



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Implementation Guide for Value-based Intermediation

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About the Implementation Guide

The Implementation Guide aims to facilitate adoption of Value-based Intermediation (VBI) by Islamic banking institutions (IBIs) through the following:

1

Sharing of practical banking practices that are driven by impact creation to wider stakeholders

- How to translate the key underpinning thrust of VBI into banking operations?

2

Outlining 5 phases of implementation that reflect gradual progression towards envisioned financial landscape

- What are the priorities?
- How to know that we are on the right track?
- What is the end-outcome?

3

Deliberating key implementation challenges & issues as well as pragmatic solutions

- How to manage/address challenges or issues arising from implementation of VBI?

This document does not intend to specify the **ideal** features of a VBI bank since there is **no one-size-fits-all** approach given the different nature (structure, business focus and level of readiness) of IBIs.

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Overview: Overall Framework of Value-based Intermediation (VBI)

- In March 2018, a Strategy Paper on Value-based Intermediation (Strategy Paper) was finalised and issued by Bank Negara Malaysia (the Bank), in collaboration with the members of the VBI Community of Practitioners (CoP)¹.
- VBI is defined as an intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests².
- The Strategy Paper has provided a broad articulation of the underpinning thrusts of VBI as well as the implementation approach and strategies in advancing VBI as the next strategic direction for the Islamic banking industry.
- The Bank facilitates the implementation of VBI by establishing key enablers such as the CoP, VBI Network, VBI Scorecard and series of Guidance. In addition, the Bank promotes proactive transparency on the optimal set of information that aims to trigger intended reaction (market discipline) from relevant stakeholders towards existing banking practices & offerings.

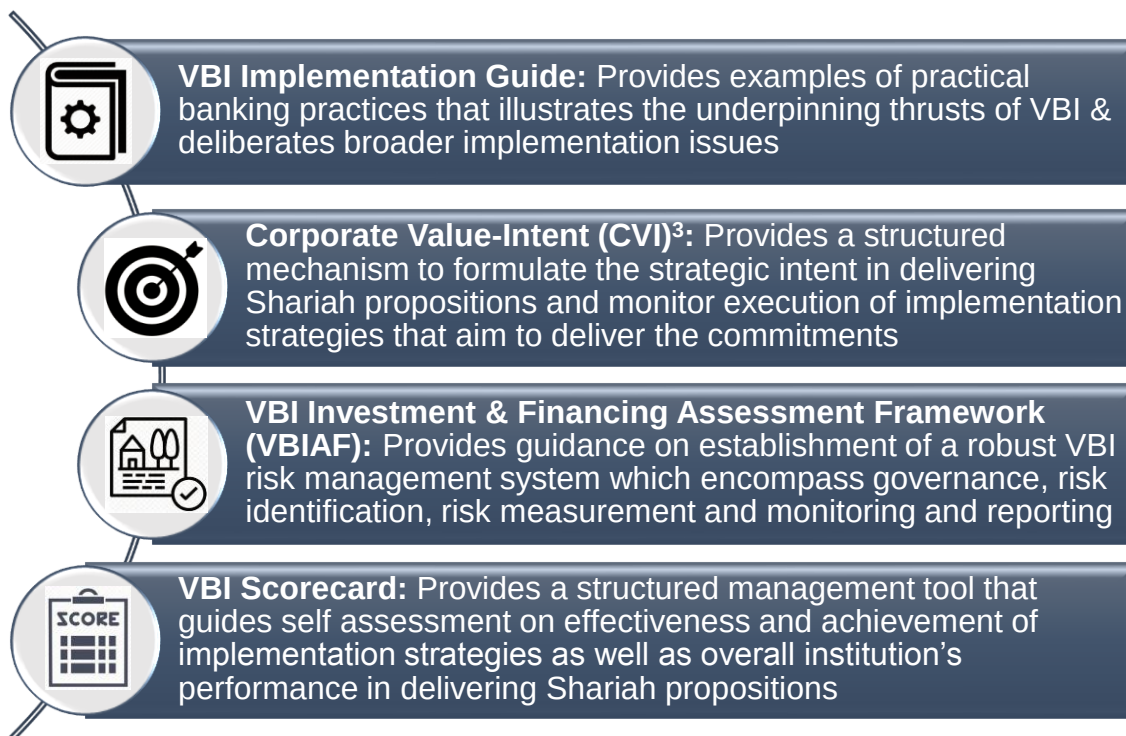
Two – pronged approach in facilitating VBI adoption by industry players

1) Creating an enabling environment through regulatory guidance

- In addition to the establishment of the VBI CoP (including its strategic network) as well as introduction of VBI Scorecard as the complementary performance measurement, the following documents are produced to provide guidance on how to translate articulation of VBI in the Strategy Paper into **real** banking practices & offerings:

¹ Comprising of 9 Islamic banking institutions (Bank Islam, Bank Muamalat, Agrobank, Maybank Islamic, CIMB Islamic, Ambank Islamic, Alliance Islamic, HSBC Amanah & Standard Chartered Saadiq)

² Strategy Paper on Value-based Intermediation: Strengthening the roles & impact of Islamic finance (12 March 2018)



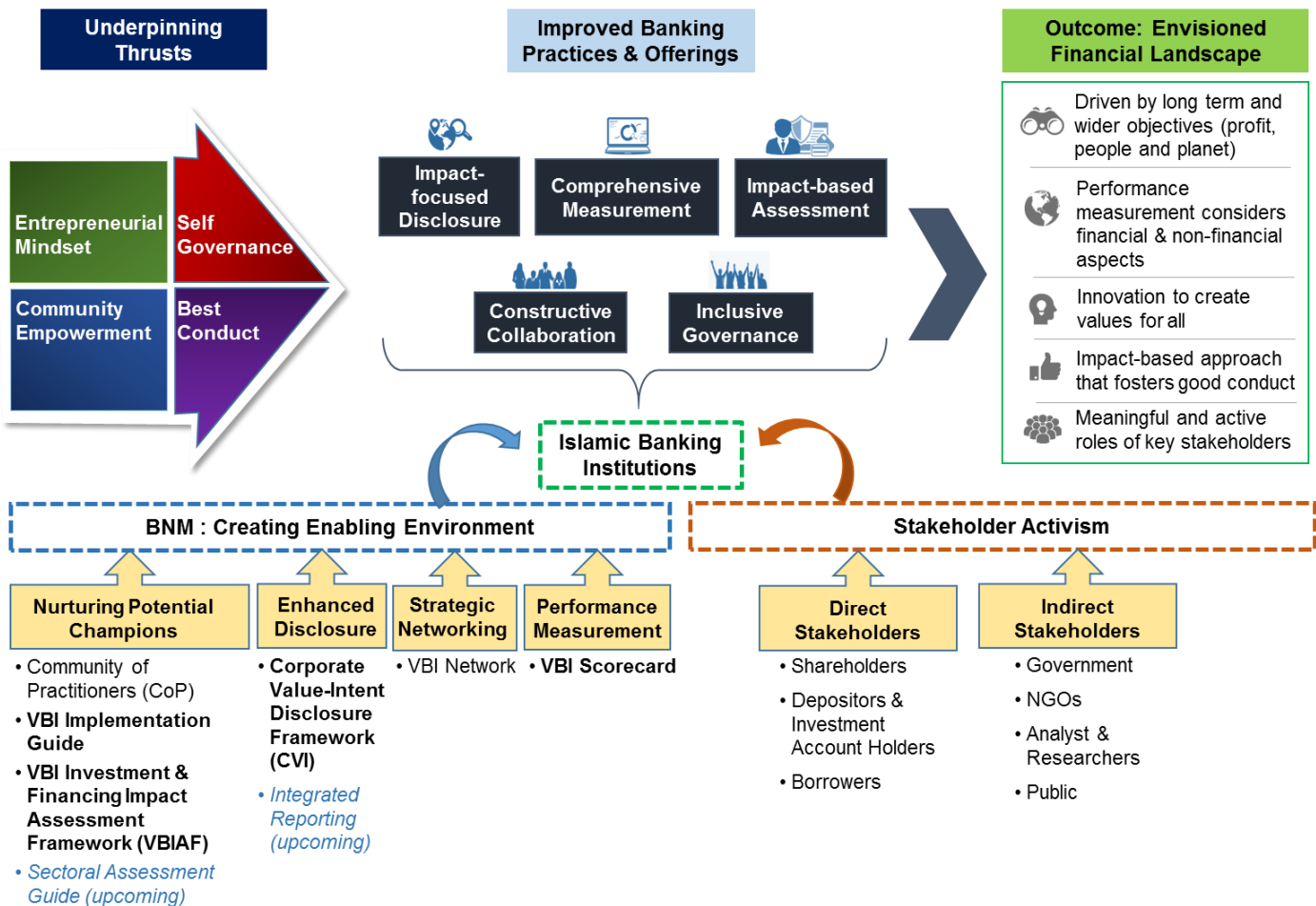
- These documents are developed in collaboration with the members of the VBI CoP and relevant stakeholders. These guidance are meant to facilitate the design process and make extensive use of examples to provide ideas of best practices evidenced globally. As such, these guidance are robust documents and rather be enhanced further in the future. Beyond these documents, other guidance may also be produced as and when necessary.

2) Enhancing quality of transparency to trigger intended stakeholder activism

- It is crucial to promote disclosure of the optimal set of information to key stakeholders such as financial consumer, investor, government, non-governmental organisations (NGOs) with an objective to generate the intended **market discipline** that encourages Islamic banking institutions (IBIs) to sharpen their focus on delivering Shariah propositions.
- At this juncture, VBI transparency expectations focus on intent/ commitment (mission statement), implementation strategies and comprehensive performance reporting (which eventually will cover **impact** of financial intermediation).

³ Further explanation on the Corporate Value-Intent is embedded in the VBI Implementation Guide document. There will be no separate document issued on this aspect.

Diagram 1: Overall Framework of Value-based Intermediation



Chapter 1: Guiding Principles of VBI Implementation

VBI advocates greater focus on delivering the Shariah propositions through financial intermediation activities, which gradually strengthens the roles and impacts of IBIs. Effective implementation of VBI requires solid understanding and appreciation of Shariah propositions as well as an Islamic banking institution to be financially sustainable and resilient so that it has the long term capacity and capability to continuously drive VBI agenda. Based on this premise, implementation of VBI by IBIs must observe the following guiding principles:

1) Fully Integrated

- Principles of VBI must be integrated at both levels: transactions & overall operations (including conduct). VBI must not be implemented **separately** from current banking operations & offerings. However, IBIs may focus on certain aspect prior to the full integration VBI into overall operations.

2) Proportionality

- Implementation of VBI must commensurate with institution's internal capacity (governance, capital, liquidity & risk management). IBIs are expected to prioritise adoption of best practices that strengthen existing operations e.g. effective underwriting process for asset quality management.

3) Comprehensive and Structured

- Comprehensive review & realignment of institution's **overall** policies, procedures, conduct & offerings, so that IBIs can deliver their commitment on VBI.
- Corporate Value-Intent (CVI) framework provides a **structured** mechanism to formulate solid strategic intent, monitor the progression of implementation strategy and measure the end-outcome (impact).
- Enhanced **data-driven** analysis to support operations & offerings – measuring potential impact of negative externalities (real sector data) created by IBIs' clients to their sustainability.

4) Accountabilities

- Clear **tone from the top** (shareholders, board of directors and senior management) is key prerequisite for VBI implementation. Establishment of **cross-functional working group** with clear roles & responsibilities (including key performance indicators) will ensure smooth implementation.
- **Proactive** role of **Shariah** committee & Shariah officer e.g. consideration of impact in product development & relevant research on banking conduct (fair dealings & transparency).

Chapter 2: Phases of Implementation

Rationales of business-driven approach and phased-in implementation

- 2.1 Adoption of VBI by the IBIs should be business-driven, depending on individual institution's level of maturity (level of willingness & state of readiness). This is mainly due to the implementation, to a certain extent, will transform either the business modality, conduct, products and services or banking practices. Such **business-driven approach** aims to provide **flexibility** to IBIs to choose the most **practical** way to drive this initiative.
- 2.2 IBIs are expected to demonstrate **proactive** behaviour and strong **leadership** in ensuring their transactions are not only Shariah compliance but also delivering the Shariah propositions. At this juncture, such agenda will not be pushed through regulatory requirement.
- 2.3 Moving forward, it is envisioned that **all** IBIs will **gradually** embrace & integrate principles of VBI into their operations & offerings since it is a **natural** next step (progression) while ensuring compliance to Shariah requirements.

Clarity on milestones of each implementation phases

- 2.4 In order to ensure that implementation of VBI by IBIs is leading towards the **right direction** and consequently **achieving the intended outcome** of the agenda, there is a need to provide clarity on key milestones of each VBI implementation phases. Description of 4 key implementation phases aims to provide guidance on the following:

Clarifies key **milestones** of each implementation phase – How do we start and what should be the **priorities** now?



Direction

Identifies **areas of improvement** necessary to achieve intended milestones – where are we now & how to move forward (**right direction**)?

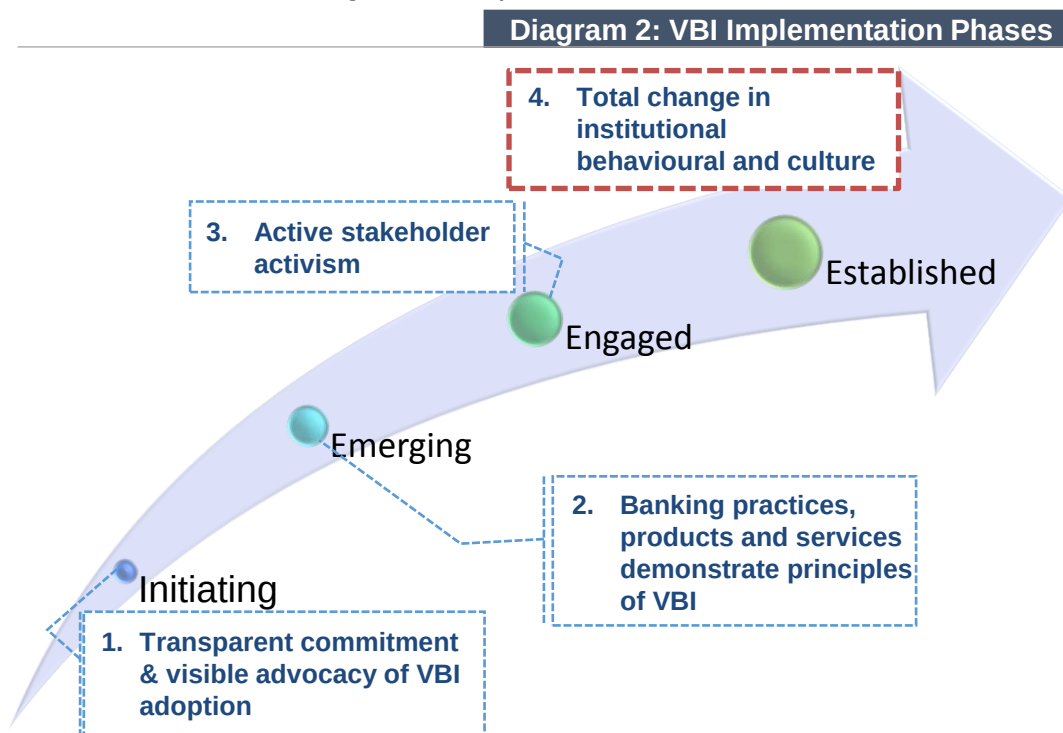
Facilitates review of VBI Scorecard by considering institution's current position in these 4 key implementation phases



Progressive approach in advancing VBI implementation

i. Initiating

- 2.5 The first phase is a starting ground for IBIs where emphasis is given on **transparent commitment** to integrate VBI into overall operations and offerings and **advocacy** effort in creating awareness and instilling solid understanding on VBI to both **internal** and **external** stakeholders.
- 2.6 IBIs are expected to reflect their VBI-related aspiration in the institution's mission statement or any other medium relevant to institution to chart its priority and focus area moving forward.
- 2.7 Also, IBIs may demonstrate commitment through participation in relevant movement/ association or voluntarily subjected themselves to relevant parameter/ certification, either at international or domestic level e.g. VBI Community of Practitioners (CoP), Sustainable Banking Network, UN Global Compact, UN Principles for Responsible Investment and Responsible Finance Investment (RFI) Foundation.
- 2.8 During the initiating phase, IBIs also begin to develop the following basic tools (prerequisites) for VBI implementation:
- Specific VBI **implementation roadmap**, which translates the 'mission into action'. Such roadmap is supported with structured performance tracking to ensure that meaningful changes are crystallised, not remained as the high-level aspirational statements.



source: Phases of implementation are adapted from Sustainable Banking Network (SBN) Global Progress Report (Feb 2018)

- ii. Internal infrastructure and **capacity building** necessary for execution of the VBI implementation roadmap. This could be in the form of improvement in banking infrastructure, talent or expertise and internal governance structure & process.

ii. Emerging

- 2.9 'Emerging' phase witnesses IBIs gradually integrate principle of VBI in their offerings and banking practices:
- i. **Development & offering of banking products and services** that are consistent with VBI. For instance, financial products & services that aim to fulfill customers' needs in the **right manner**. Consequently, IBIs are expected to monitor & manage any unintended consequences of their offerings such as promoting excessive consumption/ borrowing.
 - ii. Adoption of **value-based banking practices** – for example, broader considerations (e.g. environmental & social risks) in credit assessments in addition to the current credit-worthiness assessment on customers.

iii. Engaged

- 2.10 Comprehensive review of existing banking offerings and practices will eventually attract **active stakeholders activism**, where financial decision making of wider stakeholders is largely influenced by the **enhanced transparency strategy**, specifically on IBIs' progression of VBI implementation strategies & impact reporting.
- 2.11 In addition to considering views of wider stakeholders in IBIs' key decision making process (**inclusive governance**), VBI promotes relevant **strategic partnerships** between IBIs & other stakeholders with infrastructure & competencies that reside beyond banking industry. Such practice will enhance current operational efficiency.

iv. Established

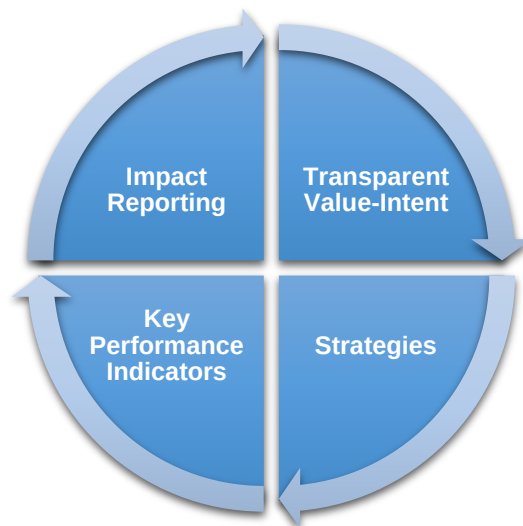
- 2.12 The final phase of VBI implementation should observe **total change in institutional behavioural and culture**, where IBIs inherently & continuously aim to deliver positive & sustainable impact (including financial returns) to the community, economy and environment through its day-to-day operations.
- 2.13 Such impact-driven mindset will shape a different banking paradigm. IBIs play a proactive role in realigning their business activities with the current needs of community & overall economic agenda of the country, hence will result in **minimal regulatory intervention**.

Chapter 3: Corporate Value-Intent Framework

What is Corporate Value-Intent (CVI) Framework?

- 3.1 Consistent with the guiding principles of VBI implementation that emphasise on the importance of a structured mechanism that systematically integrate key underpinning thrusts of VBI into existing banking operations, practices, conduct and offerings (products and services), CVI Framework outlines key steps that IBIs are expected to conduct during the initial phase of implementation.
- 3.2 Diagram 3 summarises the process flow, which consists of four activities and remains relevant throughout all phases of implementation (as described in Chapter 2)

Diagram 3: Process Flow of Corporate Value-Intent (CVI)



Step 1: Establishment of Value-Intent

- 3.3 IBIs are expected to establish and declare the “value-intent” that is defined as the institution’s strategic intent (commitment), specifically in delivering the Shariah proposition through financial intermediation activities.
- 3.4 The value-intent must be premised on the intended outcome (*maqasid*) of Shariah. In principle, Shariah aims to prevent harm and enables all to attain benefits and from the perspective of financial intermediation, value-based intermediation should result in inclusive and fair wealth creation as well as preservation.

- 3.5 For IBIs who have already embarked on initiatives, which aim to bring about similar outcomes of Shariah, this step expects such IBIs to articulate and explain the **linkages** between those initiatives and Shariah and how such initiatives actually deliver Shariah propositions.
- 3.6 Consistent with Shariah proposition that aims to prevent harm and attain benefits to all, IBIs may use available **references** and **tools** from the established initiatives such as the Equator Principles, UNEP-FI and the United Nations Principles for Responsible Investment (UN-PRI) in the course of delivering the Shariah propositions. For instance, IBIs may embrace and adopt the comprehensive risk management framework under the Equator Principles that considers environmental and social risks in project finance or UN-PRI for the enhanced investment appraisal that considers environment, social and governance (ESG) parameter.
- 3.7 In relation to paragraph 3.6, IBIs must ensure that those references, principles and tools are consistent with Shariah.

Step 2: Development of Implementation Strategies

- 3.8 IBIs are expected to formulate relevant strategies or action plans to support the value-intent (strategic commitment).
- 3.9 The strategies must be integrated within the institution's business focus as well as banking operations. Chapter 4 of this document provides examples of relevant strategies as a reference for the IBIs, focusing on 5 key aspects i.e. leadership and culture, operations, products and services, transparency and stakeholder management.

Step 3: Key Performance Indicators – data compilation and measurement

- 3.11 IBIs are expected to identify measurable KPIs for each implementation strategies. While developing the KPIs, IBIs are encouraged to minimise the use of process-oriented indicators e.g. number of engagement session, instead to emphasise on the impact created e.g. number of new employment created in new growth areas

Step 4: Impact Reporting

- 3.12 After an agreed period of time in operation, IBIs should assess the impact of VBI-related initiatives and identify implementation gap & understand challenges/ issues.
- 3.13 In order to ensure smooth implementation of key strategies, IBIs need to analyse and review effectiveness of their current business strategies and performance.

Chapter 4: Integrating VBI into 5 Key Operational Aspects

- 4.1 This chapter aims to provide further articulation on the four key underpinning thrusts (as briefly described in the Strategy Paper) as well as to enhance understanding through several illustrations of existing banking practices, which to a certain extent demonstrate the thrusts.
- 4.2 Illustrations presented in this document are primarily centered on initiatives that focus on sustainability, ESG and good conduct management.
- 4.3 While these concepts differ from one another on certain areas such as the central position of Shariah in determining the underlying values, priorities and moral compass for VBI which stems from the primary value of Shariah in promoting attainment of benefit and prevention of harm, these concepts demonstrate some elements resembling the key underpinning thrust of VBI and hence present a good benchmark for IBIs who aspire to adopt VBI.
- 4.4 This guide is a living document, which may be updated from time to time so that it remains relevant and achieve its objective that is to facilitate adoption of VBI.

1. Leadership & Culture: Instilling self-discipline and striving for continuous improvement

- 4.5 Leaders (board of directors and senior management) play an important role in shaping the strategic direction and advocating positive culture within the institution.
- 4.6 Leaders (board of directors and senior management) play an important role in shaping the strategic direction and advocating positive culture within the institution.
- 4.7 From VBI perspective, it is crucial for the leaders to set the right tone from the top and ensure it cascades down to the operations & offerings. The “right tone” here refers to “doing the right thing” as specified by Shariah even during difficult times (e.g. economic recession) or in situations where there is no prevalent regulation set in place.
- 4.8 In reinforcing an appropriate tone from the top to shape desirable organisational culture and behavior, there is an increasing need for a sharper focus on **individual accountability**⁴. This would complement the existing oversight role of personnel with senior roles in promoting good conduct within the financial institution.

⁴ This is in line with the discussion paper on Responsibility Mapping issued by the Bank in February 2018

- 4.9 Promotion of such clarity on the roles, responsibilities and accountability will incentivise leaders to take greater ownership in fostering a positive culture and addressing misconduct risk. Meanwhile, transparent disclosure of such individual accountabilities and responsibilities will also enhance stakeholder activism in holding their financial institutions (or specific individuals) accountable should a breach occur.
- 4.10 There are various ways to embed “good self-governance” in existing banking operations & culture, the following are the core strategies in advocating VBI within the institutional leadership and culture:

Instilling self-discipline⁵ among leaders, staff & other stakeholders through transparent commitment and continuous monitoring of progression.



Self-discipline

Examples of banking practices:

- *Reflecting VBI-related aspiration in the institution's mission statement*
- *Disclosure of specific roadmap (or 3 – 5 year strategic plan) on VBI*
- *Clarity in roles & responsibilities (including specific KPIs) of whom should implement VBI-related initiative & reporting line – including roles of Shariah Committee & other functions under Shariah Governance*
- *Decision making framework that guides stakeholders doing the right thing*
- *Specific strategic communication to enhance visibility on institution's effort in VBI-related initiatives (branding)*

Shaping the right behaviour through positive culture and improvement in the overall banking operations.



Culture

Examples of banking practices:

- *Diverse background of leaders (professional background, ethnicity, gender) – to ensure governance is well-represented & balanced considerations to derive to high quality decisions*
- *Transparent policy & procedure that aim to influence/ encourage the institution's supplier & borrowers to adopt sustainable business practices e.g. promotion of social procurement where social enterprises (i.e. business that create positive impact to society through its business activities) will be prioritised*

⁵ The concept of self-discipline is in line with the principles of righteousness (*ihsan*) from the Shariah perspective.

Examples of banking practices:

- *Bottom-up approach: platform for staff to ideate, commit & involve in VBI-related initiatives (staff activism)*
- *Remuneration structure that incentivises right behaviour – linking staff performance with additional considerations such as customer's feedback on staff services*
- *Awareness programme aims to enhance understanding/appreciation among stakeholders*
- *Appearance that demonstrates VBI adoption e.g. branch outlook, marketing tool, relevant publication*

Striving to achieve continuous improvement through commitment to adopt best practices & standards, either as international or domestic level.

This strategy aims to create sufficient **momentum** to drive VBI agenda to a higher phase of implementation. Such practice ensures that VBI is NOT a one-off event but is deeply ingrained within the existing operations and offerings.

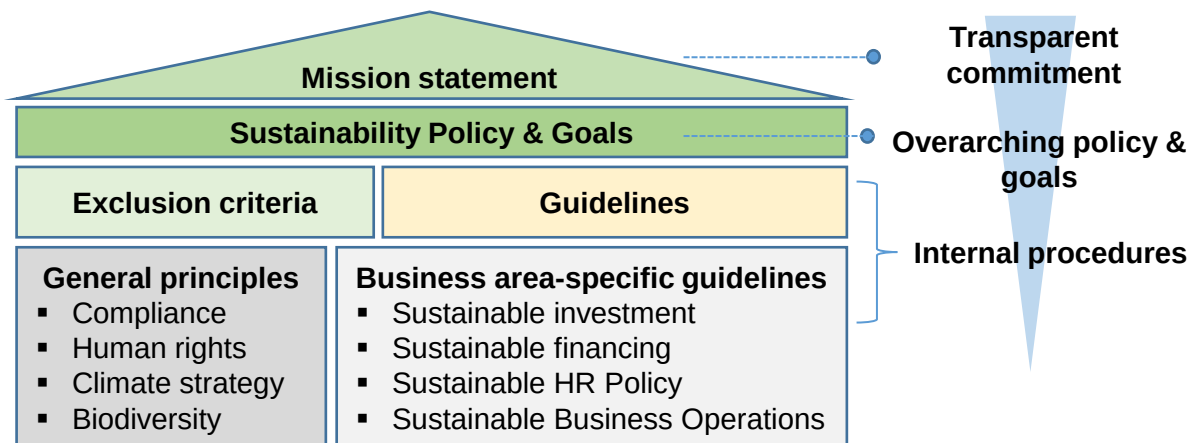


**Continuous
improvement**

Example of banking practice:

- *Subscribing to relevant local or international standards or best practices (e.g. VBI Community of Practitioners, Equator Principles, ESG, Global Alliance for Banking on Values (GABV), Integrated Reporting, UNPRI)*

- LBBW is one the largest banks in Germany and a universal commercial bank operating worldwide based in Stuttgart. Its **commitment to sustainability is captured in its mission statement**: “As a company with regional roots, we are committed to fulfilling our responsibilities. We do business in an environmentally friendly manner and advocate for social issues”. Such transparent commitment in the mission statement is important in **instilling a sense of self-discipline and accountability throughout the whole organization**.
- LBBW has adopted a comprehensive sustainability policy, providing a framework for all business activities and set out in the “**Principles and Guidelines for Implementation of LBBW’s Sustainability Policy and Goals**”. They provide guidance on the operational implementation (**business area-specific guidelines and goals for investment, financing, business operations and human resource management**). For example, its Guidelines for Business Operations set standards for its resource use that reflects demonstrates sustainability adoption within the institutions (e.g. setting target for usage of recycled paper usage for copies).
- In addition to the Guidelines for Sustainability, LBBW has also formulated a **climate strategy** whereby it pledges to further reduce carbon dioxide emissions.
- LBBW is also a **signatory to the United Nations Principles for Responsible Investment**, which is a **demonstration of its continuous strive for improvement through leveraging on the various support and resources** that the global network of practitioners provides. Becoming a UNPRI signatory also signals its commitment to publicly report on its responsible investment activities, which is the mandatory requirement.

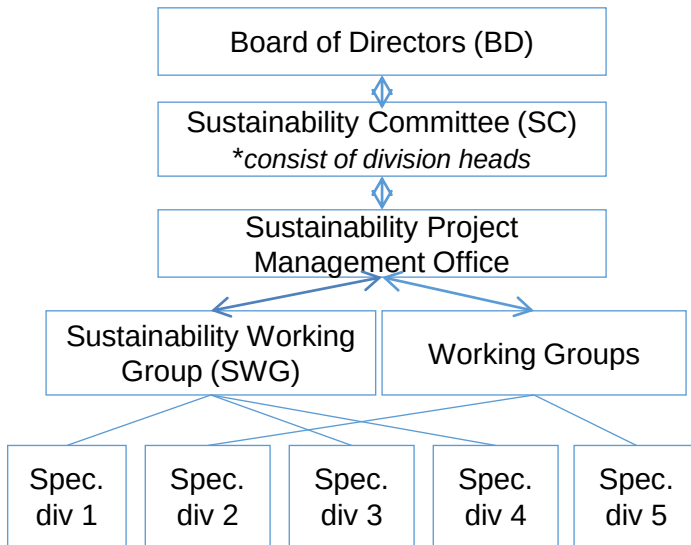


source: [LBBW Sustainability at a Glance](#), [LBBW 2016 Sustainability Report](#)

Illustration 1(b) : LBBW & Rabobank – Effective organisational structure to drive implementation of strategic agenda



i. Cross-functional committee driving sustainability agenda

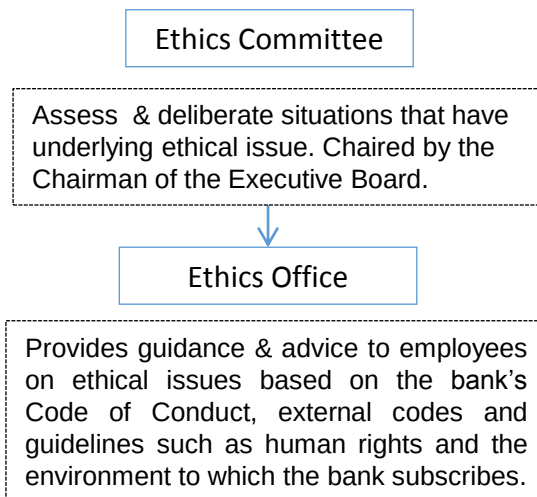


source: [LBBW Sustainability at a Glance, LBBW 2016 Sustainability Report](#)

- **Clear roles & KPIs** in overseeing and driving implementation of sustainability initiatives.
- Structure is inclusive of **all divisions** and involves a **multi-stage process**.
- Chairman of the BD of LBBW (as head of the SC), is responsible for the implementation.
- **SC** functions as communications bridge between the BD and the specialized divisions.
- SC consolidates & shapes the **Bank's opinion or stance concerning strategic sustainability issues**. Members of the Committee are division heads.
- The **Sustainability Working Group (SWG)** consists of the representatives of all of the relevant specialized divisions.



ii. Centralised coordinator function managing conduct risk throughout banking institution



source: <https://www.rabobank.com/en/about-rabobank/in-society/ethics/index.html>

- Dedicated committee with a **specific role and accountability**. An example of this is Rabobank's **Ethics Office** and **Ethics Committee**.
- Such structure promotes healthy dialogue and helps **raise ethical awareness within the bank** and consequently **encourages employees to act responsibly in their day-to-day work**.

2. Operations: Enhancing current management systems to deliver VBI related commitment

- 4.11 Any commitment that is developed to pursue the following key underpinning thrusts of VBI: “entrepreneurial mindset” and “community empowerment”, to a certain extent, will affect IBIs’ business priority and risk appetite. Based on this premise, IBIs are expected to review and ensure that banking operations have capacity to deliver their commitment to VBI agenda:
- i. “entrepreneurial mindset” – IBIs are expected to play a greater role in facilitating entrepreneurial activities through holistic offerings (including financing, advisory, market infrastructure and business network); and
 - ii. “community empowerment” – IBIs have a balanced consideration between commercial and social aspects, especially in navigating their strategic decisions.
- 4.12 There are three key components of operations, namely resource allocation, risk management as well as asset-liability management. In addition to profitability perspective, IBIs should also consider impact of the proposed transactions (e.g. financing or investment applications) to wider stakeholders in allocating their key resources such as capital, risk appetite, funding and human resources

Resource allocation: In addition to profitability perspective, IBIs should also consider impact of the proposed transactions (e.g. financing or investment applications) to wider stakeholders in allocating their key resources such as capital, risk appetite, funding and human resources.

Examples of banking practices:



- Allocation of capital, risk appetite, funding, budget & human resource that considers impact of underlying activities
 - Integrating environmental & social consideration into credit assessment & investment appraisal
 - Development of business strategy & budget allocation that is aligned with VBI-related mission statement/ aspiration
- Resource allocation that considers insights from real sector (new opportunities, upcoming/obsolete technology & current issues) by in-house or external specialists

Risk management: IBIs are expected to analyse potential impact of negative externalities (to wider stakeholders) arising from underlying transactions to their viability (from financial and reputational perspectives)⁶. Also, IBIs should adopt best practices that enhance current risk management capability especially for exposures, which are affected by external factors e.g. agriculture.

Examples of banking practices:



Risk management

- A credit risk management which provides transparent negative list that specifies sectors which provision of financing is prohibited due to negative impact to wider stakeholders, is an example of a risk management specific to VBI bank.
- Environmental and Social Risk Management (ESRM) integrates environmental & social impact assessment throughout the cycle of risk management that includes adoption of risk-based approach through internationally-recognised sustainability frameworks and industry-specific reference (policies and procedures), capabilities and expertise to conduct impact assessment (governance), monitoring of customers to adopt sustainable practices, Management Information System to track and measure VBI portfolio exposures (monitoring) and impact disclosure (reporting).

Asset-liability management: IBIs need to explore alternative funding that can match the maturity and expected returns of VBI-related assets.

Examples of banking practices



Asset-liability management

- Exploring alternative funding instruments to finance the varying nature of VBI assets which are of long term, high risk exposures and illiquid. For example, Socially Responsible Investment (SRI) sukuk, investment account & social finance (e.g. zakat, sadaqah & waqf)
- Liquidity management framework that prioritises impact investing instruments and socially responsible investments.
- Proactively identifying available funds in serving targeted segment which will not be funded by depositors or shareholders. For example, leveraging on external funds such as the United Nations Development Program administered trust funds⁷ which focuses on funding social developmental projects.

⁶ Further guidance on this aspect is provided in a separate document (Value based Impact Assessment Framework)

⁷ source: <http://www.undp.org/content/undp/en/home/funding/funding-channels.html>

Through its **sector-specific sustainability risk policies**, HSBC works with their business customers to help them understand and manage their **environmental and social impact**. Each sector policies essentially contain:

- Possible **impacts/risks of activities** within the sector
- **Scope** (exclusion on certain business clients. for example, suppliers of power generation is excluded from the energy sector policy)
- Overarching **policy commitments**
- List of **prohibited business and activities**
- **Additional due diligence requirements** on certain projects

To ensure that their sector policies are implemented consistently, HSBC invested in more than 75 **Sustainability Risk Managers** across their business. These risk managers are tasked with **advising on and managing environmental and social risks**, and play a key role in the approval process for high-risk relationships or transactions.

The business activity, where it falls under our policies, is given a **Sustainability Risk Rating** for its **potential impact on people or the environment** of High, Medium or Low.

Continuous engagement with customers and stakeholders (industry experts, shareholders, NGOs, etc) are conducted so as to improve their policies and the way they are implemented. Development of **independent certification schemes** is also supported for selected sectors.

HSBC makes information **available publicly** to inform stakeholders of its policies and of its record in implementing them. Sometimes they **simplify complex technical terms** so that relationship managers – with their varied languages and cultures – can easily understand their aims.

In terms governance structure, the **Conduct and Values Committee** has responsibility for oversight of the policies to ensure that businesses are conducted responsibly and consistently adhere to HSBC's Group Values.

On that note, HSBC ensures solid governance structure with regard to implementation of its sustainability initiatives by **assigning individual accountabilities** to its leadership. Key responsibilities and specific KPIs are also outlined (as per Illustration 2).

sources:

- [1. <https://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk>](https://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk)
- [2. \[HSBC Introduction to Sustainability Risk Policies\]\(#\)](#)

In addressing constraints of small businesses in the rural areas of Myanmar to purchase agricultural equipments, Yoma Bank has benefitted from a significant grant from Livelihoods and Food Security Trust Fund (LIFT), a multi-donor, UNDP administered trust fund.

Through the Agribusiness Finance Programme (AFP), Yoma Bank has teamed up with LIFT to expand its hire-purchase offerings by **addressing the pain points** farmers who are subjected to asymmetric shocks, for example, through **lowering the down payment**. Instead of paying down 30% on the first day, which is customary in the market, farmers pay down as little as 10%. This allows them to buy larger equipment which generate more income. In the first 3 months of its rollout, Yoma Bank has financed agricultural equipment valued at USD3.8million. This widened access to finance will enhance productivity in the sector, thereby contributing to rural development and raise overall standards of living.

Yoma Bank use their own funds to finance these loans, while the **increased risks are shared** with LIFT. Moreover, LIFT pay for **technical expertise** to set up and manage the programme. Technical assistance for this program is provided by RaboBank, a Dutch agricultural bank.

source: <https://www.lift-fund.org/project/yoma-bank-agri-business-finance-program-afp>

3. Products & Services: Delivering impact & values to wider stakeholders

- 4.13 IBIs (who indicate commitment to embrace VBI) are expected to ensure their products and services have **distinct features** that demonstrate relevant VBI's key underpinning thrusts. The distinct features can be reflected in three ways:

Design of Products & Services



Offerings

- i. Provision of financial solutions that are designed to deliver **pre-identified outcome** of national agenda or aspirations such as achieving specific Sustainable Development Goals (SDGs);
- ii. Offering of **financial solutions that are bundled with non-financial services** such as advisory, business network and relevant infrastructures (e.g. marketplace, space & related facilities for networking). Such non-financial services are structured to ensure customers become successful;
- iii. **Innovative** products and services focus on providing solutions to specific **pain points** of specific segment of customers. For example, rent-to-own scheme offered by Maybank to increase home ownership in prime locations among young professionals; and
- iv. **Structured** corporate social responsibility (CSR) activities or application of social finance (*waqf, sadaqah & zakat*) with a long term plan to transform the beneficiaries (usually the non-bankable segments) into bankable clients or projects.

Adoption of best practices in product development, marketing, sales, product delivery and after-sales services, which aim to create more values to customers.

Examples of banking practices:



Value-based practices

- *Product development is backed by robust research & development (R&D) which considers insights on recent trends and opportunities from real sectors*
- *Establishment of Product Research & Development Department/ Unit to generate product and infrastructure innovation ideas*
- *Leveraging on strengths of relevant strategic partners for their expertise, infrastructure and network that reside beyond banking institutions*
- *Grooming existing high-potential clients to become “anchor companies”, which eventually will act as guaranteed buyers for smaller (less capacity) customers*

Infrastructure – enhancement of existing infrastructure that aims to improve customer's experience



Examples of banking practices:

- *Providing space & facilities e.g. free Wi-Fi, meeting rooms & networking area for businesses & community partners to connect with bank's clients and other members in the supply chain*
- *Enhancement in infrastructure or capacity building (expertise) that aims to improve customer's experience e.g. digitisation e.g. mobile banking apps & OKU-friendly branches & auto-teller machine (ATM)*



Illustration 4: Program Keusahawanan by Taylor's & CIMB Islamic

Program Keusahawanan (PK) Taylor's-CIMB Islamic is a community empowerment programme which develops entrepreneurial abilities among B40 communities. By transforming the CSR activity into a microfinancing programme by equipping entrepreneurs with the skills, know-how and opportunity to jumpstart their ventures. To date, 107 small business owners have benefitted from close to RM500,000 in business grants.

The PK is structured with 3 different phases – motivational, educational and implementation that aims to guide and equip small business owners with core skills and equipment needed for their business. Following from the awarding of grant to successful businesses at the end of the incubation period, appointed implementation partner (Yayasan Salam Malaysia) **monitors business progression** of grant recipients for the first 3 months. **Strategic partnership** with Taylor's Education Group enabled CIMB Islamic to leverage on the former's forte on teaching and education to complement the provision of financing solutions with **non-financial services** such as workshops on social media marketing skills, life skills and also individual business coaching.

The focus on continuous learning and linking to business opportunities inspired PK Marketplace which is essentially a platform to **facilitate networking** for business amongst programme alumni. Meanwhile, PK Digital serves as a marketing platform for all PK alumni to share learning and success stories.

source: <https://csr.taylorsedu.my/taylorscommunity/the-next-of-program-keusahawanan-taylors-cimb-islamic/>

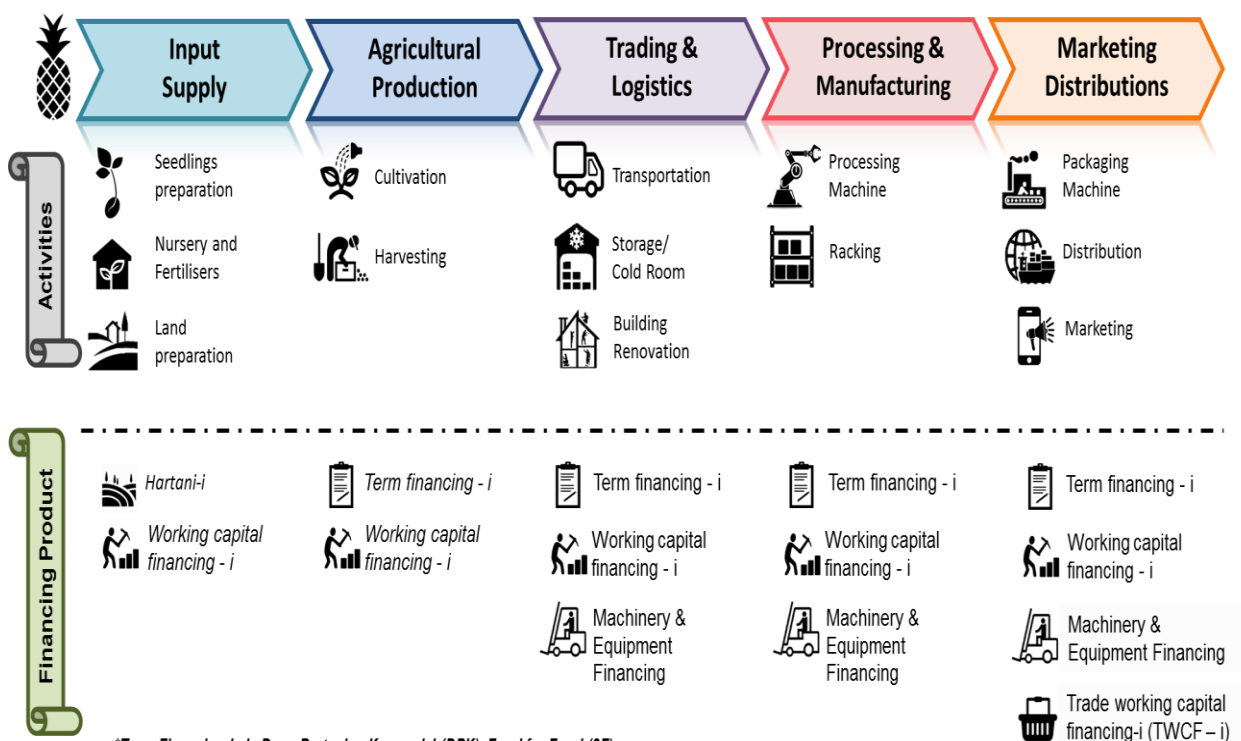
What is it?

An 'end-to-end' financing model that supports the whole value-chain from financing input supply, agricultural production, trading & logistics, processing & manufacturing **(from farm to table)**, up to assisting its Agropreneurs in **identifying efficient market distributions for respective supply**.

The goal of this financing scheme is to provide a full range of products and services in **fulfilling client needs as well as meeting the products demand along the agriculture value chain** catering to each level of the chain financing needs from production inputs to marketing/wholesale. The products and services include advisory services and financing products for term financing, working capital, machinery, equipment and trade working capital.

This **wide range of financial solution to cater to the entire agriculture value chain** aims to support higher output (production) and achieve self-sufficiency level and food security in the long-run.

Example on Agrobank's comprehensive financing facilities to the entire value chain of pineapple production from seeds preparation to upstream including export activities



*Term Financing-i via Dana Pertanian Komersial (DPK), Fund for Food (3F)

Creating distinction from other supply chain models via nurturing approach

By leveraging on the strength of its **in-house market intelligence** and **strategic network** built with existing clients & other stakeholders, Agrobank is able to design and implement a **nurturing mechanism**, which eventually benefits smaller Agropreneurs.

- **Robust intelligence** on the market and up-to-date technical know-hows are provided by its in-house **Economic and Industry Research (EIR) function**.
- Strategic network with “anchor companies” as well as relevant stakeholders to provide **assistance in areas outside the bank’s capacity** e.g. technical capacity building – “anchor companies” refer to clients who are nurtured and groomed by Agrobank to guarantee the purchase of products produced by smaller clients

In addition, borrowers are expected to undergo relevant **capacity building programmes** and utilise **business advisory services** provided by in-house Agrobank expertise in collaboration with relevant development agencies, which focuses on 4 areas:

- i. **Training Programmes**, which are issues-driven and focus on business skills, marketing and financial management (Agrobank leverages on other agencies such as FAMA for the technical knowledge)
- ii. **Business Advisory Services** is more geared towards hand-holding programs for clients who are facing challenges. The services include assessments and suggestion for area of improvement either in terms of business, operations and/or financial management.
- iii. **Intervention** is identifying the gap in the current business practices of highly potential Agropreneurs in comparison to best market practices (this is done through benchmarking visits to successful clients)

Agrobank believes in **rewarding entrepreneurs** that have successfully achieved significant progress to be an icon in agriculture. They also provide infinite opportunities for clients to further expand their businesses and market access through Agrobank’s network of strategic partners such as Teraju and SME Corporations.

source: *Agrobank*

Westpac is helping businesses reduce their energy costs and manage their environmental footprint by providing solutions for energy efficient equipment through the Westpac Energy Efficient Financing scheme. This financing scheme is supported by a \$200 million **financing arrangement** entered into with the Clean Energy Finance Corporation, which enabled a 0.70% p.a. discount on the interest rate to be applied.

Another unique feature is **bundling of non-financial services** in which customers can choose to receive **specialist advice** through external energy experts Verdia, to help them design energy efficient projects. **Flexibility** is accorded to customers whereby they may choose from 3 equipment finance products **based on their needs** – Westpac finance lease, commercial loan and commercial hire purchase:

	Finance Lease	Commercial lease	Commercial Hire Purchase
What is it?	Westpac purchases the asset at customer's request and rent it out to customer for an agreed period	Customer source and own the asset and Westpac provides a loan secured by the asset	Westpac purchases the asset at customer's request and customer buys it by paying installments
Who owns the asset?	Westpac does and customer rents it	Customer does and Westpac hold security over it	Westpac does until all installments have been paid at which time ownership is transferred
What is the potential tax benefits?	Rental payments may be tax deductible	Interest on the finance and depreciation of the asset may be tax deductible	Interest on the finance and depreciation of the asset may be tax deductible

With a minimum financing amount of \$15,000, **finance could be structured over the life expectancy of the asset**. Customers may also get certainty either with the fixed payments on a finance lease and commercial hire purchase, or a fixed interest rate on a commercial loan. Depending on the equipment finance option chosen, **potential tax benefits** could also be earned.

source: <https://www.westpac.com.au/business-banking/business-loans/equipment-finance/energy-efficient-finance/>

4. Transparency: Enhanced disclosure of impact & forward-looking information to trigger stakeholders activism

- 4.14 IBIs are expected to be proactive in enhancing their level of transparency, specifically on the three core aspects:

Transparent internal policies and procedures, which aim to shape the right behaviour among key stakeholders (including borrowers, suppliers, investors and industry analysts). Transparent policies and procedures enhance awareness and understanding of stakeholders (including public) on IBIs' specific strategies in delivering their commitment on VBI agenda.



Transparent policies and procedures

Examples of banking practices:

- *Details of implementation strategies that are supported with specific initiatives or projects and key performance indicators (KPIs)*
- *Environmental & Social Risk Management – Statement of Position for high-risk sectors*
- *Assistance for customer with financial difficulty – specific platform that encourages customer with financial difficulties to reach and engage with banking institution **prior** to default event*
- *Social procurement policies – prioritising suppliers or vendors who share similar aspiration as VBI*

Impact-driven performance reporting that covers both financial and non-financial aspects, aims to facilitate stakeholders' further understanding on IBIs' contribution beyond numerical reporting. Integrated Reporting⁸ is an example where IBIs begin to assess and address connectivity across their business and describe their value creation in the short, medium and long term.



Impact-driven report

Examples of banking practices:

- *Progress report of VBI-related initiatives or projects*
- *Impact-driven performance report (either through Integrated Reporting, Sustainability Report, dedicated VBI report, or section in Financial Report)*
- *Sharing of success stories –stories of successful business clients (who adopt sustainable practices) or enhancement to banking operation that facilitate greater impact creation to wider stakeholders*

⁸ <https://www.pwc.com/my/en/services/assurance/integrated-reporting.html>

Information & knowledge sharing that benefits wider stakeholders through a dedicated knowledge repository. For example, sharing of information or insights on real sectors which IBIs have exposures on – such transparency enhance awareness of business clients & general public on key information such as location, industry, products and services offered as well as on the sector's recent issues and updates e.g. emerging issues & new application of technology in agriculture.

Example of Banking Practices:



Knowledge repository

- *Sharing of information/ insights of real sectors which banking institution serves for e.g. agriculture, manufacturing sectors*
- *Sharing of business clients' key info such as location, industry, products & services, subject to business client's permission*

- 4.15 Key objective of proactive disclosure of information that is not required by current regulation is to trigger greater stakeholders' activisms – where the better-informed stakeholders will prefer and positively react to unique value propositions offered by IBIs. This is also a demonstration of IBIs' best conduct in safeguarding the rights of stakeholders to have better access to certain information.
- 4.16 The inclusion of **forward-looking information** or indicators in IBIs' reporting also sheds greater transparency for their stakeholders on the IBIs' internal performance targets and the strategic priorities and resources being employed to achieve those targets. The use of forward-looking data shall also provide better tools for future judgment especially with regard to making risk management decisions.

Illustration 7: Agrobank –Knowledge Management Roadmap

Agrobank embarked on a journey to design & implement its Knowledge Management roadmap that focuses on knowledge creation, dissemination, sharing and ultimately, the establishment of its very own Centre of Excellence.

A landmark project under this roadmap is the Agrobank Community & Entrepreneur Development in Agriculture (ACEDiA) that functions as a **one-stop knowledge hub** containing information and insights on the agriculture and banking sector, which contributes to the up-skilling and capacity building of the agropreneur community and beyond.

With frequent publication of free-for-all content that is presented in infographic-centric manner and supported by **robust research** on the current trends and developments in the agriculture sector, Agrobank stands on a strong position to **attract potential customers** among the agropreneurs who could benefit from one-to-one, personalised capacity building programme which could be offered by the bank on top of its financing provision.

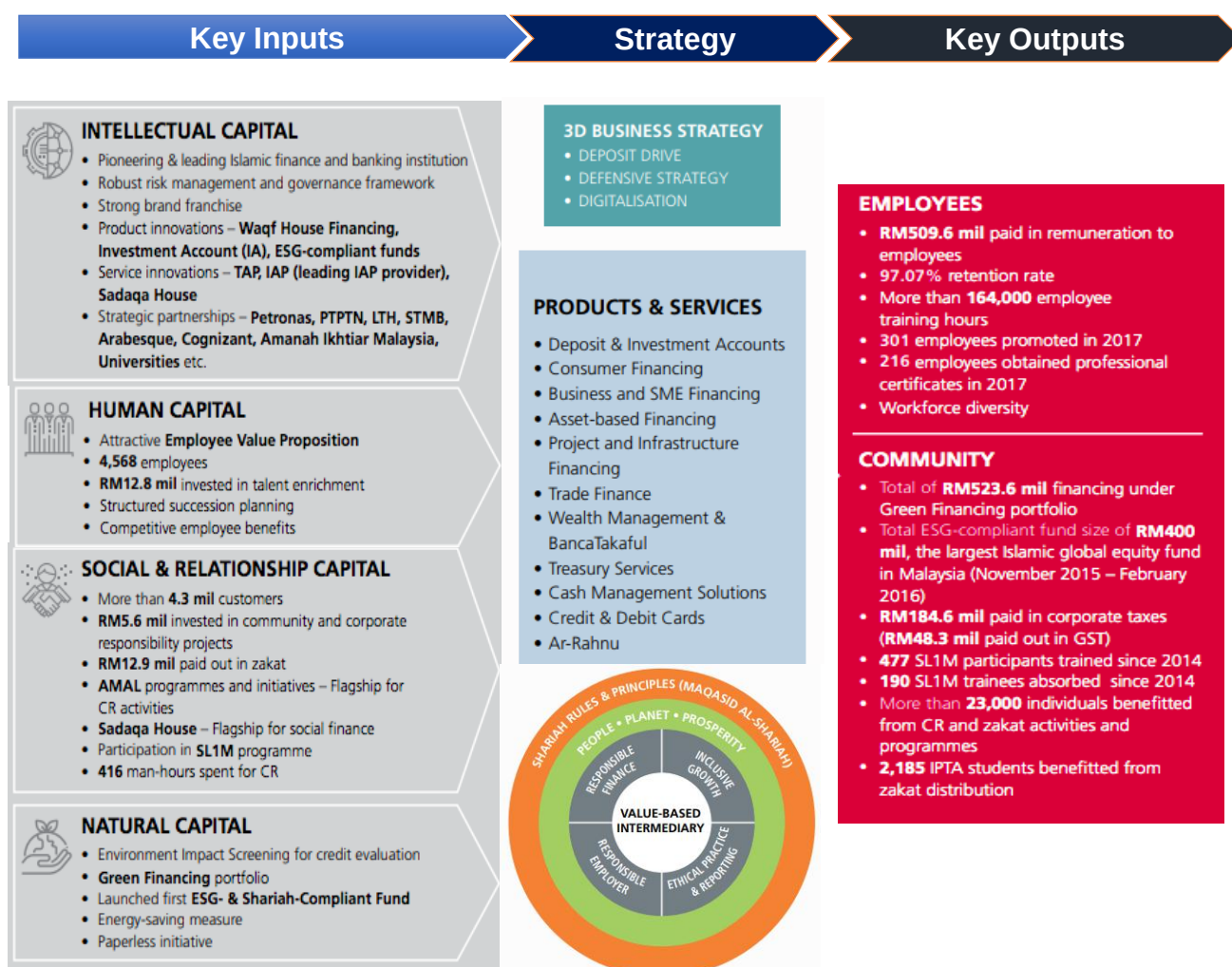
Available in various modes i.e. print (magazine), digital and in its mobile banking app, Agrobank has strived to position agriculture as an attractive sector especially amongst the younger generations.

source: *Agrobank Annual Report*



Based on the principles of Integrated Reporting, which recognized other forms of capital (in addition to the generic financial capital) such as manufactured, intellectual, human, social and relationship, and natural, Bank Islam encapsulated its renewed business model which draws on various capital inputs and shows how its strategies and activities transform them into valuable outputs in its inaugural Integrated Report.

Such impact-driven reporting discloses information that is beyond regulation, which provides its stakeholders with meaningful insights through combination of both qualitative and quantitative information into how the bank values other forms of capitals beyond that which gives its gain in the short term.



source: http://www.bankislam.com.my/home/assets/uploads/BI_IAR17_Eng_Corp.pdf

Recognising the significance of transparency for a value-based bank that is based on trust, Triodos integrated into its website an interactive map (through deployment of geo-tracking functionality) showing the location of the bank's investments and lending around the globe.

Nestled in a section named “Know Where Your Money Goes”, Triodos embarked on this journey of **proactive, impact-driven reporting** in which meaningful information and insights of real sectors which the bank finances and invests in are shared with detail. Depositors and other **stakeholders can now align their money with their values** when they are able to see each loan as well as link to specific information about the business of Triodos' customers. Another prominent benefit is the **promotional feature** of its clients' business and **success stories** which may be aligned with investors' interest. Such level of transparency, besides **enhancing trust and loyalty of customers** toward the bank also **improve reputation** of Triodos that benefits greatly from relationship banking.

Adoption of technology has also enabled the availability of this feature in its mobile banking app.

It goes without saying that customers first have to give permission for their details to be published. In addition, the details must be both complete and correct. The thought process of coming up with such level of transparency is backed by numerous research which suggest that consumers are generally increasingly demanding of information regarding how and where the products they buy are sourced and produced. However, when it comes to banking, recent research shows that 30% of bank customers admit having no idea what their bank is doing with their money.

The desktop version of “Know Where Your Money Goes” can be accessed at www.knowwhereyourmoneygoes.co.uk

source: <https://www.triodos.co.uk/en/about-triodos/news-and-media/colour-of-money/do-you-know-where-your-money-goes/>

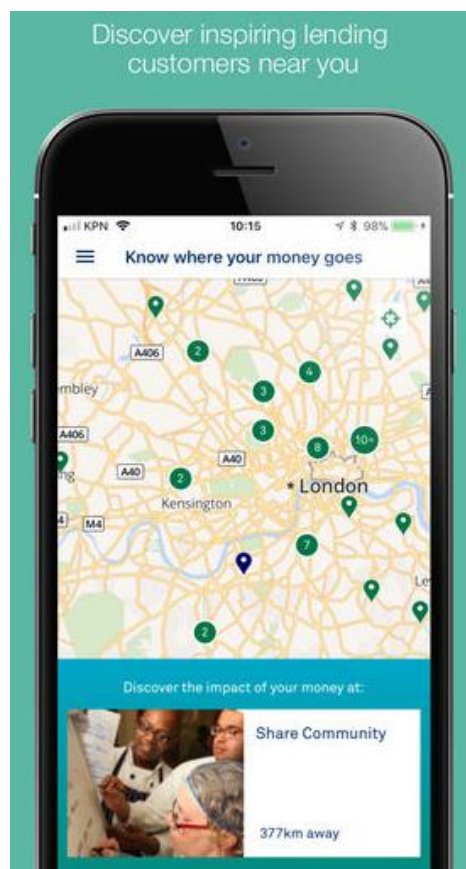


Illustration 10: TeamBank – Finding Profit in Fairness and Transparency

TeamBank, has successfully developed a profitable business model that is based on fair dealing and transparency through easyCredit, its flagship consumer credit product. Both elements were visible in the product characteristics and operating processes.



On the product development front, the process in coming up with easyCredit began with a market analysis which revealed that although customers were price-sensitive, they also wanted “fairness”. That was understood to mean **more flexible repayment options** and **greater transparency around the processes for managing and policing loans**.

To further illustrate this, TeamBank has committed to **not carry any hidden charges** and vowed to be **flexible and sensitive to unexpected changes in the borrower’s circumstances**, such as illness or the loss of employment. In addition, TeamBank also offers a 30-day customer retraction period, make repayment insurance optional rather than mandatory, eliminate the penalty on partial repayments, and even offer a “protection package” that would allow short repayment extensions in the event of unforeseen difficulties.

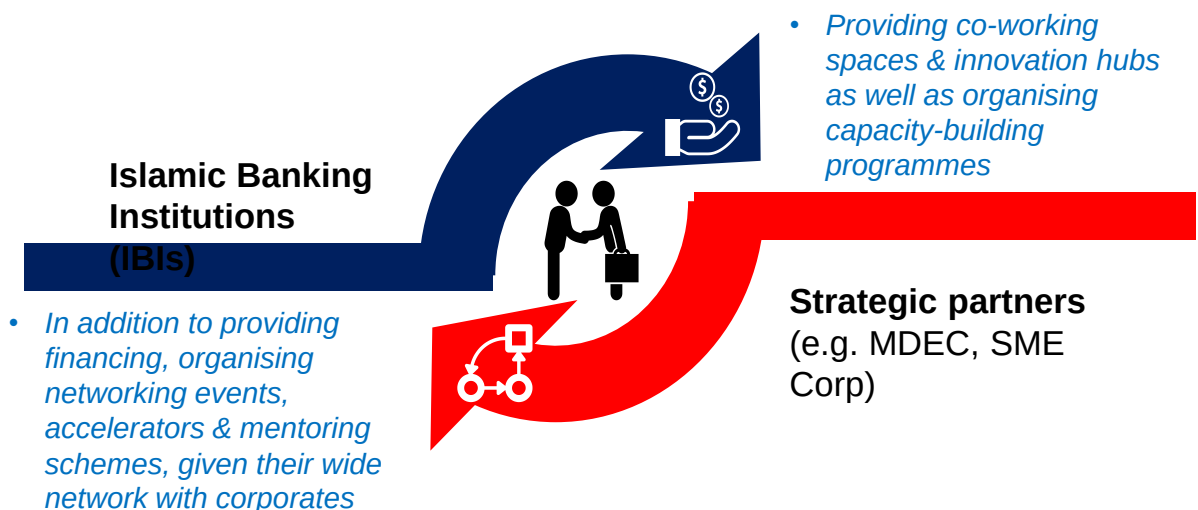
Another values-driven innovation that TeamBank has introduced a different and more compassionate approach to customer engagement that was unusual in the consumer credit business. Although many TeamBank credit processes are automated to ensure an efficient customer experience, many others are **handled personally by customer advisers**. For example, when customers fall behind in making payments, advisers work with them to find a solution—by allowing no payments for three months, rather than threaten legal action.

The rather unconventional approach to lending has proven to be viable for TeamBank. Despite not offering the lowest interest rates, German consumers who are known for being **financially literate** have voted with their wallets to endorse its strategy of competing on fairness rather than on price.

source: <https://hbr.org/2012/09/finding-the-profit-in-fairness>

5. Stakeholder Management: Proactive & inclusive governance aim to create win-win situation for all

- 4.17 Comprehensive and holistic stakeholder management is a central element in advancing VBI agenda to ensure **inclusive governance** in IBIs' key decision making processes. Rationales for IBIs to conduct **proactive engagement with multi-stakeholders**:
- To achieve greater alignment between expectation of stakeholders and business focus of IBIs by considering wider stakeholders' interests and issues in IBIs' key decision making processes (e.g. product development, risk management & resource allocation);
 - To leverage on technical competencies, skills and infrastructure that are critical but not owned by the IBIs through **strategic collaboration** with partners (beyond financial community) who share similar aspiration; and
 - To attract, engage and retain the “**right talent**” (human capital) through emphasise on pursuing the shared values and aspirations as well as better staff treatment (best conduct). High quality talent that is self-motivated serves as the backbone for sustainability of VBI initiative.
- 4.18 Scope of stakeholder management should cover both **internal** (employee) and **external stakeholders** namely customers and other stakeholders such as vendors, community, NGOs, regulators, government and etc.



Staff (Human Resource Tools)



Examples of Banking Practices

- *Hiring – considering applicant's existing knowledge/ expertise of relevant real sectors*
- *On-boarding – incorporation of VBI in online training to new and existing staff*
- *Partnering with universities to build a pipeline of talents and enhance marketability of Malaysian graduates*
- *Establishment of a platform where staff can escalate ideas, suggestions and feedbacks to management (bottom-up approach to promote staff empowerment)*
- *“Awesome Wednesday” – an initiative that connect the bank's staff with the bank's client where staff are served with healthy food and beverages supplied by relevant clients*

Customers



Examples of Banking Practices:

- *Proactive engagement with customer who demonstrates potential sign of financial difficulties/ stress*
- *Establishment of a platform that connect depositor with the bank's borrower (business clients) to ensure transparency on banks' activities*
- *Benchmarking visits to successful companies (the bank's borrowers) where smaller/ younger companies can learn best market practices*

Other Stakeholders



Examples of Banking Practices:

- *Transparent & structured stakeholders engagement framework – where input/ insights obtained from engagement will be considered in key decision makings e.g. product development, materiality assessment (sustainability) and resource allocation*

Illustration 11: Maybank – Structured engagement framework addressing interests of multi-stakeholders

- Maybank engages with its stakeholders through **various channels**, both formally and informally (surveys, roadshows, reaching out to the community through employee volunteering, etc.) .
- The engagement activities conducted, issues of interest and Maybank's response to these issues are **documented and reported** in its Sustainability Report – demonstrating that it values the views of its stakeholders and addresses them in a **transparent** manner. In addition, concerns of stakeholders are **regularly reported to management**.
- The **materiality survey and assessment** conducted to identify & prioritise the key matters pertaining to sustainability and have meaningful conversation with both its internal and external stakeholders.

Stakeholders	Engagement Activities	Issues of Interest	Our Response
Customers 	We engage with our customers through various platforms including digital touchpoints, physical branches, self-service terminals, Customer Service Centres, social media platforms as well as customer satisfaction surveys. Our Relationship Managers (RMs), Personal Financial Advisors (PFAs) and Client Coverage Teams are equipped with the necessary knowledge to meet customer satisfaction.	Customers' expectations for a speedy, efficient, simplified and personalised experience. In addition, we strive to advise them on fair pricing and terms. Customers' data privacy is protected at all times. Financial inclusion as well as financial literacy and education are topics raised by customers.	• Incorporated customer feedback as part of our customer journeys in the design of our products and services, especially in designing the new Maybank app. We have also equipped our relationship managers with tools to better respond to each client's specific financial planning needs. • Continue to support small and medium enterprises (SMEs) and provide microfinance for the smallest of enterprises.  Our Role as an Responsible Financial Services Provider, page 71
Employees 	We use various platforms such as the Employee Engagement Survey (EES) and Conversation Series with C-Suite. The established system for H.O.T. (Honest, Open and Trusting) conversations and open communication are part of our company culture. We use both face-to-face and electronic channels, such as Jabber, to connect with our colleagues as well as work towards further strengthening H.O.T. conversations.	• Staying relevant in the workforce and the need to be future-ready to embrace the changing operating landscape • Achieving work-life balance and increasing productivity growth • High performance culture • Employee engagement • Talent management • Employee long-term development • Improved diversity, flexibility and inclusiveness	• Introduced Individual Engagement Report (IER). This will guide staff in initiating conversations with their line managers. The IERs enable the employees to get more involved in determining the outcomes of their own level of engagement. • In 2017, the Group's Sustainable Engagement Index and Employee Engagement Index stood at 88% and 84% respectively which are both above the Willis Towers Watson (WTW) Global Financial Services norm.  Our Role as a Leading Employer, page 52
Community 	Our approach to giving back to the community is three-pronged. With targeted social investments, volunteer efforts and long-term partnerships, we empower the communities where we operate. Our focus is on building sustainable programmes with long-lasting impact particularly through Maybank Foundation. We also contribute to the communities through employee volunteering, partnerships and strategic community investments. We engage and work together with social enterprises and civil society partners.	• Impact of community investment • Fully understand the potential environmental and social impact of our work • Need to contribute to initiatives that address unemployment and funding to higher education • Need for expert advice, products and solutions that help to create change in families, small businesses and communities	• Maybank Foundation flagship programmes and MaybankHeart continue to empower communities. We channelled over 1% of net profit (including zakat) to community programmes with approximately RM65 million in community investment and over RM23 million in zakat contribution. • Announced a six-month moratorium on monthly instalment payments for loans and waivers on certain charges on a case-by-case basis for customers affected by the floods in Penang.  Our Role in the Community, page 33

SOURCE:

https://www.maybankfoundation.com/images/pages/howweare/sustainability_report/maybank_sustainability_report_2017/Maybank_SR17.pdf

Chapter 5: Implementation Challenges & Issues

Implementation of VBI may, to a certain extent, transform existing banking practices, business modality and risk profile. Such transformation usually require major capacity building, which may adversely affect operational efficiency and competitiveness of industry players. This section deliberates several key challenges & issues that are highlighted by members of the VBI CoP as well as explores potential solutions to these implementation challenges & issues.

1. Structural Issue

- Resource allocation & strategic direction of Islamic subsidiaries are subjected to Group's policies, hence changes in business modality & internal capacity building are restricted. Majority (11 out of 16) of industry players are operating as a subsidiary
- Lack of autonomy and gap in leadership will impede the full integration of VBI into existing banking operations & offerings

Potential Solutions: It is envisioned that Islamic financial system to be **competitive** in delivering value proposition of Shariah, therefore the following measures may be considered during the initial stage of implementation for Islamic subsidiaries:

- To focus on a function (e.g. product development) that is currently controlled & managed by Islamic subsidiaries with a **long-term view** to create **success stories** and hence justify the need to gradually realign other functions towards conformity to principles of VBI; or
- To demonstrate leadership in driving any of Group's existing agendas that allow Islamic subsidiaries to achieve similar outcome e.g. sustainability reporting, integrated reporting (IR), ESG integration, etc.

2. High Risk Segment

- Impact-driven mindset may drive Islamic banking institutions to explore and serve the underserved segment or new business opportunity such as SME & renewable energy which attract higher level of risks or exposures
- These high risk segments will require different risk management capabilities and attract more capital requirement, which will be translated into higher pricing

Potential Solutions: Adoption of VBI in business activities & banking practices must be **proportionate** with risk management capability and capacities (capital).

Enhancement in internal capacity building could be efficiently **accelerated** through:

- Investment in collection of data points (through adoption of technology such as data analytics) which will facilitate better understanding on the risk associated with such segments in developing its Internal Rating Based (IRB) Approach.
- Leveraging on strategic partners' technical competencies & risk management infrastructure

Chapter 5: Implementation Challenges & Issues

3. Market Competitiveness

- Assessment of impact created by underlying activities of potential borrower may affect competitiveness of Islamic banking institution in the following situations:
 - Subject to the internal policies & procedures, Islamic banking institution may “exit” from borrowers that do not adopt sustainable practices. Such exit may eventually result in smaller customer base
 - Longer turn-around time (ease of making transaction) to approve financing or investment application due to additional considerations in existing credit or investment appraisal

Potential Solutions:

- Islamic banking institutions are expected to manage the unintended impact of VBI implementation to their business through the following measures:
 - **nurture** existing or potential customers to adopt sustainable practices, instead of immediately exit from the transaction;
 - provide financial & non-financial solutions (e.g. advisory) that facilitate customer to adopt sustainable practices;
 - explore the underserved or totally **new segments** (e.g. M-KOPA solar panel financing)
- Islamic banking institutions may explore relevant application of technology that improves processing time & costs

4. Lack of awareness & demand

- Current financial decision making is driven by commercial consideration i.e. pricing. Such mindset of customers and investors may result in low take-up of VBI product, which possibly be more expensive due to its value-added propositions

Potential Solutions:

- Islamic banking institutions are encouraged to conduct **targeted awareness programme**. There are pockets who share similar aspiration:
 - A customer service index survey conducted in Malaysia⁹ reveals that a large number of banking customers are willing to pay extra for better service
 - Investors are increasingly expecting & demanding their investee companies to operate in a manner that generates positive & sustainable impact on wider stakeholders (impact investing)

⁹ Customer Satisfaction Index for Malaysia Banking Industry, Malaysian Productivity Corporation, 2017.

In 2010, ShoreBank declared insolvency in the face of a troubled asset ratio of 300% (compared to a national average of all banks in the US of 15%). The bank's model of socially responsible lending is premised on an ability to turn people with poor credit histories into profitable clients by offering care and attention to each loan.

Multifaceted root cause

An examination of its financial statements and accounts by relevant personnel show that ShoreBank was treading on dangerous waters through its **ambitious business expansion without sufficient buffer** to handle consequences of stressful event, i.e. the severe recession. An untimely, aggressive expansion at the height of the credit bubble, a persistent entrance into **risky markets**, and an **unwillingness to foreclose on troubled loans** form a concoction of disaster for the bank to the point that regulators had to intervene and order a major recapitalization.

Imbalances between social mission vs financial viability

Over-emphasis on the bank's social mission without considering the bank's capacity to manage risks arising from proposed business activities, have led to several bad practices that placed the entire operation at risk:

- i. **Asset quality management:** Despite the deterioration in loan quality, ShoreBank has steadfastly sought to **avoid loan foreclosures**. At the end of first quarter of 2010, the bank had amassed \$250.7 million in non-accrued loans – a tenfold increase from the \$22 million at the end of 2006. It also held only about \$2.5 million in real estate obtained via foreclosure at the end of March 2010.
- ii. **Asset-liquidity management (ALM):** ShoreBank **moved aggressively into brokered deposits** (i.e. fast-moving money that rebounds from bank to bank, pursuing high interest rates paid for deposits), which raise a bank's cost of funds and bring **instability to operations**. Over the period of three years, ShoreBank's brokered deposits increased nearly 40%, accounting for 30% of deposits – compared to 6% average among its peers.
- iii. **Weak capital position:** Total risk-based capital, an important measure of a bank's health, had fallen from 11 percent of assets at the end of 2006 to barely above 3 percent, a measure considered dangerous.
- iv. **Lax in governance:** "It was the desire to expand that got them into trouble," said Richard Taub, who advised ShoreBank's board of directors for nearly 30 years. He added, "ShoreBank suffered from an **overly zealous commitment to its original mission** and a **lack of scrutiny by the bank's board of directors**."

source: <https://www.nytimes.com/2010/05/23/business/23cncshorebank.html>