeting the demands of leading a rapidly-changing company in a rapidly-changing operating environment.

CIMB & me

CIMB has been my only employer. I spent a total of 25 years (1989-2014) as a CIMB executive, 15 of them as Chief Executive. In 2014, I took on the role of non-executive Chairman.

CIMB has been an incredible growth story, transforming from a small Malaysian investment bank to an ASEAN universal bank via a series of M&As and fresh builds across Southeast Asia and key markets beyond the region. We are now present in 16 countries and have about 40,000 staff, whereas when I joined the firm in 1989, I was employee No. 69 and we were present only in Malaysia. In terms of total assets, in 1989, we had a tiny asset base of US$96m, while today, our asset base is US$110bn.

When I started work, the Iron Curtain was still up, Beijing was crowded only with bicycles, mobile phones and the Internet were science-fiction stuff, and businesses ran on typewriters, telex and fax machines. The rise of China and other emerging markets, globalisation, liberalisation of economies, the Asian Financial Crisis, the Global Financial Crisis, 9/11, the Asian Century, the Fourth Industrial Revolution and climate change are some of the biggest themes and events that have changed the world since then.

Therefore, before I share some key lessons, let me caveat that the future will be very different to the past; change itself is changing at accelerated speed. So my experiences have to be adapted for a different era, but, of course, the key principles will endure.

Power of anticipation

The first lesson I'd like to share is the power of anticipation or getting ahead of change. At the personal and corporate levels, this made the crucial difference for me.

For the first 3 years, I worked at CIMB's corporate finance department where my main task was to take companies public on the KL Stock Exchange. We were seeing unprecedented growth in the number of listed companies so it was obvious to me that the stockbroking industry would be the big beneficiary of this trend. So in 1993, I decided to get ahead of it and asked for a transfer to CIMB Securities, our brokerage company. As it turned out, it wasn't just more companies being traded, but in 1993, international funds discovered the Asian Tigers economies and our markets went through the roof. That year, the KL Composite Index shot up 98% and trading volume 458%.

The broking industry structures hadn't anticipated such robust levels of activity. Employee sales commission structures were designed for a small-volume retail market so stockbroking employees had a huge windfall. For 3 years, I lived the Malaysian version of the movie "The Wolf of Wall Street" and made a lot of money.

It wasn't long before I began to ask myself how long this could go on. It was just too good to be true: How can I be paid so much for doing so little? After 3 years in broking, in 1996, I decided I had to get ahead again and leave the industry. I asked for a transfer back to the bank despite the consequential huge pay cut. Only a year later, the AFC wreaked havoc - the ringgit plummeted, companies went bankrupt, banks drowned in bad loans and the stock market crashed. Most brokers lost most of the easy money they had made in the bull-run. I was, thankfully, unscathed.

At the corporate level, there was a parallel story. During the height of the stock market bull-run, CIMB's return on capital in its brokerage company was phenomenal - over 200% per annum. Other brokers also enjoyed similar returns. The difference was that while others ploughed the super profits back into broking based on past returns, CIMB decided that broking surely couldn't continue to be obscenely profitable. We studied that in developed markets, alongside vibrant equity markets, were bond markets, yet Malaysia only had government bonds, not corporate bonds.

Surely corporate bonds will be the next big thing for the capital market? In 1996, we began to build a corporate bond business - origination, distribution, trading and risk management - before any other bank. During the AFC, the government and corporates had to turn to the bond market to raise capital from beyond the wounded banks and banks had to restructure loans into long-term bonds. Invariably, the government and corporates had to hire the only bank that was truly ready to intermediate bonds.

The AFC was a most lucrative period for CIMB. We went into the crisis as a mid-tier investment bank, we came out of it as the undisputed No. 1; because we anticipated and got ready for the future.

Power of diversity

The second lesson is about the power of diversity. I found that our most successful teams in the firm have been the ones who were able to harness the power of a diverse workforce. Of course, in multi-racial Malaysia, multi-racial teams come first to mind. But it is also about diversity in gender, IQ, age, background and so on - to bring the widest range of ideas to solve a problem or to offer the widest choice of salesperson to connect with the customer.

When I choose leaders, ability to interact with and lead diverse groups is always a key criterion. Excelling with diversity is about being able to overcome one's natural or tribal instincts of preferring similar others.

Man in the mirror

The third lesson is to understand the man in the mirror (or woman, of course). It's a bit embarrassing, but I did frequently look in the mirror before going to work, while asking myself questions like: What are his weaknesses? Is he still suited for the job at hand? I did this continuously because over time I changed, the operating environment changed and the nature of my job changed.

When I became CEO, I was only 32; short-fused and impulsive, but I knew it so I surrounded myself with grey hairs to advise me. When I decided to retire at 48, I felt that I couldn't be the best CEO for the firm for 3 reasons: 1) I had become too powerful; people were no longer speaking the truth to power and we were making more mistakes, 2) I was quite burnt out, and 3) I had been CEO for too long - according to Harvard Business School, the best duration is 4.8 years; I was hitting 15 years already - and my ambition was to build an institution, yet the enlarged entity had never seen a CEO change.

Size is HR problem

The fourth lesson is about size, which becomes a human resource problem as the firm grows.

When CIMB was small, I knew everyone personally and I knew their families. I could read their characters and I could tell what they were up to. It felt safe. When the company becomes larger, you become accountable for many more people and there are many more people you don't know. You need to be able to change your leadership style.

I used to be able to speak to everyone. Then, when we grew, I had to be a blogger to reach everyone. When you are in multiple countries, then you should have your trusted local leaders to communicate for you because translations can be tricky.

You will also need to change your way of instilling loyalty, having checks and balances, and so on. In short, don't think for a minute that the man in the mirror can manage everything. He has to change for growth; otherwise, he may well be changed!

Failure is the mother of success

The fifth lesson to share is that failure was important to my successes. You will all fail at some point - will you stick your head in the sand, or pick yourself up and want to make sure it never happens again?

I had successfully listed so many of companies as adviser and underwriter that when it was time to list CIMB itself in January 2003, I was super confident that it would do well. As it turned out, CIMB's IPO was one of the worst that I had handled. For the first three months, the share price stayed around the IPO price in a rising overall market. I was humbled. Eventually, I picked myself up, called my team into a room and asked what did we get wrong?

Basically, we concluded that our capital structure didn't show that we understood shareholder value drivers. So we did something dramatic to deal with that perception and attract investor attention. Just 3 months after listing, CIMB declared a massive special dividend to shareholders that stunned the market - after 3 months of listing, shareholders received a 20% cash return on investment. That presented us with another chance to go back to the investment community, show them we understood value creation and present our growth story again.

By the time CIMB was de-listed in January 2006, exactly three years after the listing, the stock had given 360% returns to shareholders who had stayed with us since the IPO, making CIMB one of Malaysia's most successful listed companies ever.

True success is a successful successor

My sixth and final lesson is about succession. Choosing a successor is one of the most important decisions a leader makes. Only if he or she then succeeds can you then say that you are truly successful. Some CEOs like the idea of the company failing after they leave and being told that they are being missed terribly. That is wrong. As a leader you are still responsible if the organisation fails soon after you leave - wrong successor or weak organisation.

While it’s still early, so far my successor has been doing well so my chances of being deemed a successful CEO are still decent.

CIMB Chairman

Since September 2014, I’ve been non-executive Chairman of CIMB so while I still spend about half my time on the bank, I’ve been able to take on other positions - board member of Malaysia’s sovereign wealth fund Khazanah, which controls most of our government-linked companies, and the Employees’ Provident Fund, Malaysia’s largest fund with US$170bn assets under management; member of the International Advisory Board of Blavatnik School of Government at Oxford University; and Chairman of the World Economic Forum ASEAN Regional Business Council. And I invest in some small businesses in the UK.

I love the range of things that I do now, and the fact that it also gives me time to reflect on the past on occasions like this and think about the future, including the future for banking.

Future of banking

Banks are facing the perfect storm of technological advancement, re-regulation and slower growth.

The banking industry is being revolutionised by technology; as an enabler for banks to deliver better products and services cheaper and faster to customers, and for non-banks to challenge us in some areas of banking or become banks themselves. The rise of fintech companies and new fintech banks is most dramatic in China, where a combination of entrepreneurial innovation, large market and regulatory support has fuelled the emergence of the likes of WeBank, MyBank and Ant Financial as serious long-term threats to the established order of banks in China and beyond.

Traditional banks are also struggling to cope with re-regulation that demands higher capital, liquidity and governance. Better governance is also applied on the oversight of staff behaviour and compensation, which has, in turn, made banking a much less attractive career for top talents. A Financial Times analysis of the career paths of graduates from the top 10 MBA programmes from around the world shows only 10.6% chose banking as a career in 2015 compared with 17.4% in 2008.

Revenues for banks are also much tougher to earn due to slower global economic growth and margin compression, driven by competition and disintermediation.

So it is indeed a perfect storm and the 20-year golden era of banking is over. To survive, banks have to recalibrate their business models - cut costs, embrace technology and fintechs, and show customers more "love".

CIMB's agenda today is encapsulated in what we call T18, short for Target 2018, a 3-year recalibration plan to survive and thrive after the perfect storm. We are optimising capital, reducing costs, exiting unprofitable businesses, revamping organisational culture, especially in how we serve customers and break down internal silos, and investing heavily in digital banking and advanced data analytics.

Most banks in the world are recalibrating. Some will do it too slowly or too badly and not survive. But given the strong branding and balance sheets of banks and regulatory conservatism, I think most big banks will weather this period, but in 5 years, the best ones will have changed beyond recognition. They will probably be 3 main categories of banks – 1) pure capital providers that buy assets and invest less in their customer interface, 2) banks that partner others and tackle the customer together with telcos, retailers, etc., and 3) banks that own whole ecosystems and the customer.

There will still be room for niche players – mid-sized banks, most likely in the SME and mid-corporate space, where customer familiarity and proximity will still be an edge, or specialists that have an edge in a sector or an activity. It is important, though, to know what you are and not try to "play big when you are small".

Final remarks

I’ve shared some of the key lessons I learnt during the course of my career that I thought would be useful for you. Of course there are more, and many more war stories that I can share on another occasion.
There will be another occasion because although we are set to sell our stake in Bank of Yingkou, we will continue to be business partners under our new long-term collaboration agreement.

I’d like to take this opportunity to state that I’m very disappointed that we have to exit as a shareholder of Bank of Yingkou. It’s been an excellent 8-year journey as a shareholder, in terms of returns, and the fact that our two banks and many individuals in the banks - not least me and Chairman Liu - have become great friends. Unfortunately, under the new Basel III rules for investments in financial companies by banks, the entire amounts of investments have to be deducted against the investing banks’ own capital. This is why banks all over the world are also selling minority stakes in other banks.

Alongside our partnership with Bank of Yingkou, CIMB will be growing its China-related activities. We recently announced our intention to partner Galaxy Securities, continue to grow CIMB Shanghai and have more customers with increasing flows of trade and investments between ASEAN and China.

So there are no farewells here. It's a new beginning and I hope that I’ll soon be able to update you on how much progress we’ve made in China. And I hope that update will be in Yingkou!

Thank you.

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