The Economist INTELLIGENCE UNIT

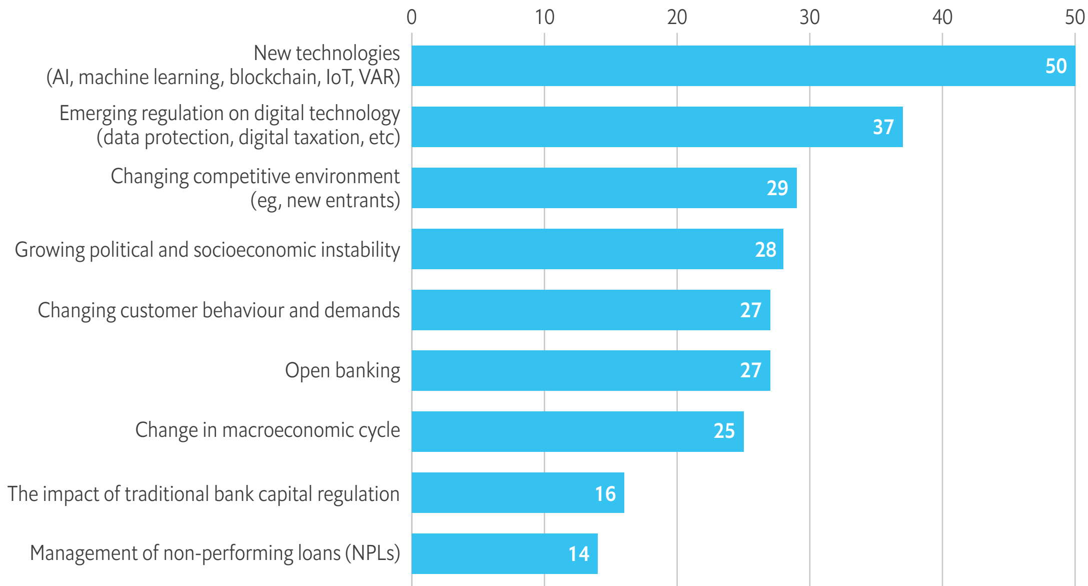
A WHOLE NEW WORLD:

How technology is driving the evolution of intelligent banking in Asia-Pacific

The Asian banking scene is digitising fast, spurred on by the growth of Alipay and WeChat Pay in China

Across the Asia-Pacific region, governments and regulators are already implementing new strategies to digitise their economies and boost social inclusion. Faster payment networks are spreading, facilitating the adoption of mobile payments and the development of open banking. With mobile payment infrastructure and services already embedded in major economies, Asia-Pacific banks are looking to the next challenge. Digital technology regulations lag other regions but are under review (37% of respondents believe that emerging data regulation will have a major impact on the banking sector) as Asia looks to modernise, diversify and dilute its dependence on international trade.

Chart 1: Which trends do you believe will have the biggest impact on retail banks by 2025? Select up to 3
(% of respondents)



Source: The Economist Intelligence Unit.

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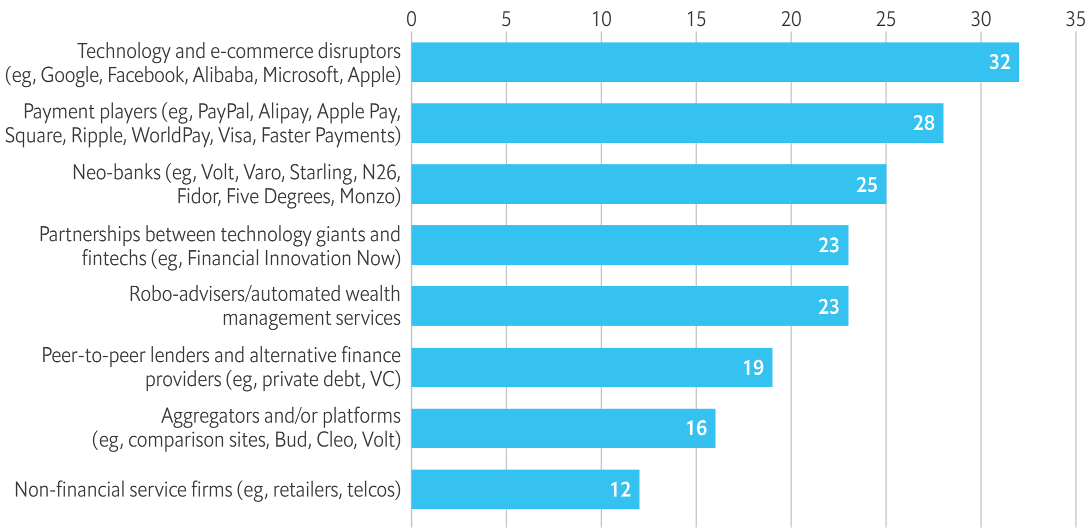
The race is on

In markets where mobile payments have already taken root, banks and payment processors are battling tech companies on two fronts. They are working to retain their own retail card and current-account customers and attract new users to their apps and e-wallets. They also need to get and keep merchants on their side if they are to reap the economies of scale from a high-volume, low-margin sector.

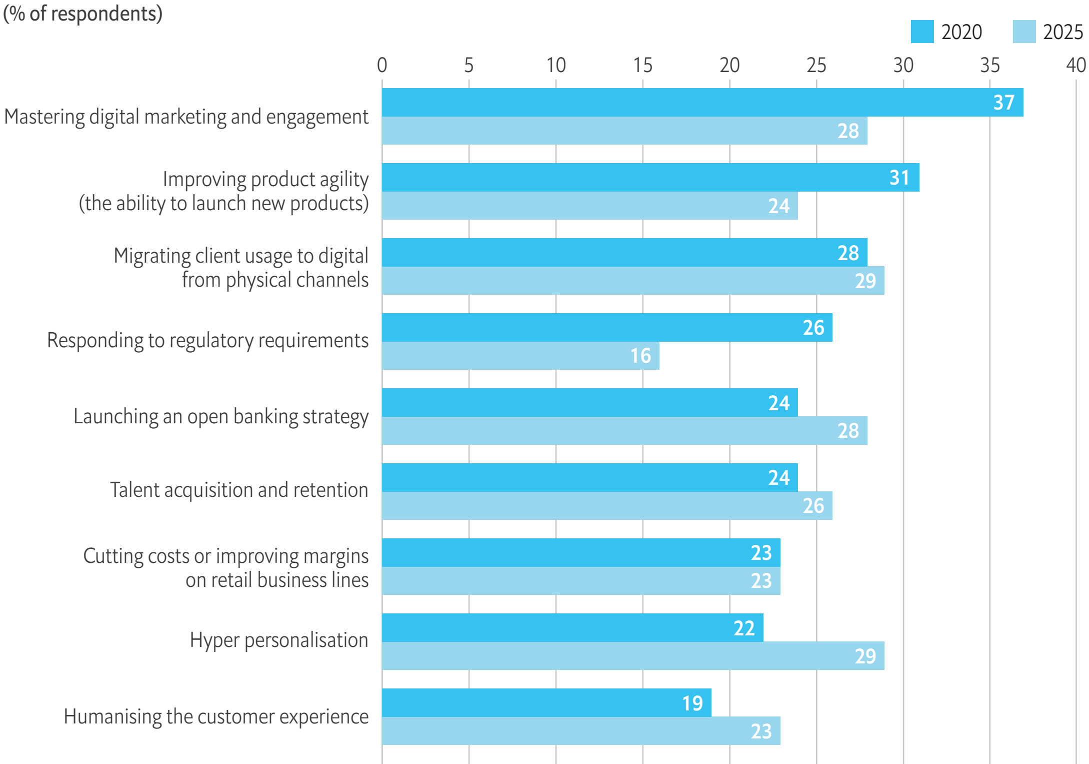
Chart 2: Which non-traditional entrants to the retail banking industry will be your company's biggest competitors by 2025? Select up to 2
(% of respondents)



Source: The Economist Intelligence Unit.

Competition is intensifying between payment solutions based on application programming interfaces (APIs) and pre-loaded and credit card e-wallets. That may explain why survey respondents see an immediate need to master digital engagement and marketing (37% for 2020) to pull in users and merchants. They also need to be able to respond quickly when Alipay, WeChat Pay, Google and WhatsApp introduce new features (31% for 2020).

Chart 3: What are your top strategic priorities by 2020 and 2025? Select up to 3
(% of respondents)



Source: The Economist Intelligence Unit.

In India, app providers are already offering cashbacks, discount vouchers and other features to gain and retain market share. This may leave the smaller players vulnerable, particularly when all that is required to switch services is downloading an app. It is therefore likely that consolidation of this sector will follow. As Vijay Shekhar Sharma, founder and chief executive of Paytm, has pointed out, payments are merely the moat around other, more profitable services.[1] The players with deep pockets will outlive their weaker competitors.

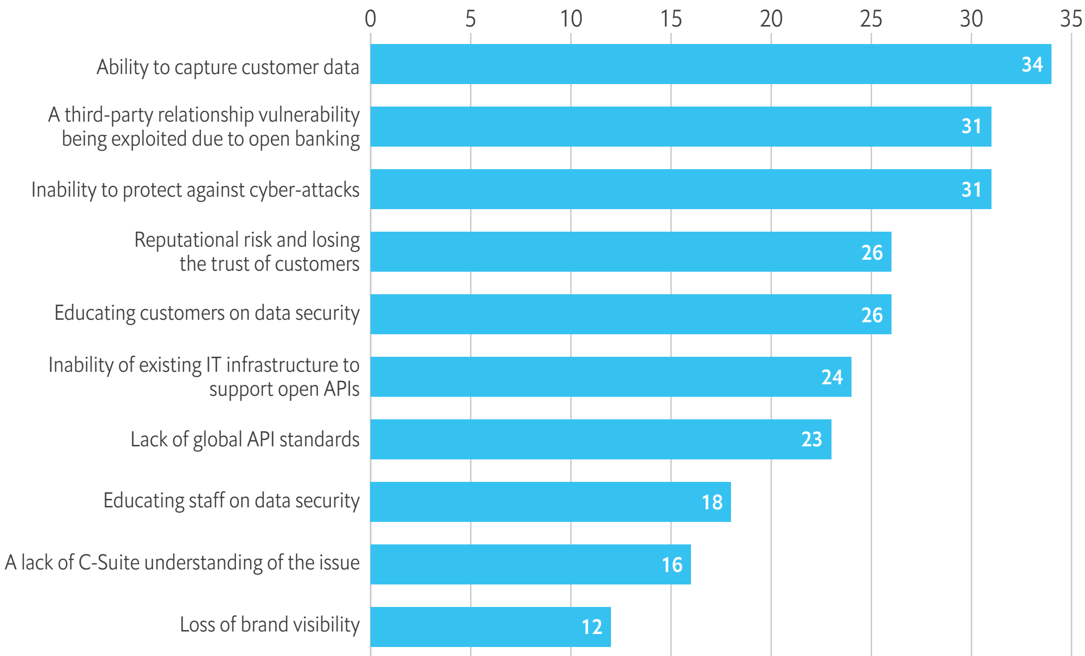
The Monetary Authority of Singapore was met with similar concerns that disruptors would leave the banks unprofitable when it first suggested the introduction of open banking. When the regulator pointed out that tech and fintech firms could already offer faster, simpler and cheaper transaction services, the banks agreed to collaborate on upgrading the banking system, providing all stakeholders operated within the same regulatory environment.

[1] India's most popular services are becoming super apps, Tech Crunch, May 10th 2019
https://techcrunch.com/2019/05/10/india-super-apps/

Singapore is set to follow Hong Kong with virtual bank licences; ride-hailing app giant Grab is likely to be among the first applicants. That may worry established banks, but the question remains whether the big tech providers have the capacity to tie up capital in establishing their own bank operations. It is also not clear if they really want to expose themselves to the reputational risks that service interruptions or bad service present if they are the sole provider of such services. Grab already offers loans through a Japanese bank and recently signed up with Citibank to offer branded credit cards.[2] If either of those services fail to deliver to consumers, the banks, not Grab, face the wrath of consumers and regulatory authorities.

Yet all Asian regulators are acutely aware of how Alipay and WeChat Pay were able to create an effective duopoly in an unregulated market. Chinese authorities are now bringing in new laws to level the playing field. Other authorities want to lay down the rules first, before such corrective action needs to be taken. As a result, the Chinese payment giants may find new markets tougher to crack when they must operate under tighter licensing and data protection rules.

Chart 4: What are your main concerns about open banking? Select up to 3
(% of respondents)



Source: The Economist Intelligence Unit.

[2] Citi and Grab Announce Launch of Citi-Grab Credit Card, Citigroup, June 11th 2019
https://www.citigroup.com/citi/news/2019/190611a.htm

As Steve Weston, co-founder of Australia's Volt Bank, says of the Australian Prudential Regulation Authority: "The regulators are focused on ensuring that all banks, including new entrants, are operating in a prudent manner."

The digital challenger understanding its customers needs

The founders of Volt Bank, Australia's first neo-bank, were fast movers when the country announced it was introducing more competition in banking. They decided to apply for a banking licence six weeks after the Government announcement.

Volt Bank aims to offer own-brand core products and a host of third-party aggregation and comparison services when the bank launches later this year. "It's a more comprehensive business model, one we think will get to break even sooner than a player offering a single niche product," says co-founder and CEO Steve Weston.

Volt Bank will rely partly on the profitability of Australian banking. As net interest-rate margins are fairly high, there is money to be made in standard deposit and lending products. Mr Weston hopes to leverage that profit potential by helping customers manage their finances better. "Customers are saying to us that they want someone who understands what they are trying to achieve in their financial lives and who helps them achieve those goals. For example, they say 'Don't just give me a savings account, actually help me save'," he says. The Volt Bank team is currently experimenting with new features, including allowing customers to block purchases at certain retailers to help them control their spending.

Customers may even receive a subtle reminder not to visit the pub every Thursday night if they want to hit their savings targets. "Some of our competitors may say we are treating customers like children, but it resonates incredibly well with those who don't feel they are currently being supported by the banking sector," says Mr Weston.

Digital is gathering pace

Faster payment and mobile payment systems are now running or in development in China, Singapore, Hong Kong, South Korea, India, Australia and Malaysia. Even Myanmar, one of the most cash-dependent nations in the region, is already planning a unified QR (quick response) payment architecture ahead of the inevitable switch to digital payments.[3]

Banks should not just upgrade their architecture to match the frantic pace of change; they may have to focus on the data technologies that will power their growth and maintain profitability in the next five years.

> **"Technology is value neutral, it is the use-case that drives the magic from it**

The introduction of such new technology logically leads to higher-than-average respondent concerns about customer data capture (34%) and cyber-attacks (31%).

Although most think Asian customers will be willing to forgo human contact for cheap or free banking, customers will no more sacrifice their confidential data than any other bank user around the world.

In fact, for 43% of Asian respondents, the main concern relating to artificial intelligence is uncertainty around the security of their personal financial information.

Bidyut Dumra, head of innovation at DBS Bank, says there must be a clear customer-led reason to adopt any emerging technology.

"Technology is value neutral, it is the use-case that drives the magic from it. That is why we are very focused on the experience we can build over it. Emerging tech allows us to revisit things we couldn't do before and also re-look at thinks we can do better," he says.

As biometric technologies mature, voice recognition could improve the banking experience too.

"If you look at automated interactive voice recognition, it enables an authentication and verification process to drop from 80 seconds to around 40 seconds using voice biometrics. The magic is an intuitive frictionless experience," says Mr Dumra.

DBS is also exploring optical character recognition and natural language processing as part of its plans to automate the banking experience. Some technologies could find surprising use-cases. Mr Durma says that sensors in ATMs could alert the bank when a customer's card is swallowed by the machine, allowing the bank to contact the customer first before receiving an angry call.

Regional connectivity

Despite the lack of cross regional regulations, individual payment networks are linking up to provide instant cross-border payments to retail and business customers.

Indonesia, Malaysia, Singapore, Thailand, Vietnam and other nations are working

[3] Unified QR Codes and the promise of a cashless Myanmar, ASEAN Today, May 9th 2019
https://www.aseantoday.com/2019/05/unified-qr-codes-and-the-promise-of-a-cashless-myanmar/

The two-app strategy

Customer trust in banks is key in the battle to ward off tech competition for attention and transactions.

DBS Bank has a two-app approach to the increased digitisation of life in Singapore. Around 3m customers already use its standard app for everyday banking. Over the past four years, the bank has also built its PayLah! platform as a home for transactions and lifestyle services, regardless of where users hold their bank account.

"We are best-positioned place to create a business platform, as we can get the service provider to understand how we can optimise for their payment operations and what it really means to their customers who wish to consume their services," says DBS Bank's head of consumer banking in Singapore, Jeremy Soo.

With over 1m users, PayLah! offers seamless payments on services ranging from cinema tickets to ride hailing. Mr Soo says being integrated with DBS's infrastructure gives a better return on the customer experience.

Shoppers at Singapore's VivoCity mall now get instant rebates on their purchases that they can use to offset their parking charges automatically via DBS PayLah!. Cinephiles don't need to key in their card details when booking tickets for the Golden Village movie theatre chain on PayLah!.

"The higher the 'stickiness' for day-to-day services and daily payments, the higher customers' preference for DBS to be their primary bank and their payroll bank," Mr Soo says, adding that there are benefits for all parties in banks investing in lifestyle technologies, providing data are handled correctly and customers are not bombarded with offers. The focus on trust and security should differentiate PayLah! from big tech competition as more services are added to the platform.

"Data privacy and security are of utmost importance to us, as a bank. We are careful with our customers' data, even as we connect the dots and leverage insights from their data to create contextualised offerings and omni-channel experiences for them," says Mr Soo.

together to connect their real-time payment systems and build common API platforms. The absence of common data policies or pan-national regulation, such as the EU's General Data Protection Regulation, should not be the big barrier that many people think. The principles of transparency and customer permissions for data to be used and shared should prevail. Australia's new Consumer Data Right is a step in the right direction.

"One good thing about the digital economy is that the ability to implement is much simpler and far more impactful and standardised than in the physical world. Programmers speak the same computer language so interconnectivity is not the issue. But how do we ensure every country shares a common data policy? That is what we need to work on, [in order to] all move in the same direction. This is how I see the policy thinking and alignment shaping up in the near future," says Sopnendu Mohanty, chief fintech officer of the Monetary Authority of Singapore.

Top-down digitisation

The Monetary Authority of Singapore (MAS) started mapping its approach to digital financial services in 2015, with new policies to encourage trust, tech development and talent.

To establish trust, the country has plans to build digital IDs for individuals and businesses, as every economic transaction is payment-led. The MyInfo service is already in place, allowing citizens to store and verify their personal information digitally and use it when applying online for government services or with financial services providers. It comes with a customer consent architecture so that people can control when their information is shared with third parties. Public infrastructure followed, linking identities to the real economy through payment systems and know your customer (KYC) processes.

Faster payments and QR payment codes are already up and running. MAS keeps a close eye on adoption of the peer-to-peer mobile payment and transfer service PayNow launched in 2017 by the Association of Banks. User numbers have increased tenfold in the past two years, but the regulator will take action if weekly numbers dip.

"In digital, failure is obvious. People are very brutal. If they see no value, they will not use it," says Sopnendu Mohanty of the MAS.

In general, customers appear to prefer innovative ways to pay, but there have been a few missteps. Customers are quick to take to social media when network glitches strike.[4]

The e-KYC initiative makes life easy for retail customers to sign up for new products, but has yet to catch on among corporate customers.

[4] QR code payments by some deducted twice during glitch, The Straits Times, October 23rd 2018
https://www.straitstimes.com/singapore/qr-code-payments-by-some-deducted-twice-during-glitch