CEO reflections

Piyush Gupta shares his thoughts on some pertinent matters.

On business model and strategy

Our strategy of building a regional commercial bank with deep customer reach and broad product diversity has been delivering good results, with progress in areas such as wealth management, transaction services, debt capital markets and Singapore retail banking. Our basis of competitive differentiation (Banking the Asian Way), governance principles, management model and risk management architecture have proven to be robust. You can read about our existing business model in detail on page 14.

While our strategy is sound, we periodically review where we are at, taking into account emerging mega-trends, our operating environment, and what our stakeholders are telling us. These are material matters that can impact our ability to create value and you can read more about them on page 19.

One area where we would have liked to do more is our growth in the big geographies – China, India and Indonesia. Our large corporate franchise has done well; however, the SME and consumer businesses have been challenged by distribution limitations due to regulations, thereby resulting in longer payback periods.

Another area where we have done well when compared with our traditional competitors but perhaps not when compared to our new competitive landscape is the embrace of innovation and the digitalisation of our business. Fintechs are beginning to unravel the financial services value chain, and we need to be able to respond.

The good news is that harnessing the digital opportunity can not only help us protect our position in our core markets of Singapore and Hong Kong, it can also be a game changer to help extend our reach into the larger geographies. By harnessing the power of technology and the prevalence of smart mobile devices, we can reach customers anywhere and anytime. They can open accounts and conduct banking transactions without ever having to make a branch visit. This means we can reach out to a broader customer base in our growth markets without the need for an extensive physical branch network.

However, this is a lot more than adding a few digital apps in front of our clients. It requires a deep rethink about our basic value proposition, a shift in our culture and a comprehensive re-architecture of our technology. It is the challenge of culture and legacy technology that prevents most incumbents from true transformation.

We have spent the past three years deeply immersed in this agenda. On the technology front, we have made efforts to completely digitise the bank – such as using SOA (Service-Oriented Architecture) and an API (Application Programme Interface) framework to eliminate paper and provide instant fulfilment. We are already beginning to see income and expense benefits from this. On the culture front, we are making good headway in creating a "fintech-like" workforce that is consumed with re-imagining the customer experience – one that is simple, seamless and complete. This is instrumental to our goal of making banking joyful for our customers.

On China

China's achievements over the past three decades have been unrivalled in history – a USD 11 trillion economy, lifting 500 million people out of poverty. The model of centrally-planned growth with twin engines of exports and investments has served it well. However, more recently, the

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planned model resulted in a significant misallocation of resources with substantial overcapacity in the manufacturing sector. This was compounded by a credit binge in the aftermath of the Global Financial Crisis. Going forward, China has three imperatives:

- Supply side reform, notably addressing overcapacity in the short term and efficiency in the state-owned enterprise (SOE) complex in the medium term.
- Shifting to market-driven pricing for resource allocation to prevent future occurrence of inefficiency.
- Integrating into global capital markets with a strong currency to be able to reduce reliance on the USD.

The reform measures being undertaken are intended to achieve these outcomes and, if successful, will have enormous benefits for China and the world.

The socio-political dimensions aside, at a macroeconomic level, China has the resources and capacity to make the changes without an implosion. However, there are two key risks in the short term:

- Rapid financial liberalisation has come with large market volatility. In an effort to subdue the volatility, the Chinese have relied on policy measures that are sometimes misguided and often unclear. This risks a loss of market confidence. It is therefore quite easy to be caught on the wrong side of economic turbulence.
- The supply side restructuring and SOE reform will result in heightened levels of counterparty risk and higher corporate default. It is imperative to know who to deal with.

We are mindful of the risks and are managing our business appropriately.

Having said that, it is also likely that the financial markets' capital reform will create the biggest opportunities in financial services over the next decade. "The One Belt One Road", capital intermediation, and RMB internationalisation paths may be choppy, but building out suitable positions in these areas will have long term payoffs.

China has powered growth in Asia for the past decade and will continue to play a crucial role in the future growth of the region. Given this, it is important for a regional bank like DBS to continue capitalising on opportunities arising from China. Over the past five years, we have positioned ourselves well to benefit from China's trade account opening. Going forward, we are focused on seizing opportunities that emerge from China's liberalisation of its capital account.

On our role in society

The global financial crisis' biggest damage to our industry was not through the erosion of capital or liquidity, but the erosion of a resource that is infinitely more dear – trust. Banks and bankers have been looked at with suspicion and our role in society and the macroeconomy questioned.

If we are to retain our position as a legitimate part of the macroeconomy, we need to go back to our core purpose and revalidate our role in the larger society. We will have to recognise that not all returns can be found in financial statements and our responsibility to shareholders must be balanced by responsibility to society at large. In some ways, there is no contradiction. Our licence to operate comes from civil society, and long-term shareholders' interests depend on the currency of that licence.

At DBS, we have worked hard at clarifying our purpose. Rooted in our DNA is a role beyond short-term profit maximisation. What makes us different is our fundamental belief that at the heart of it all, we must do real things for real people, while ensuring that DBS is a joy to deal with. Likewise, our desire to support those who believe in social reforms, and not just pure shareholder returns, took us down the social entrepreneurship path – our corporate social responsibility platform. Find out more about our approach to creating social value on page 44.

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We are also a firm believer that to uphold the trust stakeholders have in us, we need to embed a culture of doing the right thing within the organisation. Tied to this is a mindset of not simply following rules or the letter of the law, but embracing the principles behind them. This belief underpins our commitment to enhancing the transparency of our corporate disclosures year after year. With that, we have taken steps to present a more comprehensive and transparent view of how our business model and strategies inform the way we do business. Find out more about our approach to banking responsibly on page 45.