



The Future of the Digital Banking Experience

in Asia Pacific





Have you ever been personally asked what you want from your digital banking experience and the type of journey you want to take? It seems like a simple question that would be commonplace as we continue to embrace technology for our finances. It would seem reasonable to assume that banks have undertaken this unassuming exercise as they invest heavily into digital banking platforms and services. Yet few have and few really know what their retail customers want – at least that was our hypothesis.

Yes, banks have lots of data about customers and many are striving to use it to be more “customer centric”. In our view, however, that should really be a euphemism for trying to “sell more products”. While great strides have been made in many areas, most banks in Asia Pacific do not have a crystal-clear view of what the digital banking experience should be today and how they’ll evolve in future. Ask your own executives and teams - do they all have a clear view that aligns?

We decided to investigate and test our hypothesis via a comprehensive research project run in 2019. Tech Research Asia (TRA) surveyed over 2000 consumers in China, Hong Kong, The Philippines and Australia. We also asked over 100 individuals in face to face video interviews in Sydney, Manila, Shanghai and Hong Kong what they thought about their current digital banking experiences and what they want in future. This report introduces the results of this research and offers guidance to banks and other organisations looking to improve their digital experience.

In every Asia Pacific market, the banking experience has changed forever. We’ve gone from analogue and in-person experiences of lining up at branch offices, to transferring and paying online and with mobile devices. These experiences are different in every market and far from uniform even within countries. But the real question is are they the right experiences that add value not just to the bank’s bottom line but also the customer’s life? Our research results help answer this question and give some guidance on the next steps to take to ensure better digital banking experiences.

The research results below are split into three sections. Part 1 explains what Asia Pacific customers expect from their digital experiences today. Part 2 outlines three influential trends that will impact banking on the near horizon. While Part 3 introduces what they desire in future.

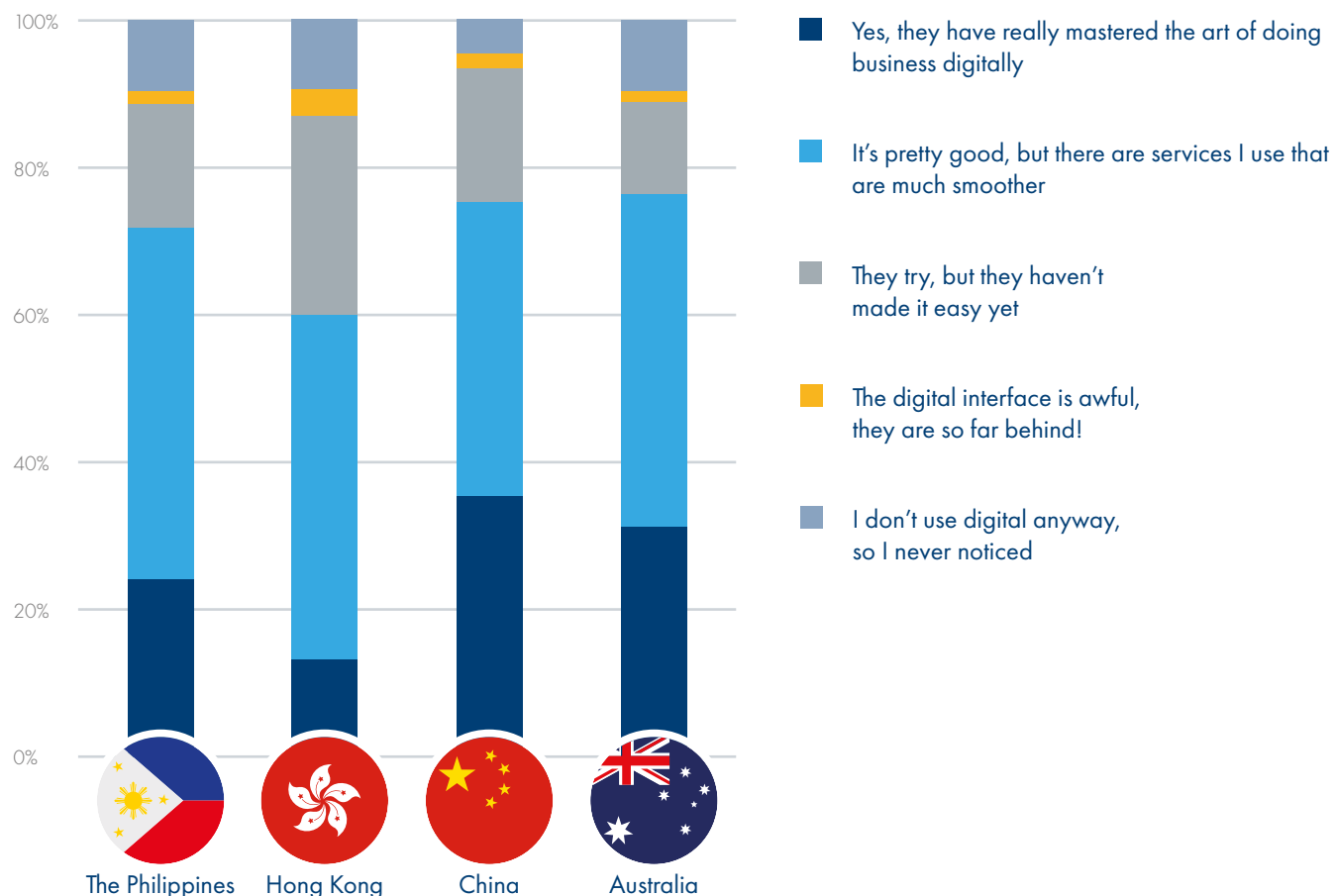


What Needs to Be Delivered Now?

The survey results and qualitative video interviews uncovered the following points about the Asia Pacific digital banking experience today:

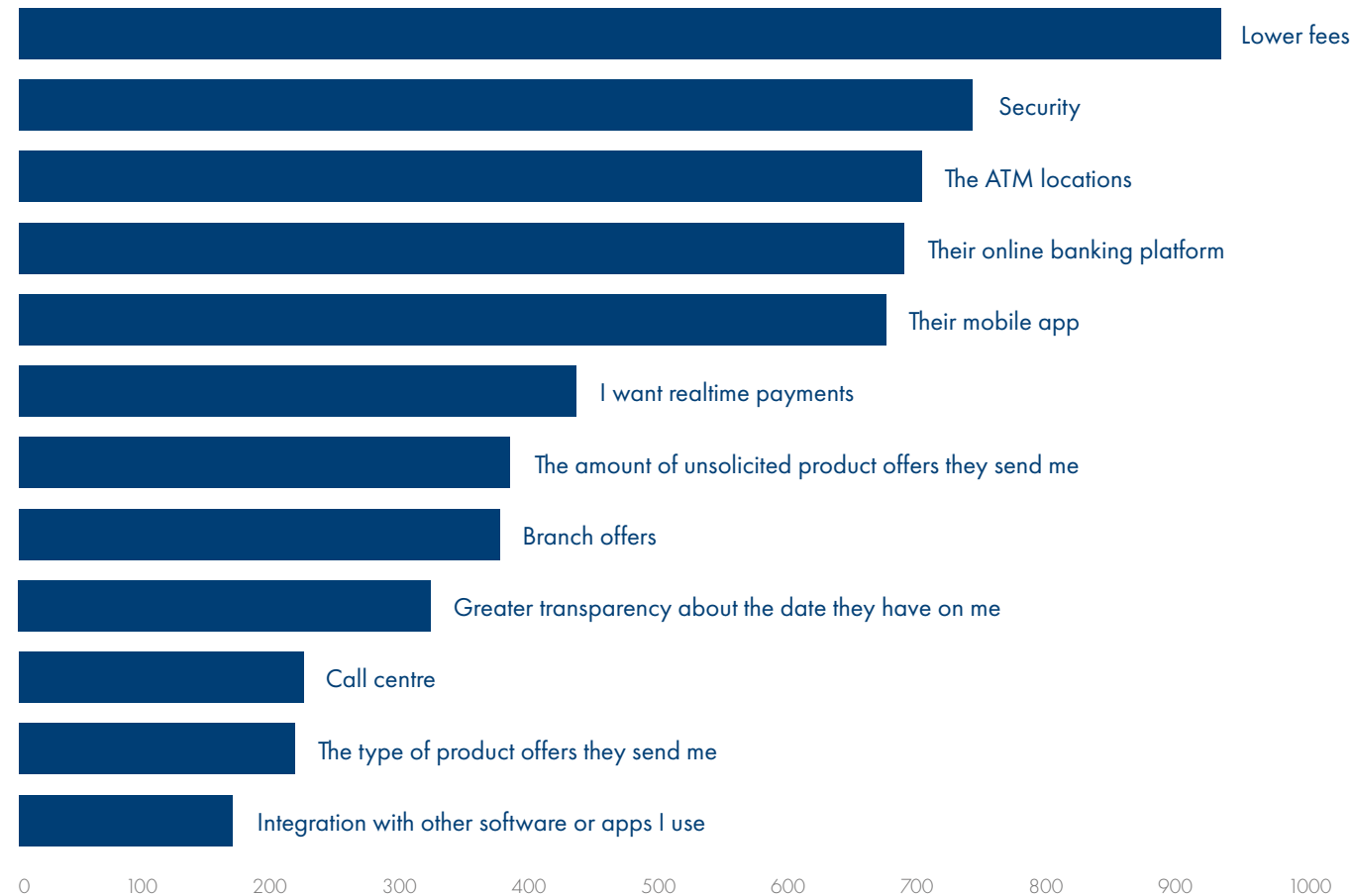
- 37% have an account or service with three or more banks; 7% of this have relationships with five or more. 40% have opened an account on the internet or on a mobile banking app in the past 12 months.
- Between 61% (in HK) and 81% (in Australia) said it was easy enough or very easy to communicate with their bank. The top three channels for communication were via a mobile app, email and then phone calls. Notably, 16% of Australian customers said they also wanted to communicate in a branch office. This was true for only 6% of respondents in China. The least favoured communication channel was a chat bot or virtual assistant.
- When asked to indicate their level of trust in their banks on a scale of 0 to 5 (where 0 is no trust at all and 5 is highly trustworthy) 10% of Australian respondents gave a rating of 2 or less. Hong Kong respondents also had approximately 5% that gave a rating of 2 or less. 70% of all respondents say their level of trust has remained the same over the past 12 months and almost 20% say it has improved.

The digital experience with my bank is among the best of any product I use - do you agree?



- Less than 4 in 10 say that their banking digital experiences are as good or better than other digital services they use. Hong Kong respondents were the least satisfied with their digital banking experiences. Qualitative video interviews also reflect the data findings. In Australia, interview participants frequently complimented the banking mobile apps and, in the Philippines, customers noted the improvement in transferring funds. However, in Shanghai and Hong Kong participants noted they were frustrated with current services.
- The chart below outlines the main areas that survey participants said they would like their bank to improve. Leaving aside "lower fees", which is to be expected, it is clear that better security is top of mind. However, almost a third of respondents also would like improved mobile apps and online platforms – echoing the results from the chart above. Furthermore, ATM locations are an issue particularly in Australia and the Philippines. One in five also note they want real time payments.

What service or thing about your bank would you like to see improve?





What does all this tell us?

The survey results give us a brief but intriguing view of the current state of affairs for Asia Pacific retail banking customers. We know they generally have multiple accounts with more than two banks, and have an appetite to open more accounts. Meaning they are open to changing providers or for taking on additional products. We know they trust their banks – although there is a small percentage in Australia, in particular, that is unhappy. Further to this is that there are challenges with communication with 4 in 10 Hong Kong respondents saying they have trouble engaging their bank. Aside from chat bots or virtual assistants, survey respondents indicate they want both digital and in-person channels available. While it may make sense from a cost per interaction view point to push customers to digital channels (which can be cheaper) customers want the option of in-person or on the phone. Providing this human element may also help recover what many video interview respondents felt was too much of a focus on the sales transaction (that wasn't delivering them much value).

Although banks have come a long way with their digital offerings – and video participants noted they generally like mobile apps and transaction capabilities – the majority of customers believe services or experiences from other types of organisations are better. Banks still have a long way to go before they are considered digital leaders. In particular, increased security, real time payments, and improved apps or online platforms are wanted. So too are better ATM locations and branch offices. In short, the digital experience can't be the only focus of improvement – it needs to be a holistic approach.

What Are the Near-term Influential Trends?

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As part of the research effort we also investigated some of the main trends that are commonly thought to be impacting the banking industry going forward. We present the results for three of these trends below.

1. Open Banking

"Open banking" is about using APIs to allow 3rd parties to access information or data about the customer accounts that banks hold and to give the account holders more control over that data. It originated from an EU initiative to integrate the region's payments systems and has its explicit roots in [Payment Services Directive \(PSD 2\) – Directive \(EU\) 2015/2366](#). This law came into effect in January 2018.

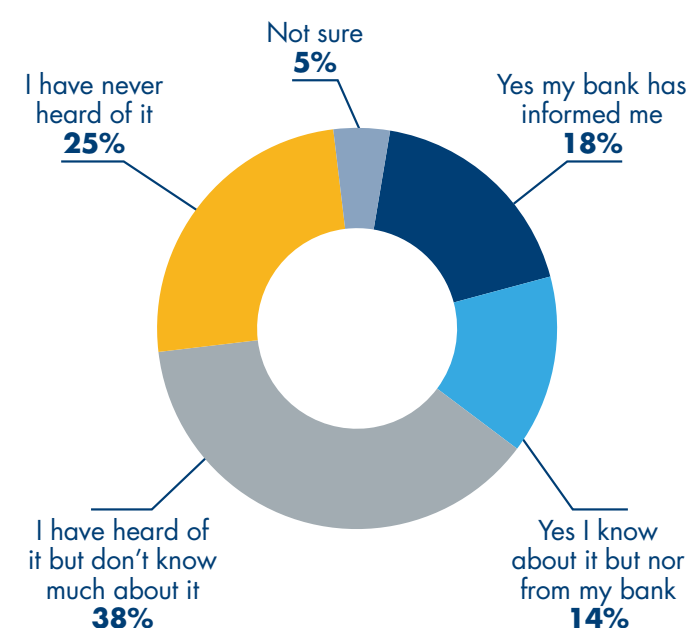
Further, in 2016, the UK's Competition and Markets Authority (CMA) published a report that said its banks don't face enough pressure to compete for business and the market lacks newer players. From that point the country went on the offensive and directed nine of its largest banks to adopt open banking; the first services commenced in March 2017. This effort is now overseen by the [Open Banking Organisation](#) and has standards for data sharing and security along with a blossoming marketplace of start-ups and incumbents offering open banking services.

Why is this important for Asia Pacific? Because most countries are either following this lead with their own legislation (e.g. Australia and Hong Kong) or have markets that are emulating the API banking economy organically (China and to a lesser extent the Philippines). To reiterate, open banking is meant to give customers more service options – potentially via 3rd parties – and more control over the way their data is used. When asked whether they are aware of this possibly significant market change, 68% said they don't really know anything about it. Notably, the highest levels of awareness were in China and the Philippines were open banking is happening organically.

However, while awareness is low of "open banking", survey respondents indicated they were already using or would like to use many open banking-related services. For example:

- over 60% of participants said they use or want to use a service that "lets me pay my friends or family directly";
- over 60% of those in Hong Kong and China said they would like to use a financial management tool to help with savings or spending;
- 40% of Australian respondents said they want to use a comparison site for choosing products or services;
- and 60% of Philippines respondents would like to use an aggregation service that lets the sees all their accounts and transaction history from all the bank services in one app or website.

Are you familiar with open banking?



Notably, almost 9 in 10 say they would like to use an open banking service from their current bank – while start-ups are attractive to less than 1 in 10. This indicates a strong opportunity for banks to embrace open banking and expand their competitive moat. Given the traction that services already have today, we do not expect interest and adoption to slow down in the near future. Thus, there is a risk of losing customers if banks do not pursue the open banking opportunity.

2. Security and privacy of data

Globally there has been more privacy legislation implemented in the past 10 years than at any other time in history. Considering the volume and type of data that banks collect, store, and use the industry has been a key target of these laws and compliance efforts have been extensive. Moreover, in our view it is no overstatement to say that across the Asia Pacific region information security is a top priority. Combined, these two interrelated issues show no sign of slowing down in terms of the impact they will have on banking performance and reliability.

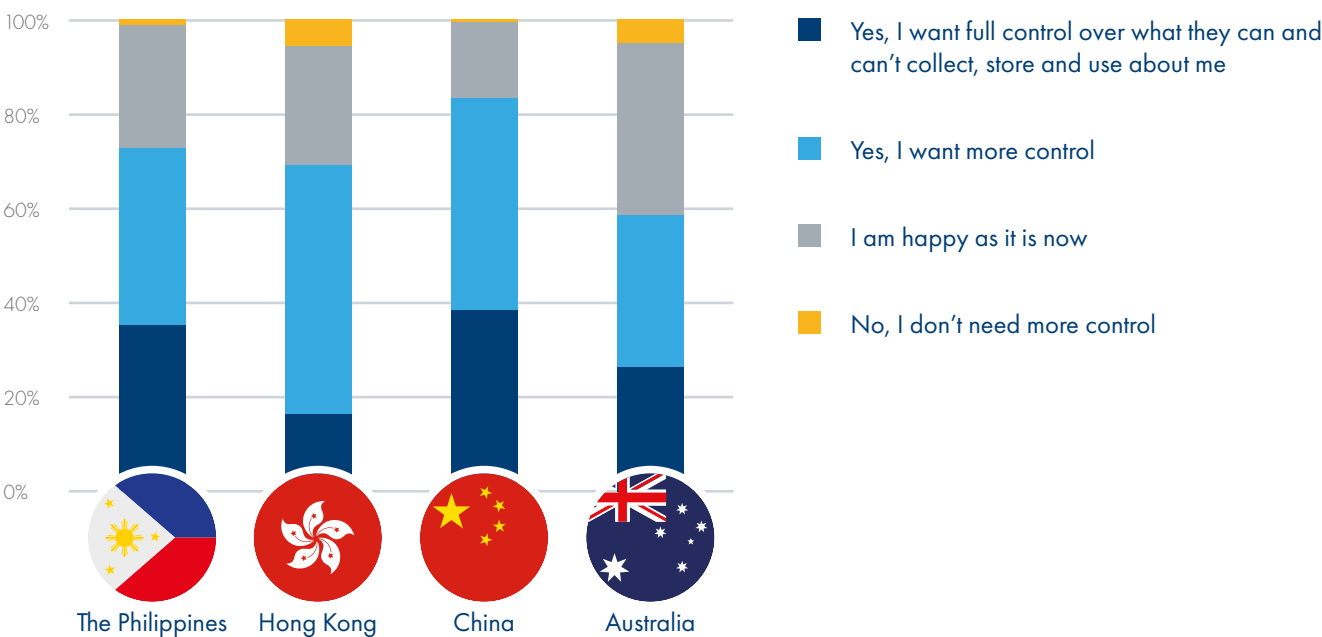
Just as important is the fact that should privacy and security performance slip going forward, there can be considerable personal and societal adverse impacts in addition to the direct and indirect costs to the bank itself. It may seem sensational to some, but the reality is a breach of privacy can destroy individual lives in some circumstances. Banks need to be on top of their security and privacy games. Do customers truly understand this?

When asked to indicate how confident they are that they know what data their bank collects, stores and uses on a scale of 0 to

5, where 5 is very confident and 0 is no confidence at all, the survey found that over 75% gave a rating of 3 or higher. This is a result that TRA would challenge. We don't believe that retail banking customers are fully apprised of all the data that banks have on them and the extent that this could be used or how it presents a potential risk. It may be giving banks a false sense of security (excuse the pun) that they don't need to be more transparent about the data they have and how they use it.

Indeed, in video interviews some respondents expressed concern with how much data the banks have on them and the privacy implications. The percentage of customers that are concerned may be small at present – although in China 27% say they are worried about banks misusing or losing their data; it is lowest in Australia at 14%. However, as the chart below shows, customers want more control over their data. Combine this with the results above about how security is the second highest desired area for improvement, and it is clear that security and control of data is a potential area for improved customer satisfaction.

Do you want more control over the data that your bank has about you?



3. Artificial Intelligence (AI) and Machine Learning (ML)

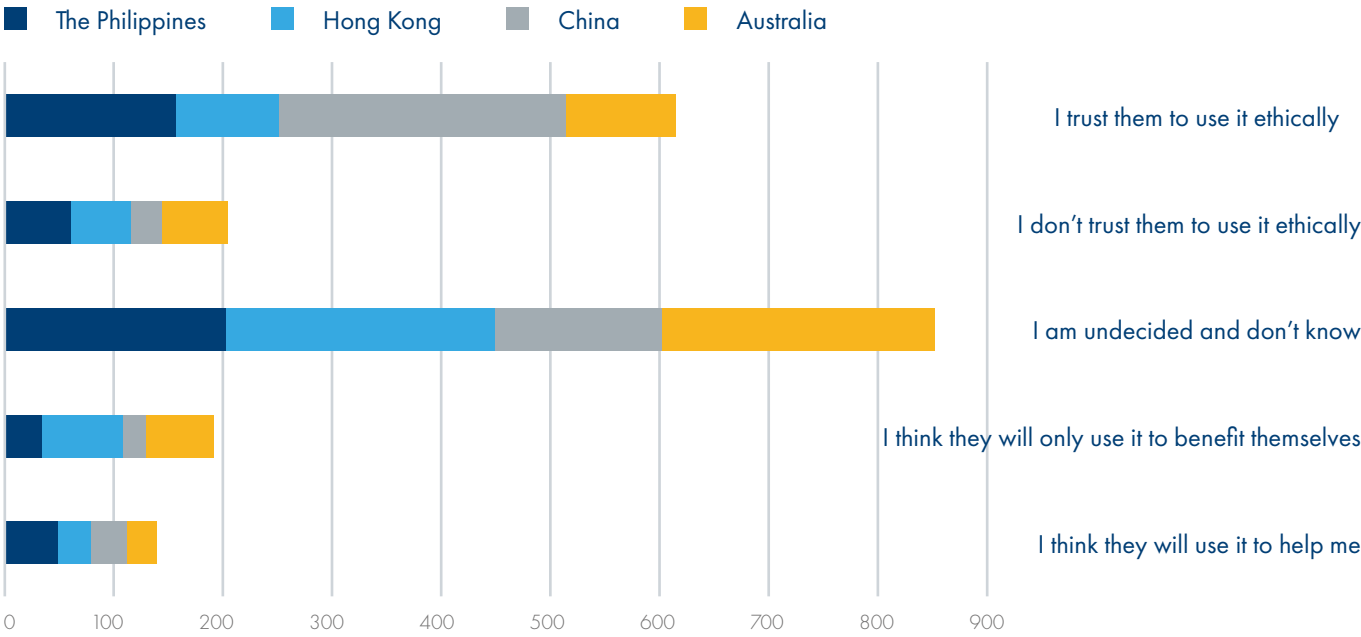
AI and ML offer great opportunity and great risk. From automating tasks through to existential ethical questions, AI and ML are already changing our world. With a multitude of use cases and strong traction across global businesses, it's clear the financial services market is already being shaped rapidly by AI developments. The World Economic Forum, for example, [published a report](#) outlining the various possible use cases for AI and how it will shape the industry. It highlights that every one of the largest of the world's global financial services companies and technology companies along with a multitude of start-ups has undertaken projects involving various types of AI.

Forecasting how quickly AI improves has proven time and again to be a tricky task. However, few would bet against continued strong momentum. Indeed, according to Goldman Sachs, machine learning and AI will enable \$34 billion to \$43 billion in annual "cost savings and new revenue opportunities" within the financial sector by 2025. Also the [Asia Pacific Alternative Finance Industry Report](#) by the University of Cambridge (et al) which tracks 1000 fintech players in the region found that China

makes up 99% of the regional market volume with the market reaching US\$358 billion in 2017; the rest of the region is worth US\$3.6B. AI is the second top area of focus for the start-ups in this research, behind payments processing.

So, what do customers actually think about their banks using AI and ML? The below chart introduces a high-level response from the survey. While there are positive signs – especially in China – that customers do trust their banks to use it ethically and/or to help them, the majority (>50%) are either undecided, do not trust banks to use it ethically, or will only use it to their benefit. We would caution that in our experience research AI in Asia Pacific that many people do not have a comprehensive grasp of AI and ML and that the technology is rapidly developing. As understanding improves and newer AI-led capabilities come to market, we would expect customers' views to change quickly. Whether this is more positive or negative is dependent on how well banks explain how they are using it and can prove it is in everyone's benefit.

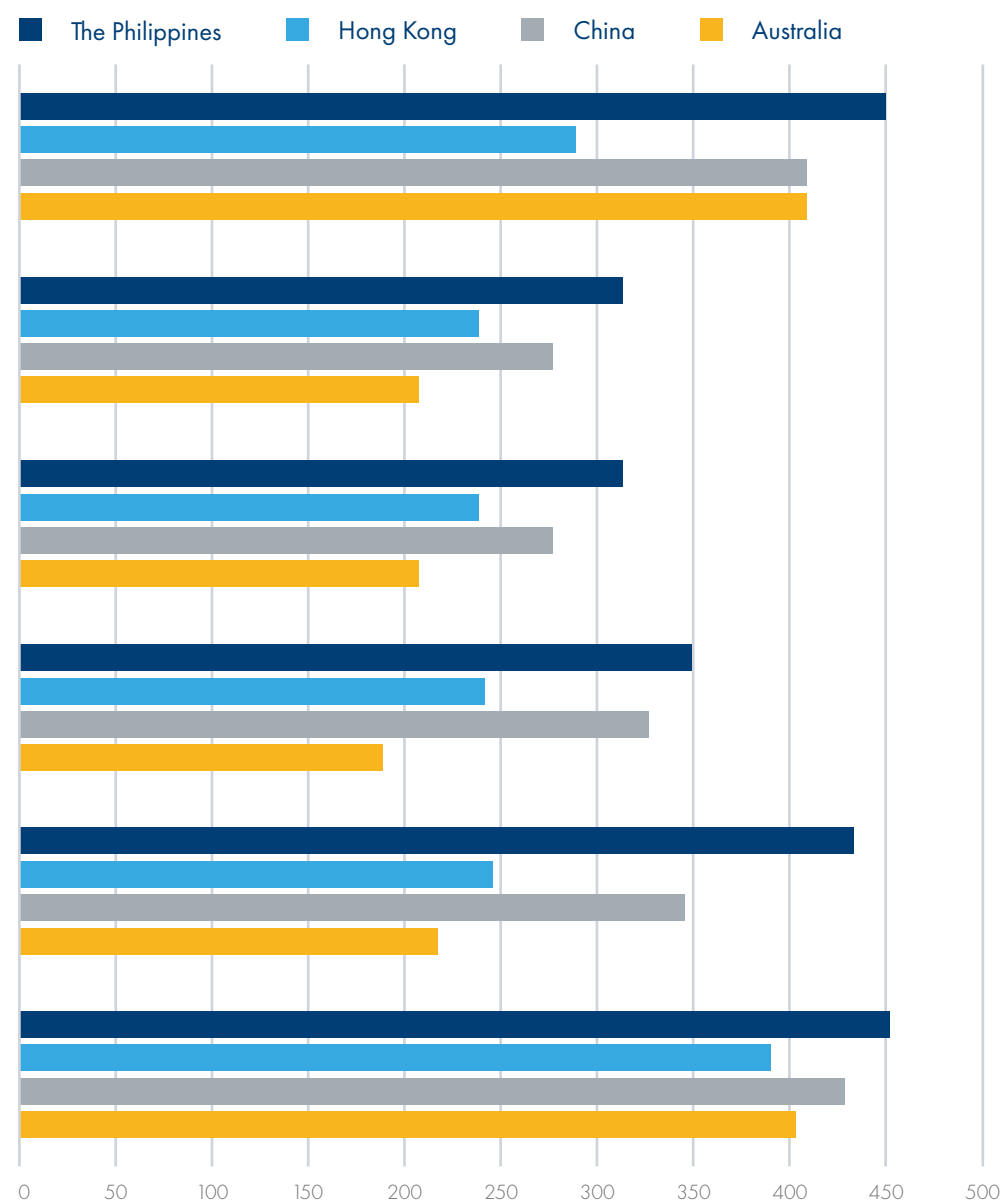
What is your view on your banks using artificial intelligence?



What Is the Future of the Digital Banking Experience?

In addition to the three influential trends above and the digital offerings currently already being worked on that were identified earlier – for instance mobile apps and online platforms – there were a range of other areas that emerged that Asia Pacific customers believe will be part of their digital banking futures.

- The video interviews identified that customers want everything to be paperless and cashless. They want to be able to do everything on their mobile phones and not to have to go into a bank for anything (unless they want to).
- Real time payments and insurance against fraud or theft are the top two most important services as shown in the chart below. We asked survey participants on a scale of 0 to 5 where 5 is very important and 0 is not important, how important the following are. Results shown are those options where a 4 or 5 were selected.



Real time payments where the value is instantly transferred to my account or the person I am sending it to

Using a mobile phone number or email to pay someone instead of using their account details

Having an easy to understand and accessible history of all my transactions in one place

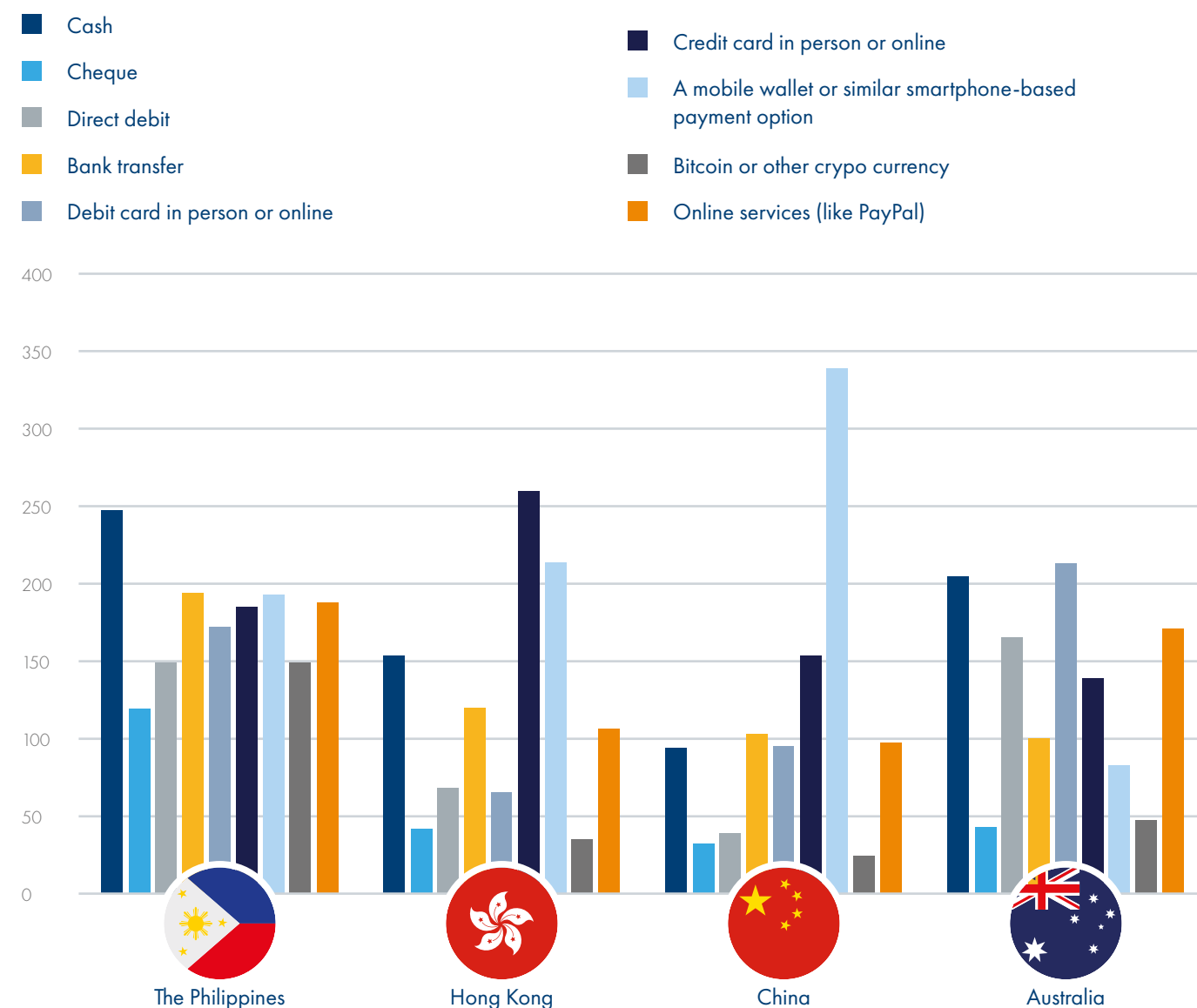
Being able to buy something now and then pay for it later

Transferring or remitting money internationally with no delay or high fees

Insurance against fraud or theft when making payments

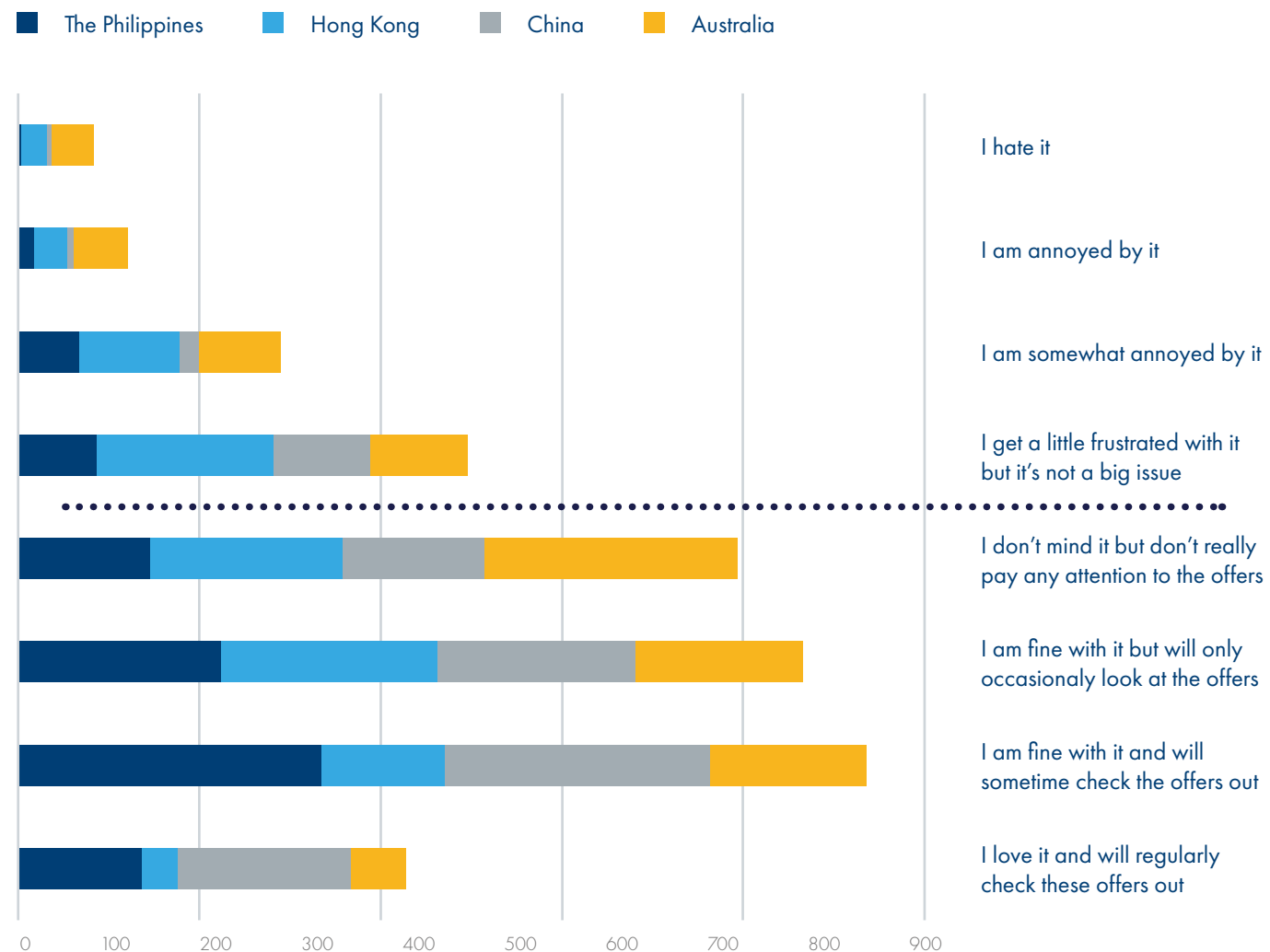
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- When it comes to payments, the below chart indicates which types of payments each country's respondents would prefer to use in future. China's embrace of mobile payments is clear but what is also notable is the spread of preferences across multiple types of payments.
- The final area that emerged as being an important part of the future digital banking experience relates to the use of data. The chart below shows that Asia Pacific banking customers are happy to receive more targeted offers that are based on the data the bank has about them. In some video interviews, some participants noted they would also be open to offers related to 3rd parties.



Steps to Take for the Future of the Digital Banking Experience

What do you think about banks using the data they have about you to send you personalised product or service offers?



What does all this tell us?

The future of the digital banking experience in Asia Pacific is complicated and changing. But it is clear customers want: More mobile. More real-time. More data-driven offers that deliver value. Better security and insurance. More choice in services from trusted 3rd parties. Choice in communication and payment types. And to have a mutually beneficial relationship – not just a sales transaction.

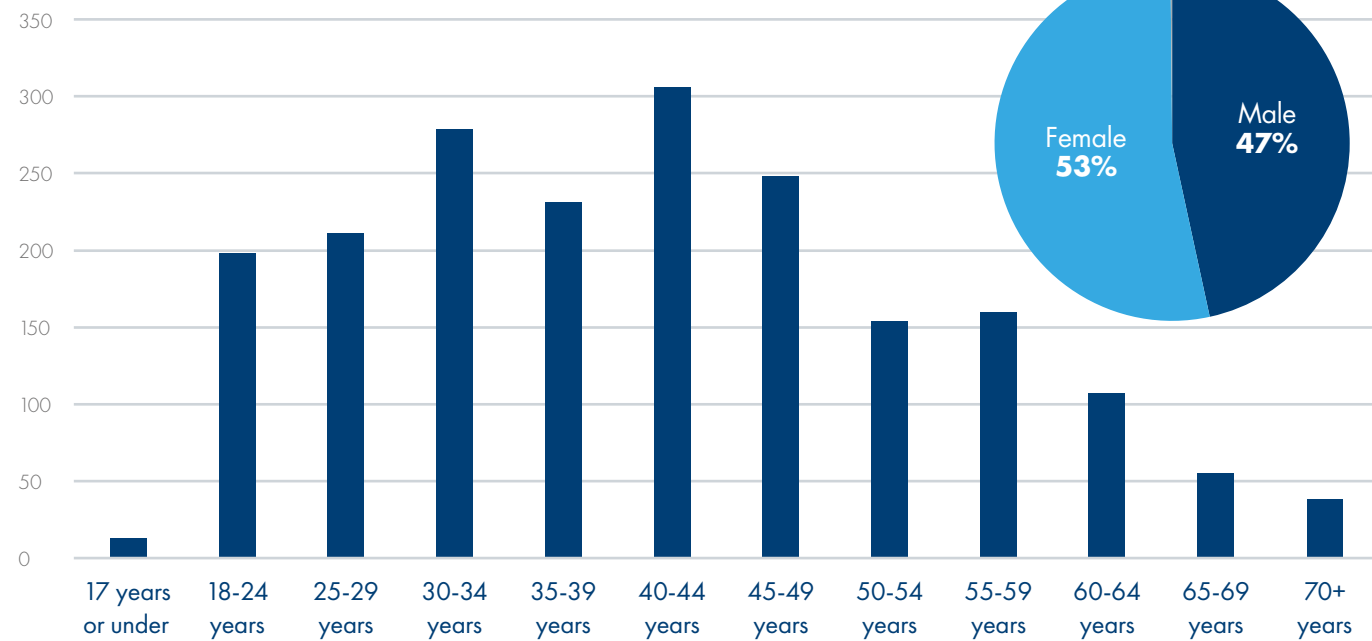
We offer the following steps that Asia Pacific banks can take to improve the digital customer experience. It is not an exhaustive list and may include some activities you already undertake. Our aim is to provide you with a means to kick start a health check of current programs and to encourage new thinking and investment.

- Listen, observe and experiment, don't just analyse data.** Understanding your customers requires more than just great data analytics. Adopt design thinking and use the many exercises it embraces to empathize with customers. In particular, test your assumptions and actually talk to as many customers as you can and observe their actions.
- Set a mutually beneficial vision by helping your customers summit literal or metaphorical peaks.** There is a clear appetite for a bank that helps the customer not just their own bottom line. And most banks could use a refreshed vision for the future.
- Evaluate your current digital platforms in light of what customers want not just today, but also in 5 or 10 years.** Do you have the ability to offer and consume API services? Is it enabling straight through processing and omnichannel experiences?
- Go real time.** Or as close to real time as possible. It is clear that customers across Asia Pacific want this capability.
- Treat data and associated privacy and security issues as an opportunity to create competitive advantage or expand your moat.** Yes customers are open to you using data to offer better services. But they also want control and transparency. There is a gap in the market that can be filled with more comprehensive data strategies.
- Pursue open banking and create a new value ecosystem.** It is not a threat, but a much needed opportunity. Don't wait for legislation. Get ahead of your peers.
- Show some leadership with AI and ML.** These technologies have potential to reduce operating costs and improve many functions of the business. They also present some considerable ethical risks – show leadership in dealing with these issues.
- Expand agile development programs and embrace continuous delivery principles.** Go beyond your software development teams and look at how your organisation can be more agile overall.
- Realise this a ceaselessly evolving requirement.** Digital is change. Change is digital. Ensure you have the right investment levels, skills and platforms that can change as you need and want.

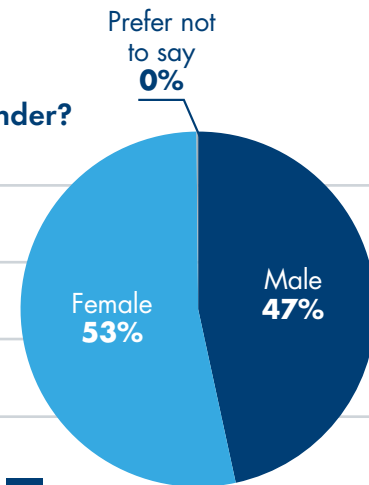
Methodology

TRA was commissioned by Temenos to undertake research into the views of banking customers about their digital experiences in Hong Kong, China, The Philippines and Australia in mid-2019. We undertook a quantitative survey of 500 banking customers in each country and also complemented this with qualitative video interviews in Sydney, Manila, Shanghai and Hong Kong. For additional demographic details or questions about the methodology please contact TRA.

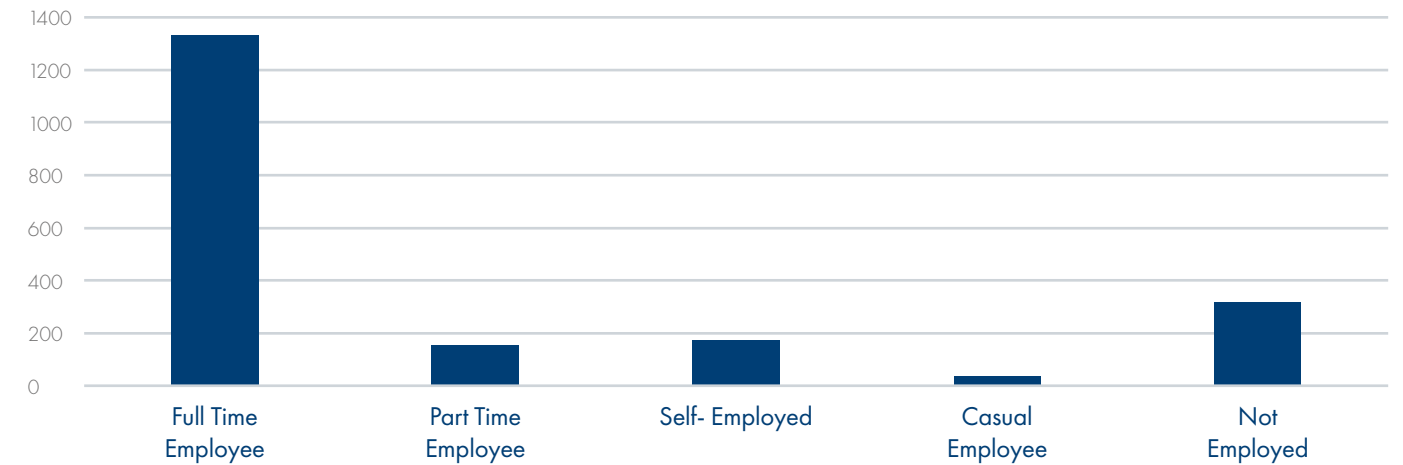
How old are you?



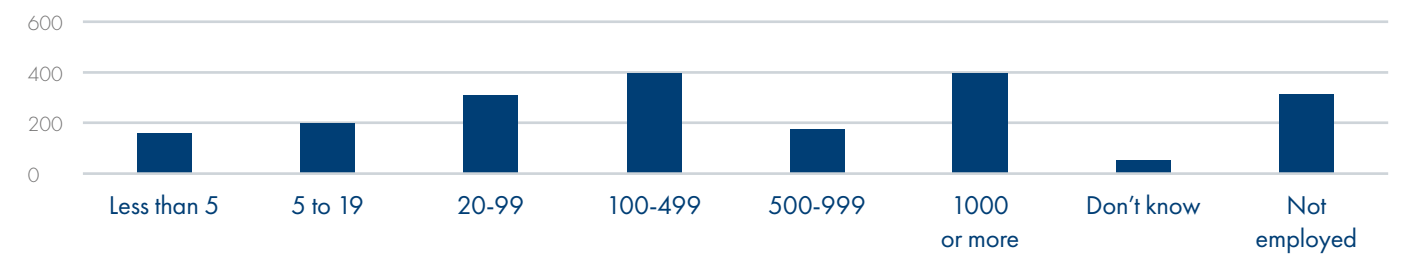
What is your gender?



What is your current work status?



How many employees does your organisation have in the place where you work?



About Temenos

Temenos AG (SIX: TEMN), headquartered in Geneva, is the world's leader in banking software, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 banks across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver consistent, frictionless customer journeys and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve industry-leading cost-income ratios of 25.2% and returns on equity of 25.0%, 2X better than the industry average. These clients also invest over 53% of their IT budget on growth and innovation versus maintenance, which is 2.5X better than the industry average, proving the banks' IT investment is adding tangible value to their business.

For more information please visit www.temenos.com

About TRA

TRA is a fast-growing IT analyst, research, and consulting firm with an experienced and diverse team in: Australia, Singapore, Malaysia, Hong Kong and Tokyo. We advise executive technology buyers and suppliers across Asia Pacific. We are rigorous, fact-based, open, and transparent and we offer research, consulting, engagement and advisory services.

We also conduct our own independent research on the issues, trends, and strategies that are important to executives and other leaders that want to leverage the power of modern technology.

Our team are highly experienced in each of their respective areas and we work with many of the world's leading technology suppliers.

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