

Excerpts from the interview with Tengku Zafrul

Published in: New Straits Times, Saturday 31 October 2015

Read More : <http://www.nst.com.my/news/2015/10/excerpts-interview-tengku-zafrul-0>

Question: How do you see the capital market for the rest of the year and next year for Malaysia and the region?

Answer: For Malaysia and the region it is similar. In Indonesia and Singapore we have had a few capital market exercises. We have seen IPOs postponed. I think the market is not conducive until the end of the year (or) first quarter next year. We don't think it is conducive to raise funds in equity and debt markets because the pricing will be affected.

For companies that are very strong, it's still a good time to raise bonds, because people will take good credit. Good credit is no issue.

We are still number one in terms of sukuk and the bond market. We expect to see a lot of the corporates come next year especially in construction projects. IPOs we worry, because IPO is about confidence and sentiment. For this region, people still don't know how long more (the economic situation will persist), so everybody wants to wait for the right time. It's not a new phenomenon. It has been two years. It has been drying up.

Question: Given the challenges in the region, should we still be optimistic about the Asean Economic Community (AEC)?

Answer: We have been a strong proponent of the AEC. We invested in a research unit called CARI (CIMB Asean Research Institute).

Personally, for us, CIMB feels there is a disconnect between corporate sector and government. Corporate moved faster when it comes to AEC integration. We have been in Asean, we try to strengthen our foundation within Asean. We have been cross-selling within Asean. But policymakers tend to be more protective.

For example, on free movement of labour, we have staff in Indonesia... (but) to be working regionally is not easy. There are regulators who say: "When you have a licence to work here, you need to work here." Things like that.

Question: Some people have described the aborted merger of CIMB, RHB and MBSB as a missed opportunity. What actually happened?

Answer: When we looked at it, the reason for doing a merger is obvious... synergy. But to achieve that synergy there is cost. Ninety per cent of synergy is cost rather than revenue, because with revenue a lot of it overlaps — we have the same customer profile on the retail side, both are GLCs so most of the big corporates we cover together. So how do we realise this cost? Can we execute the cost synergy or not? It's difficult. That is why it is high risk. Based on synergy, that is how we justify the price. We couldn't agree and we moved on. In hindsight, it was a good decision made by all parties because if we do it today, we don't think we can achieve the synergy with the current economic conditions.

Question: What if you carved out the Islamic assets of the three banks and you formed a mega-Islamic bank. Is that a better value proposition?

Answer: Mega-Islamic bank... that is a value proposition but the problem is in Malaysia, all Islamic banks, except for Bank Islam and Bank Muamalat, we work on leverage model. We share the same infrastructure. It's a window. You need to build the infrastructure, the back end. Only Bank Islam and Bank Muamalat are real Islamic banks.

Question: In terms of Islamic business, how is the performance, is it still growing despite the economic climate?

Answer: It is still growing faster than conventional banking in terms of deposit on the retail side. What we see slowing down is in the capital market. On the banking side, for us, deposit is still strong, loans growth is still there for consumer.

Our Islamic capital market has been doing well outside Malaysia. We are the adviser to the UK government, Hong Kong government, and Turkish government for their sukuks. Recently, Bahrain also shortlisted us, because our branding has been quite strong in Islamic capital market... and now, foreign governments, when they do their bonds they call us to get advice.

Question: Have you found a replacement for Datuk Badlishah Abdul Ghani (former CEO of CIMB Islamic Bank)?

Answer: We have found the replacement, but we cannot announce yet.

Question: What is your view on the Trans Pacific Partnership (TPP)?

Answer: Any agreement of trade is always positive, but the devil is in the details. We have not seen the details and Datuk Seri Mustapa Mohamed (International Trade and Industry Minister) will share it soon.

Our view is that trade is good, but the agreement itself, we don't know until we see it, and how it will impact us. As a regional bank, TPP is positive, but for the economy, I don't know. We need to see the details. We have to make sure certain areas are protected.

I personally feel any agreement on trade should be positive, if we really just focus on the commercial part. For us (Malaysia), it is slightly more complex. If we manage to make sure whatever we need to protect, we get what we want, but then we don't sign it, then we might be left out.

Question: After the aborted merger with RHB and MBSB, do you still have appetite for acquisitions?

Answer: When we look at the T18 plan, there's no plan to acquire anything. Maybe in the Philippines. In other countries after 2018, we want to strengthen our core and our fundamentals. We don't want to divert our staff intention on M&A. When you look at our history, there have been so many M&As to bring us where we are today. I think it's time to consolidate.

Question: You mentioned earlier that CIMB's cost-to-income ratio is among the lowest. After your recent downsizing, is that still the case?

Answer: It is slightly better because we have cut cost by RM500 million this year alone, i.e. our operating expenditure (Opex), including headcount. We save RM300 million a year because of the MSS.

We need to save more, but that's more on improving processes, procurement, or exit or rescale business that are not profitable. For Indonesia, we decided to exit the micro finance business.

When we look at cost-to-income ratio today, our target is 55 per cent this year. At one time we were at 58 per cent. So, I think we are on track to reach 55 per cent. Our target is to achieve 50 per cent by 2018. We have to compare ourselves to regional banks.

Question: Anymore downsizing after this?

Answer: No more downsizing for the time being. For Malaysia no. In terms of head count, we are happy where we are today. We reduced head count by 11 per cent this year. We reduced staff by 3,800 people. In Malaysia about 1,800. The rest were overseas. Total head count now is about 41,000 across the region for the group. Malaysia is about 11,000-13,000. We have 1,024 branches in Southeast Asia. We are the biggest in terms of branches in the region. In Thailand we have 145 branches and Malaysia 298 branches. We have 13 million customers.

Question: As you said, size alone is not the only denominator. You need to grow revenue as well, and bring cost down. What are the biggest challenges this year?

Answer: A: We have two challenges for us this year, which is to grow revenue. So far when we announced our six months results, we are on track. But the one that is difficult is the provisions. Provisions are still growing. It has peaked but still growing, only less than before.

Question: Where do you see CIMB in the next five years?

Answer: It all depends on three things. Number one is Indonesia. When Indonesia's economy picks up, then CIMB will benefit. We would be the main beneficiary among the banks in the region. We have the biggest exposure in Indonesia. If it comes back, you can see our numbers improve a lot.

Second one for us is really IndoChina. That's why we have presence in Vietnam, and a representative office in Myanmar. Cambodia turned profitable last year and in Laos we opened a branch last year. We need to look at that as another area of growth.

Finally, for us, is to refocus in Thailand. I think we have a good chance to succeed in Thailand. Our corporate banking is doing very well and now is just to turn around the consumer bank. Our consumer banking side is not doing very well because we don't have the scale. We're still small, so either we have more branches through acquisitions or focus on niche markets like high net-worth, which is what foreign banks are doing. On the

fundamentals side, the concern is the non-bank, the disrupters, especially on the payment side where there are technology companies.

The challenge for any bank this size and growing bigger is the mindset. We always think that things won't change. Our staff will say 'Why should we change?' But then we have seen what happened to big major corporates especially in the technology side, like Nokia. So banks now are also in danger. We are only protected by regulators and licences, but now more and more other players can come in, especially on the payment side. They don't compete with us as a bank, but they compete on certain parts of the bank's operations. So, our people's mindset need to evolve, because it is very hard to change when you are in the bank, you don't want to challenge yourself. All innovation has to happen outside.

That's why we started looking at FinTech (financial technology). We invested in Startupbootcamp, a European initiative which recently opened in Singapore. We can see the technology, talk to people and invest in some new ideas. We cannot shy away. We need to engage with industry players and then use the technology to improve our systems. If we don't embrace these disrupters, they will disrupt our business.

Question: So technology plays a big part on your future plans?

Answer: Yes. A lot. We just launched one platform last year. Everybody has the same account, no matter where you are. You can open an account in any branch with the same account number but regionally. We launched it in Malaysia, Singapore, and Thailand. Early next year it will be in Indonesia.

We are investing a lot in technology. Some people say too much.

If you are a company or individual, your account number is the same for all the countries, it's seamless. The marketing campaign for this is coming out next month.

Now, we can do products like Unfixed Deposit (A fixed deposit that gives you the flexibility to make multiple withdrawals from your Fixed Deposit account before maturity date).

Let's say you put in RM10,000 and you want to take out RM5,000, so you can take out the RM5,000 and keep another RM5,000, we still pay you interest and the other RM5,000 we pro-rate. Because now the system can allow us to customise any kind of product.

And then we have Plug n Pay (Plug n Pay by CIMB Bank is Malaysia's first-ever chip-based mobile point-of-sale (mPOS) solution that offers businesses of any size an affordable yet secure way to manage electronic payments using their smartphones and tablets). Many traders are using it now.

Question: In terms of talent management, how do you attract, motivate and retain talent?

Answer: Talent at the senior level is very scarce in Malaysia. But if we look at entry level, there's quite a number of talent coming in.

That's why when I talked about T18, one of the enablers is talent management and culture. I think the most important part we realised is, if we get the operating model right,

then we restructure and we get the strategy right, but if we don't have people and culture, we cannot achieve our objective. That's why we're spending a lot of time on people and culture now, because then we come up with the right values for our company. To sustain at this size, the people — apart from compensation — is whether they like and believe in what the company is doing and the atmosphere. To keep people, if you ask me, is to make sure the environment is right for people.

Secondly is career development. Now we have a talent management committee in various units in all countries to look at talent development for all our high potentials. We didn't have that before. People want to know what's next for them, and this is from the executive level all the way to senior level.

Question: Is there still a lot of pinching of staff among banks in the region?

Answer: Yes. Not within the region but more in the country. You can see it in Indonesia, in Thailand. We (Malaysia) are also guilty of it. I don't think it's healthy because it shows that talent development is not being done properly. You need to have a successor. In that way I think Petronas is doing very well, because their succession planning usually has coverage of two to three times. One person has got three successors. It's important to build talent pipeline internally.