



TEMENOS

THE BANKING SOFTWARE COMPANY

| The Rise of Neobanks in Asia

Want to lead the digital banking revolution? Embrace the cloud.

When was the last time you stood in line at a bank?

Today's banking environment is vastly different from what it was even a decade ago as traditional, longstanding institutions operate within a landscape comprised of a rising class of online-first 'neobanks.'

The new entrants are growing rapidly, fueled by the rise of digital and cloud infrastructure, and their ability to provide innovative online solutions that prioritize efficiency for their time-poor clients. This trend points to a future where the profit margins of traditional banking models can be attacked by specialist neobanks who are leveraging the help of elastic, componentized cloud-native solutions that enable scale and operational efficiency.

To keep pace with these tech-forward entrants, a growing number of traditional banks too are looking to embrace the cloud, to help them adopt the traits of the market's online leaders, and become more flexible, agile and capable of constant innovation.

Change agents

Few places have embraced the digital banking revolution quite as enthusiastically as Asia. The region is home to six of the world's top 10 mobile phone markets¹ and a new generation of consumers that has grown up with smartphones. These customers implicitly trust and understand e-commerce and online finance.

// Every consumer in the region has a high-performing, always connected device in their hand. They have been trained over a decade in using apps, using e-commerce, and have gained trust in digital over that time. They've also been trained to expect absolutely first-class digital experiences."

Dr. Chris Wooldridge,
Head of Client Advisory, Temenos.

It is no surprise that these customers, who have come to expect one-click transactions, a more personalized experience and a sense of effortless banking, are embracing neobanks² and that this growing trend has been supported by a study led by Temenos and Tech Research Asia. The study confirmed Asian customers prefer their banking transactions to be paperless and cashless, and conducted through their phones instead of making a trip to the bank.³

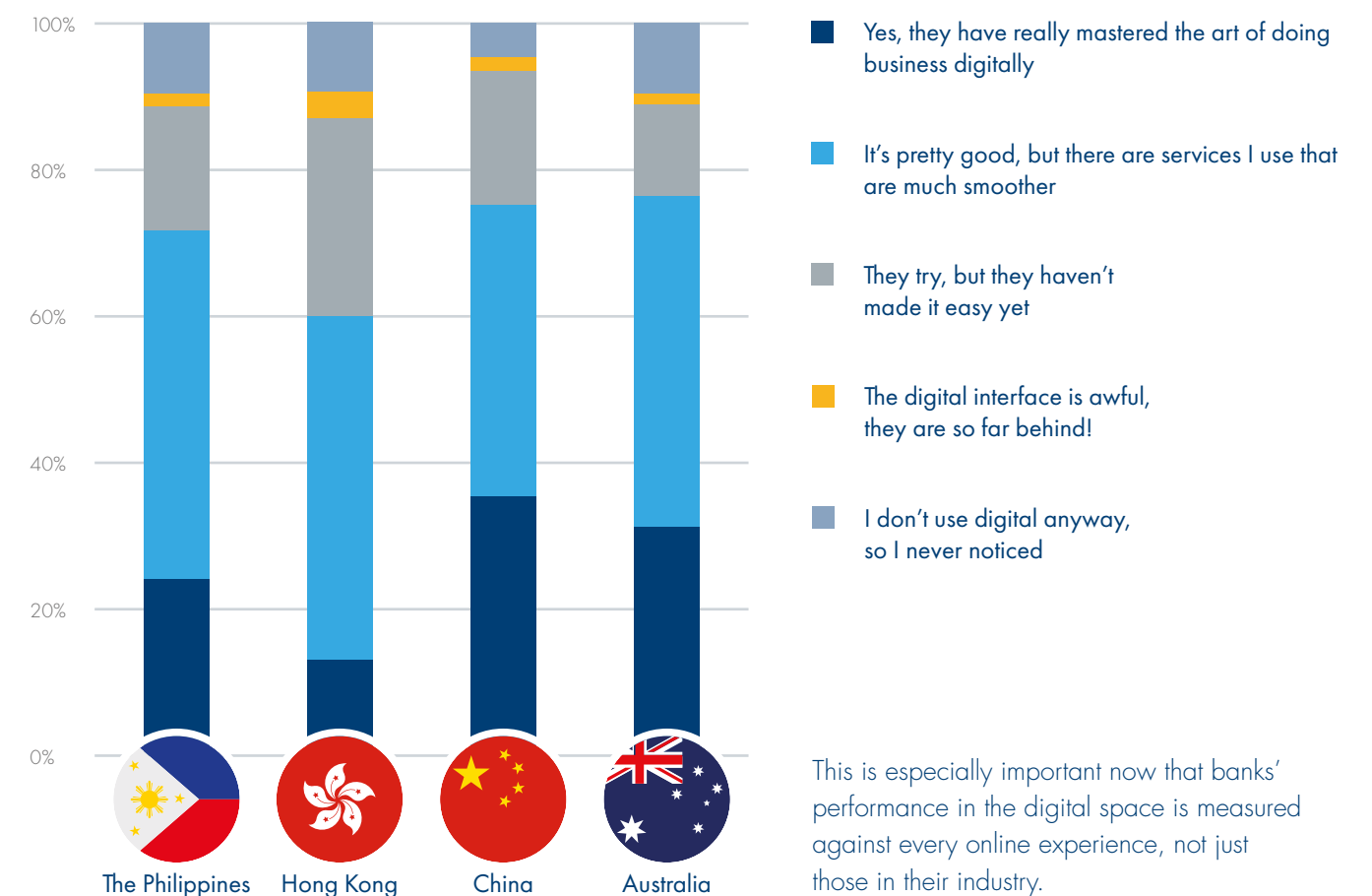
1. https://data.worldbank.org/indicator/it.cel.sets?end=2018&most_recent_value_desc=true&start=1960

2. <https://www.fintechnews.org/asia-is-shifting-toward-digital-banking-mckinsey-survey/>

3. The Future of the Digital Banking Experience in Asia Pacific; Pg. 10; Temenos, TRA



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



4. <https://www.spglobal.com/en/research-insights/articles/the-future-of-banking-virtual-banks-chase-the-dream-in-asia-pacific>

Innovation is key

As the market changes, banks’ digital offerings are increasingly key and their ability to attract customers, grow market share and, ultimately, enhance their profitability.

Concepts like ‘invisible banking’ – on hand at all times yet unobtrusive – that the new players are delivering upon are forcing established players to scramble to match this approach. What drives these innovations, and what these businesses are now judged on, is their cloud infrastructure.

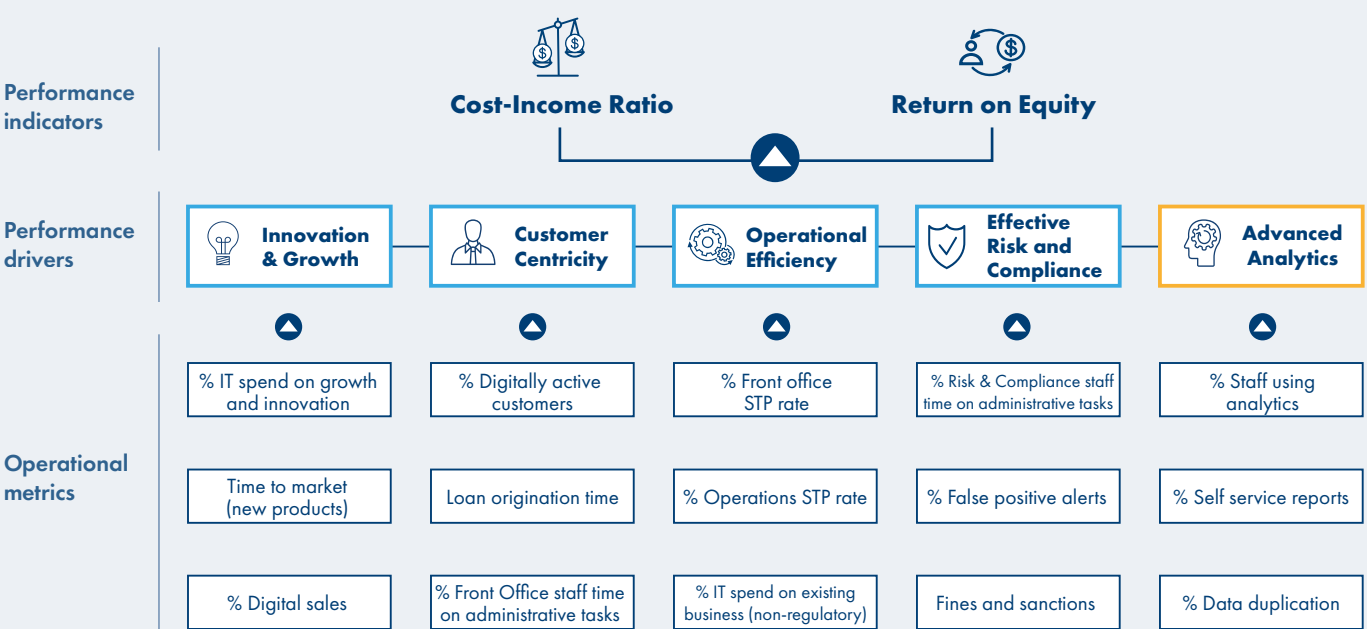
Migrating to the cloud provides the elasticity banks need, allowing them to access on call a wide range of technological capabilities based on their needs, a feature better known as Software as a Service (SaaS).⁵

SaaS provides banks with a significant operational advantage, equipping them with the ability to innovate and service unmet customer needs, and drive the digital experience forward while providing significant cost savings.

Additionally, using a robust digital marketplace and collaborating with fintechs (supported via cloud-native, cloud-agnostic architecture) enables banks to focus on growth and innovation instead of expending resources on low-value add tasks such as maintenance.

5. <https://www.temenos.com/delivery/temenos-saas/>

The Temenos Value Benchmark has revealed what factors make high performing banks different i.e. those with better cost-income ratios, returns on equity and assets, and what characteristics they share:



Note: All listed operational metrics correlate with one or more performance indicators.

A number of new entrants are showing the industry the clout offered by innovation and the benefits of a cloud-first stance, triggering a spurt in spending on cloud services by banks across Asia.⁶

In the case of Australia-based SME challenger bank, opting for the cloud instead of a traditional IT model allowed it to quickly set up its entire operational infrastructure and be up and running in the cloud in just 12 weeks. This helped the challenger bank - which is Australia’s first to focus on the small and medium-enterprise (SME) segment - to gain significant operational savings. The bank has achieved a cost-income ratio of 35%, significantly below that of Australia’s big 4 banks, freeing it to focus on innovation, service unmet customer needs and enhance the digital experience. It has also maximized its market share by using data to personalize services.

O Bank, which is Taiwan’s first digital bank, estimates there is a 66% reduction in the time it typically takes to create new products compared to its traditional competitors. Added to this, the customer experience is seamless, with a new customer able to open an account in just ten minutes from their phone or online. These factors allowed the bank to gain a 30% market share of the digital bank market within Taiwan in only six months.⁷ The bank is now aiming for a new landmark - its one millionth customer – and not surprisingly has been awarded “Most Innovative Digital Business Model” by Gartner.

6. <https://www.idc.com/getdoc.jsp?containerId=prAP45431219>
7. <https://www.temenos.com/community/success-stories/o-bank/>

Another Australian digital operation, Up Bank, is operating a truly consumer-first model - inviting suggestions from its user base that has helped it build an incredible social media presence – another huge advantage in gaining market share through customer awareness and familiarity.

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These challenger banks are trying to do things differently in the market. What is critical for them is to have a vendor that is very much on the cloud and can help them with speed-to-market and deploy in a very short amount of time.”

Pawan Razdan, Senior Business Development Manager, Temenos

Regulatory impact

Asia’s regulatory bodies are increasingly aware of the challenges of moving to the cloud even as they issue licenses to a number of new players in the market.⁹

In Hong Kong, the Hong Kong Monetary Authority has issued eight digital banking licenses.⁹ In Singapore, several technology startups hope to be awarded the first batch of licenses to launch a virtual bank¹⁰ while Malaysia too is expected to soon invite bids for digital banks.¹¹

However, information stored on the cloud presents potential issues, such as data sovereignty and privacy concerns involving customers. This is of vital interest to virtual banks – after all, the cloud is core to these banks’ business model, and even identity.

“The regulators are aware of the challenges of moving to the cloud,” Razdan says. “We can see a shift in policies that they’re publicly announcing in terms of how they would want these new players to consider cloud, keeping in mind data privacy, security, agility, and scalability.”

It’s a good sign that the region’s regulators are reviewing policies that will allow for a better understanding and use of the cloud environment – especially in the areas of security and data privacy – and enable banks and other financial institutions to make the most of the technology. Yet another positive development is that the technology industry is keenly receptive to regulators’ concerns and devising imaginative solutions to reduce the risks.

Without doubt, the world of banking has changed for the better, and institutions that fully utilize cloud technology and are innovative in their offerings are the ones best placed to become market leaders, regardless of their vintage.

“We see a lot of collaborations and partnerships being established between various digital players to bring in their core competencies,” Razdan says. “We will see other similar partnerships coming in. It’s possible.”

Indeed, banks looking to enter this increasingly competitive field need a solid partner to guide them through the dynamic, fast-evolving world of cloud technology. Temenos, which was the first to put a core banking system on the public cloud,¹² is ideally placed to fulfil this role.

Temenos can help neobanks join the growing ranks of digital-only players and assist traditional banks keen on migrating to the cloud to compete on a more equal footing in a rapidly transforming industry.

8. <https://www.digfingroup.com/virtual-banks-asia/>

9. <https://fintechnews.hk/8951/virtual-banking/hkma-virtual-bank-license-sc-digital-hivi-zhongan-za/>

10. <https://asia.nikkei.com/Business/Banking-Finance/Tech-savvy-upstarts-race-for-Singapore-digital-banking-licenses>

11. <https://fintechnews.my/21726/virtual-banking/budget-2020-malaysia-to-accept-virtual-banking-license-application-by-2020/>

12. <https://www.temenos.com/news/2019/09/24/the-future-of-core-banking-is-in-the-cloud/>



About Temenos

Temenos AG (SIX: TEMN) is the world’s leader in banking software. 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 and AI-driven front office, core banking, payments and fund administration software enabling banks to deliver frictionless, omnichannel customer experiences and gain operational excellence.

Temenos software is proven to enable its top-performing clients to achieve cost-income ratios of 26.8% half the industry average and returns on equity of 29%, three times the industry average. These clients also invest 51% of their IT budget on growth and innovation versus maintenance, which is double the industry average, proving the banks’ IT investment is adding tangible value to their business.

For more information, please visit www.temenos.com.



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