

CONVERSATIONS WITH MIKE MILKEN



Piyush Gupta

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Mike Milken: Piyush, thank you for joining us today.

Piyush Gupta: Very happy to join you, Mike. Looking forward to doing this.

And you've now joined a very successful club: the club of grandparents. Lori and I couldn't be more excited for you and your lovely wife with your first grandchild.

I have to admit it is a special feeling, and to have a lovely young granddaughter in the middle of this doom and gloom is like a ray of sunshine, so we are looking forward to it.

For our listeners outside of Asia or Southeast Asia, I think it would be good if we could just get an overview of the DBS group, its founding. And then when did you realize that COVID-19 was going to be a big challenge? How did you respond?

We were formed in the 1960s, about 50 years ago, as the Development Bank of Singapore, with the express purpose of helping the industrialization of this country. Since then, obviously, we evolved to become a commercial bank and today have a broad range of activities from corporate banking, retail banking, wealth management, investment banking, and so on. Still about 40% of our employees are in Singapore, half our businesses in Singapore, but the balance is now spread across 17 other countries, mostly

in the region. In terms of size, I think we're about number 40 in the world in terms of balance sheet, which means that if you physically picked us up and put us into the U.S., we would stack up just after Morgan Stanley and probably a tad ahead of most of the rest of the super regionals in the country.

Because we have a presence in China, our first encounter with the challenges of COVID actually happened in the third week of January, just around Lunar New Year, when our colleagues in China

started going into lockdown mode. Interestingly, our colleagues in Taiwan and Hong Kong reacted even sooner than that. Because Taiwan and Hong Kong had been so impacted with the SARS crisis in 2003, the public at large pushed the government to start bringing down the borders with mainland China. People started wearing masks in both of these countries very, very early.

One of the things that makes a big difference, and that's true in Singapore particularly, is the quality, not just of your testing, tracing, quarantine facilities, but ultimately the quality of your healthcare. In Singapore it's interesting that even though we now have about 20,000 cases, the actual number of fatalities are only 20. So that's 0.1%. It's the smallest percentage of fatalities. And that tells you that even if you do wind up getting the virus, with good medical treatment and good health systems, you can actually manage the virus relatively well.

In Singapore, our first direct engagement effectively happened, I think, the 11th of February when we had our first case of the virus. We pulled out our business continuity plans (BCPs). I started conducting alternate-day BCP calls with the entire group, all of the region, and we pulled out all the stops. We've been somewhat advantaged because all of our digital transformation work over the last several years has proven to be extremely helpful. When we had our first case, we were – within 24 hours – able to set up a protocol for testing, tracing and quarantining. My data analytics and AI team was quickly able to pull together data which used things like turnstile-tap data, door-tap data, Outlook calendar data, internal WiFi data – and establish quickly who had been the first degrees of contact for the infected persons. We call them the first degree of separation. Then they did the same thing for the next level, and we created a second degree of separation, and then finally a third degree of separation. We set up a protocol where the first and second degrees of separation were immediately put into home quarantine for two weeks.

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We started providing all of our colleagues in every country personal protective equipment immediately. That included masks, sanitizers, thermometers, temperature check, and so on. This was more challenging than it appears, because as you remember, through February, most countries either did not have enough supply or even if they did, they started putting export bans into place. So our procurement people had to look and be very creative about where we could source this PPE from. It was not an easy exercise, but we were able to achieve it. The confidence it gave our own people – the fact that we were able to provide them equipment, we were thoughtful and thinking about their health and safety – was actually very, very beneficial to us.

The other thing we did through February was dialed up our digital access tools for all of our customers. We already had a very advanced digital set of products – mobile banking, et cetera – but with all of these, there were always some gaps. I call them the last mile. And so within four weeks we built digital bridges where we thought there were gaps which would prevent customers from using our tools as quickly as they could.

Let me recall a visit to your office many, many years ago. You asked me, Mike, who do you think our major competitor will be in the future? And I'm thinking, well, there are a few banks that have as many as 10,000 employees in Singapore. And while I'm thinking, you immediately told me you thought it was going to be Alibaba. Then another year you said, well it might be Tencent. And then you went back to Alibaba. As I think about how you've been able to operate throughout Asia, I have to believe your views many years ago that your major competitor in the long run would be digital companies like Alibaba and Tencent, how did that prepare you for what's occurred?

Mike, I still continue to believe that today, every company, every industry is really a technology company at heart. In our case, a technology company offering financial products and services. If you start thinking like that, then it enables you in two important ways. One, it enables you internally. Not just the technology capability of the company, but the psyche of your employees, that changes. And it empowers you and prepares you to be able to handle everything without paper, to digitize everything, and more importantly to start thinking about things like using data and using artificial intelligence as a way of life.

The second way it prepares you is in the external interface. In the last five or six years, our percentage of digital access customers has increased dramatically. We actually have a whole range of programs to incentivize customers to give up paper, give up physical forms of interaction, and

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move to digital forms of interaction. And so when a crisis like this happens and you then create and accelerate some other interface and interaction mechanisms, as you go out and communicate to customers that this is an easier way to deal with the bank, in the last few months our digital volumes have just gone through the roof. Not only has it improved life for our customers, frankly it has also improved our own business prospects because our market share has gone up in the last six or eight weeks because it's quite clear the customers find it easier to deal with us with the tools that we have made available to them.

You and I have looked at business, banking, and finance in many ways over the years. And one of the things I've particularly enjoyed is our discussions about the ramifications in society and what's going on in terms of access to capital and economic opportunities. First focusing on the economy and what's occurring, how is that affecting the political issues such as moral hazards as to who survives and who doesn't? How does this lead to social change? What is the response going to be?

From a macroeconomic standpoint, it's quite clear that there is more-massive demand destruction than we have ever seen, and the scale of the economic problem is not

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consistent. It varies by country. Some countries just have the economic wherewithal to be able to do a lot more fiscal pump-priming as well as put more money into the system.

Perhaps most of all, it is the man on the street – the consumer. The amount of job loss you will see coming out of this crisis is going to be very significant. Even

though the governments are trying to buy time, in the longer term they're kicking the can down the road. If the virus is short-lived, that's an effective strategy because over time companies will come back and people survive. If the virus is long-lasting, which I personally think might be the case – it might be a two-, three-year scenario – then the line between liquidity and solvency starts blurring. So while they can buy time maybe this year, what happens next year? You will start seeing a much broader range of bankruptcies, which will then start spilling over into the financial system as well.

There is also, in this whole government response, a lot of moral hazard. It's the right thing to do in the short term, but there is no question that as you think longer out, people are already making choices and decisions – who gets to survive, who doesn't get to survive? – and the social backlash will wind up with looking for somebody to blame. It'll either be, can we blame China, or can we blame the rich people, or can we blame the

companies? A second challenge will be that as companies start failing, governments will realize that they need to keep the basic bulwark of the economy in place, and so in addition to debt, the government is going to start having to put equity support into several companies.

When I think about how you've responded and your views of the world, I think you can understand why at the Milken Institute and our medical foundations and our family foundations, we have reoriented our efforts to accelerate work on medical and health solutions. At this time, on our tracker at milkeninstitute.org, we're monitoring more than 200 different therapies; 100 of those are vaccines. And as you've said, we need to make sure this is not a 2021 or 2022 problem because, as you've outlined, the economic, political and social effects have the potential to be so devastating. But one of the things that's coming out of this going forward, I have to believe you are rethinking the way DBS operates. How do you see this changing the way you lead DBS?

I think society is going to want to ensure they understand why the company exists and what the company's true role is, so getting a license from civil society will be even more important in the future than it has been in the past. Fortunately, at DBS – because we were created for the specific role of helping development, et cetera – this idea of purpose is deeply embedded in our DNA, so we were positioned. But I think this as something most large companies and corporations will have to think very hard about.

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The second way things will change is, what amount of work happens remote, working from home? Do we really change our physical premises? Do we need branches? I do believe that all of

this is going to be reevaluated in substantial measure. Productivity works in the short term, but will productivity be consistent in the long-term? Already there are some things which we think are easier to do away from office. But when it comes to more creative stuff, starting things anew, afresh, I think productivity might not be able to keep pace certainly for what we can see right now.

The second big challenge, which we're struggling with right now, is this idea of how much risk are we prepared to take in letting people work from home at scale. There is no question but that we have dialed up our risk appetite. What all of this means to an increased degree of cybersecurity and cyber-risk is a third dimension that we are not entirely clear about at this stage.

So I guess the answer to your question is that we are going to be experimenting with a lot of these things. I'm convinced that the world will change, the method of working will change, but how far it gets, how rapid the change is, and what the most productive way to approach it might be, is something which I think we will only learn with time.

You recently wrote a [thoughtful piece](#), which I read in the *Financial Times*, focusing on balancing data privacy and collective action. This becomes particularly important during times of crisis. How do you see this balance playing out?

Mike, as a general rule, I think that when we – as human beings, as mankind – come together in societies, we agree to some basic principles that some things are best left to the collective to do. That is the premise on which we create a police force as opposed to each individual being responsible for protecting himself or herself. I believe that data in some ways and at some times falls into the category of a collective or a public good. But data is peculiar because most people value personal privacy. I would argue that most times your right or your requirement for personal privacy trumps other kinds of needs. But a pandemic is a great use case when it becomes quite clear that sometimes the needs of the collective, the needs of society, trump the needs of the individual. You might not want anybody to know where you went, but if to facilitate contact tracing and quarantining for the good of society it is important for people to know who you are in touch with and whether you could be infected, well then it seems to me that that's defensible and arguably a good thing for society to do.

We already do this in other contexts. When we have immigration control at our borders to prevent terrorism from coming in. When banks use Know-Your-Customer protection mechanisms to prevent money laundering. These are good examples when it becomes quite clear that collective broad use of data is beneficial to society. So I think there will be situations and circumstances when this will happen.

My own view to data is that in the long term, just the volume, variety and velocity of data is such that we will have to start thinking of controlling data – not like we control a gun, but like we control a knife. A gun is controlled *ex ante*, through notions of notice and consent and registration and control. Whereas the knife you can go buy in the neighborhood store, but the knife is controlled through the idea of context and use. If you use the knife to stab somebody, you go to jail. If you use the knife in the right context for the right purposes like

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eating your food, it's okay. I think we'll probably wind up with a net use of data which is not dissimilar – that there will be situations where the context will allow you to use data more completely and other situations where it will not be acceptable.

I think it's a very interesting analogy. I had not heard that one before. I'd like to turn to a whole different subject, and this is one over the years we've spoken about and one that I think is near and dear to your heart, and that is what might happen to India and Africa in this coronavirus crisis. At the moment, these regions have been somewhat of a surprise to the world in regard to the number of cases and what's occurred. Why did these regions surprise us when we expected so many cases and so much potential devastation?

Mike, it's hard to say. Each of these regions has followed different strategies. India went through a really comprehensive and in some ways economically devastating lockdown. In large parts of Africa, different countries followed different programs, but nobody had a really comprehensive lockdown either. Nevertheless, all of the regions you've seen that the number of cases of the virus are low – and more importantly the death counts are very low. In the case of the virus, you can argue that testing is not very good and it's quite true – these large countries with large populations not being tested will result in a fewer number of cases being found. But I would argue that the number of fatalities is more easy to get your head around. If people are dying because they're not able to breathe, by and large in most of these countries that statistic would be picked up. And the truth is you're not seeing a lot of that, either.

So there is some other force at work which is keeping the number of cases and the fatalities in these countries much lower than you would expect normally given the population, the

density, and the number of people crammed into small surroundings in these countries. My own sense is that it's one of two or three possibilities. One is just this whole idea of heat and humidity. It might have a bearing on the fact that the virus has not been as extensive in these countries. Somebody asked me why would that not apply to Singapore? The fact is that in Singapore, everything is pretty much air-conditioned. And even though it's a hot and humid country, most people are indoors in air-conditioned environments. That's not true in India and Africa. So that might be the case. There are other theories as well, whether it is the fact that everybody in these countries still gets inoculated for BCG [the bacillus Calmette–Guérin vaccine for tuberculosis], or whether malaria is so prevalent in these countries that they build some immunity systems. I'm not a scientist, so I can't speculate on what the answer is, but I think it is definitely true that the incidence of this disease in these countries has been surprisingly low.

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Lastly, one of the things that we've discussed, and I think it might be more relevant today than ever before, is the fact that for so many companies, it's not the financial balance sheet that you give, but the talent of your people, the human capital – the human potential, your training, et cetera – and the social capital that's created in what your organization stands for. These are things you never find on the balance sheet. And as we've discussed over the years, the only industry that truly puts their people on the balance sheet is professional sports, which has player contracts that might or might not be accurate in reflecting the people's ability. How do you look at a financial institution when on the balance sheet you don't see the people, you don't see the social capital, you don't see what you stand for and what you've created as a mission?

It's a good question. The reality is that whether it is human capital or social capital or even natural capital, this doesn't come into the accounting, the GAAP-based accounting structure that we have all built and live by. As a matter of fact, most public goods don't come into this measure because this measure is generally focused on traded markets, and therefore it tends to focus on privately traded goods. Public goods, as a consequence, get disregarded.

I think one of the things the pandemic brings sharply into focus is the importance of something like public health or the role of the government in that regard. I think as we go forward the big issues and challenges of sustainability and climate are going to also further accentuate the need to think about, how do you value public goods like environment, like climate, like carbon emissions? So my own view is that there's a lot of nascent effort right now in trying to capture some of these non-captured goods onto alternative mechanisms of accounting – fact-weighted accounting, it's sometimes called. I think this is going to pick up some degree of momentum. One of the problems is that these are not easy things to do, and there are no globally accepted standards, and therefore everybody tends to do their own thing. But I think it's only a matter of time before the world starts developing some protocols to better measure and capture some of this on alternative methods of value and accounting. I think we will slowly and surely have to get there.

It was more than 50 years ago that I developed my own theories really heavily focused on these areas. Of the hundreds or thousands of companies that we backed or financed over the years or I still am involved with, to me the most important factors in investing in those companies or financing those companies were the people that work for them, what they stood for, what their mission was. In looking at many of the great entrepreneurs I've had a chance to participate with in building their companies over the decades, it was the decision on which individuals to back in the long run that made the decision. Is this an area that, as a financial institution, you have flexibility in – determining how important is the management team, the people, their mission statements, where they stand on the environment, or other issues – in deciding whether to financially back these companies?

When I started my banking career, for credit underwriting we were taught the “five Cs” of credit, and many of the Cs still exist: cash flow, collateral, capital, and so on. The first C we were taught was called character, and character over the years I've extended to embrace some of the things you talk about. It is really management capacities, management approach, management philosophies. And so for us at DBS, this whole understanding of the people we are backing continues to be front and foremost in our thinking about who to work with and who to support. This is not going to change.

I want to congratulate you on your activities. They were so focused on the health of your own employees, the access to capital for your customers, and your commitment to excellence. And I want to once again thank you for joining me, and congratulate you for entering the world of grandparenthood.

Thank you, Mike. I enjoyed doing this.
