INTERVIEW WITH CEO

DBS CEO Piyush Gupta shares his views on the global economy and Asia's prospects, as well as opportunities and challenges facing the banking industry

Q There are rising concerns about the macroeconomic stability of Asia. What is your view on that?

A Due to the turbulence seen across Asian markets in 2013, I have increasingly heard concerns that a repeat of the 1997 Asian financial crisis is imminent. I don't believe this is likely. Asia as a region is in a much stronger position than it was in 1997. Current accounts are mostly in surplus. Banking systems are more robust today, with better regulatory systems and buffers. There are no huge mismatches between assets and liabilities, and governments and companies hold more of their debt in local rather than foreign currency, so currency fluctuations would not cause spikes in debt-servicing costs. The region also has much higher foreign exchange reserves and established multi-lateral swap agreements to buffer outflows.

The more vulnerable countries in Asia are Indonesia and India, both of which face the challenge of dual deficits. Consequently, both countries came under some pressure in the middle of last year, with significant depreciation in their currencies. However, the markets appear to have already priced in their weaknesses. In addition, both countries took some measures that have been helpful, including tighter monetary policy.

So while the Fed is likely to continue its tapering plans in 2014, I do not see a massive sell-off in these countries this year. However, I do expect to see continued volatility as financial markets in Asia remain relatively underdeveloped. Shallow and illiquid markets will remain vulnerable to capital outflows, leading to bouts of turbulence during the year.

At DBS, we are well-prepared for further Fed tapering. We have adequate USD liquidity buffers and have kept our securities portfolio duration short since end-2012. We are thus well-positioned to benefit from a rising interest rate environment.

Q What is your outlook on Asia's growth prospects in 2014 and beyond? Could you share your perspective, especially on China, India and Indonesia?

A Asia's economies have built up strong foundations over the past decade, positioning them well to weather short-term economic volatility as they realise their long-term potential. Young populations, a ready pool of savings, improvements in education and health care, rising consumption as well as growing regional trade and investment flows have enabled Asia to grow under its own steam. In light of Asia's growth prospects, I believe that this part of the world will remain one of the best places to operate in.

However, the region is likely to face headwinds in 2014. China has been powering growth in the region for the past decade but expansion has cooled as the leadership strives to implement market-oriented economic reforms and nurture domestic demand. This will have a dampening effect on growth in the region in 2014. However, if conditions continue to improve in the United States and Europe, this could bolster exports from the region and mitigate the impact of slowing growth in China.

In China, we will see further bouts of volatility in liquidity as the authorities attempt to rein in the shadow banking sector. This attempt to correct financial imbalances in the system is positive over the long term, but the complexity of the shadow banking system means that there will be a need to proceed cautiously.

2014 will be an important election year for India and Indonesia. Reforms are key to unlocking the long-term potential of these two markets, and the outcome of elections this year will determine if they adopt pro-growth agendas, especially in India where the likelihood of a coalition government remains high.

At DBS, we believe in the growth potential of these economies and the importance they play in our expansion strategy. While we may calibrate our plans for short-term cycles, we are invested for the long-term in these geographies.

Q Across industries, companies that are not innovating fast enough are falling by the wayside. Is the digital revolution a concern for banks?

A Yes, definitely. Rapidly changing technology and customer behaviours are causing a digital disruption to our industry. Increasingly, customers do not need banks but they want to do their banking on the fly, while they are going about their daily activities. We are also facing increased competition from non-banks such as Alibaba, PayPal and Square, which are

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seeing tremendous momentum in areas such as payments, investments and loans, enabled by their online and mobile platforms.

While these are threats, they also present opportunities for us. By leveraging the power of technology, we can change the rules of the game in countries where we are constrained by our brick and mortar network. As part of our ambition to build out a pan-Asian commercial bank, we are embarking on a digital initiative of our own. We recently announced plans to invest SGD 200 million over three years in digital banking. We have formed a new digital banking organisation to spearhead a transformation of DBS across the front and back end. New frontiers including advanced usage of data analytics will also be explored through strategic collaborations with partners such as IBM and A*STAR.

At the same time, we need to be mindful of cybersecurity, which has become an issue of global importance. Criminal activity today is increasingly sophisticated and prevalent, and attacks range from "phishing" for personal information, viruses and malware targeting online and mobile devices, to attacks on servers and databases. To give customers peace of mind, we need to remain ever vigilant in ensuring their protection. Achieving the balance between servicing our customers seamlessly, while keeping their information safe, will be our utmost priority.

Q What is your take on the wide swathe of regulatory changes facing the banking sector?

A Five years after the global financial crisis, banks are facing a more complex regulatory environment. New rules such as Basel III and the entire regulatory edifice around central clearing of derivatives, as well as extra-territorial regulations such as Dodd Frank and FATCA, are re-shaping the global banking industry, altering existing business models and transforming risk-return dynamics.

Financial stability is a prerequisite for effective financial intermediation, but we must remain mindful of side effects associated with remedial regulatory measures. The industry has always cautioned against the unintended consequences of regulatory reform; this tension remains with us today. In particular, it is here in Asia where we need to ensure that the right balance is struck between economic growth and regulatory change.

The banking system remains a primary source of finance in Asia, due to relatively under-developed capital markets. The capital needs of Asian banks as they seek to meet credit demand under a Basel III regime will not be trivial, and at risk are credit extensions to the life-blood of Asian economies: SMEs, trade and infrastructure. In stark contrast to the Western world, Asia needs to incentivise development of deeper bond markets and related exposure management tools. A one-size-fits-all regulatory agenda may therefore not be appropriate to serve the economic needs of Asian nations. To better preserve the growth trajectory and continued access to credit, the scope for a reasoned exercise of national discretion and a more moderate calibration in supervisory add-ons to Basel III minimum standards should be considered.

Separately, the implementation of derivatives-related reforms could be better coordinated. A unilateral, jurisdiction-specific approach introduces frictional inefficiencies, increasing transaction costs as liquidity becomes fragmented and collateral management more complex. I would also add that the heightened tendency for national regulators to ringfence capital and liquidity creates inefficiencies in the system of global finance, and needs closer scrutiny.

Q What do you think about the role of banks and where do you see it going?

A Companies across all industries are increasingly expected to go beyond maximising shareholder value and deliver value to multiple stakeholders (shareholders, customers, employees, regulators and society). This requires a perceptible shift from expediency to values and from short-term profit maximisation to long-term profit sustainability. The banking industry, which plays a fundamental role in society, is increasingly under pressure to fulfil its responsibilities to the stakeholders that it serves.

At DBS, we believe that banks serve a higher purpose beyond simply being stewards of capital. We believe we should not only create shareholder value but also shared value for our customers, staff and the communities we operate in.

As the former Development Bank of Singapore, helping in the industrialisation of Singapore, we believe one of the ways in which we can be a force for good is by supporting the growth of social enterprises. We are passionate about this cause because while Asia has emerged as the global engine of growth, not everyone has had the opportunity to participate in its wealth. In Asia, as in other parts of the world, there is an ever-widening income divide. We believe social enterprises can play a role in addressing some of these ails; moreover, they resolve social issues through financially viable solutions, enabling them to sustain their efforts over the long term.