Vietnam's banking industry is set to be revolutionised by big data and cloud computing

"AI, Big Data and cloud computing are revolutionising industries around the world and banking is no different. Banks in developing economies stand to benefit the most."

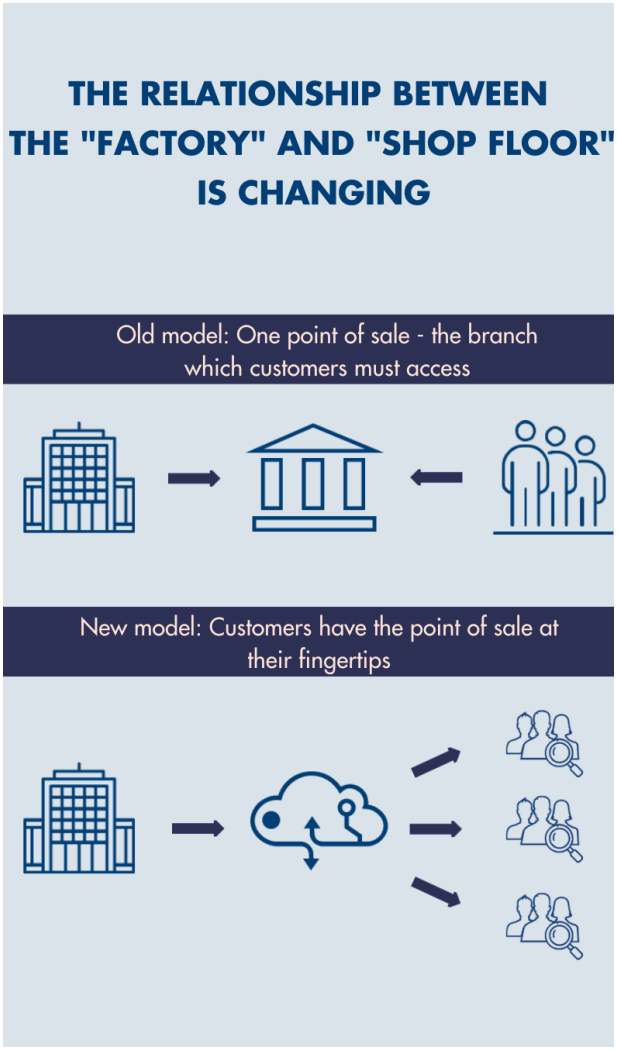
Jean-Paul Mergeai, President, APAC-MEA at Temenos

Dramatic advances in cloud computing and artificial intelligence are transforming the customer experience, leading to a defining moment for the financial institutions who are quick to embrace them. Banks and other financial institutions are able to generate greater insights into what their clients want and deliver a wider range of tailored products more efficiently and cost effectively. In developing economies like Vietnam, with a fast growing, digitally savvy population and a financial services industry that is not beset by legacy systems, banks are especially well-positioned to apply these advances quicker than their more established international peers.

The COVID-19 pandemic has galvanised the adoption rate of new technologies. Digital channels have proved critical while customers stay at home and avoid physical branches, with US lender Citibank reporting a tenfold surge in activity on Apple Pay during lockdown[1], meanwhile bank branch closures have propelled the use of digital apps[2]. While the digitalisation of the banking industry has been in train for some time, it is now structural – simply put, digital channels will now become the default way to serve existing clients and gain new ones sooner than anyone could have predicted[3]. Banks need to reimagine their channels boldly, anchored in an integrated vision for distribution.

Knowing what your clients want – and rapidly tailoring products for them

Across several industries, for instance in retail, the separation between the "factory" where products are made, and the "shop floor" where they are consumed, has been growing as supply chains, means of distribution and marketing reach have all advanced dramatically. In turn, this has created economies of scale, meaning that suppliers can offer a wider variety of better products to their customers anytime, anywhere.



Banks are no different in this respect, and they are building the capability to develop and launch new products as quickly as big tech companies like Google or Facebook, with the breadth of "SuperApp" developers like Alipay. The most recent advances in computing power have generated the ability to add distribution networks and access new customers remotely, which is transforming these businesses. With the application of AI and big data, financial institutions can more accurately see what their customers want, then take advantage of the economies of scale by instructing the "manufacturer" (in the case of a bank think of the back-office systems where financial products such as a personal loans are made) to quickly assemble a product most suited to their customers, and then with digital front-office technology and by applying cloud computing, rapidly design the user experience, market and deploy this new product to the mutual benefit of themselves and their customers. The 'shop front" is now directly in the hands of the customer.

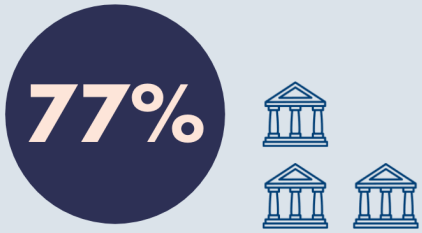
Banks, more than any other industry are poised to reap the rewards of applying AI technology. While tech companies have rich customer data, banks are amassing all the transaction data in real-time that other tech players lack. By applying advanced analytics, banks can make new, targeted offerings at any critical point of their customer's financial journey, serving the twin purposes of bringing in new business and reinforcing customer loyalty. The latest technologies are helping financial institutions to unlock their data in full and to roll out new products at speed. The next big wave is social data – the networks that clients are navigating in - offering a new universe of insights with big data and AI.

Financial institutions that embrace these new technologies will give themselves the opportunity to stay at the cutting edge as intuitive new programmes can be designed and deployed within days.

BANK EXECUTIVES SAY

AI WILL DEFINE WHO WILL SUCCEED

A survey conducted by the Economist Intelligence Unit, commissioned by Temenos earlier this year, found that



of bank executives believe unlocking value from AI will be the differentiator between winning and losing banks[4]

Case study: TECHCOMBANK

Techcombank was founded in 1993, with a focus on constant innovation and a goal to provide a "one-stop shop" for customers from personal and corporate banking to protection, investments and wealth management. Today it is one of the largest joint stock banks in Vietnam with combined total assets of VND 383,699 bn (USD 16.56 Bn).

Techcombank's sustained investment in technology solutions has powered the bank's extraordinary growth over recent years: Over the past decade, Techcombank has been the fastest-growing bank in Vietnam in terms of revenue and deposit base CAGR.

Techcombank is one of Temenos' longest standing clients in Vietnam, having worked together since 2001 when the bank launched Globus, its core banking system. Since then, Techcombank has grown revenue, loans and profits faster than many competitors, while continuing to improve efficiency, customer service and risk management. In addition, while loans grew exponentially during the time they have worked together, non-performing loans actually fell. Temenos' work with Techcombank has enabled it to build its physical branch network as well as its online offering – the more personalised and efficient customer service has also resulted in growth in profitability per customer.

Temenos and Techcombank continue to work together, and it is now possible for Techcombank to configure, test and launch a new product within 24 hours, offering a constantly evolving, and more tailored customer service than many competitors.

Vietnam's advantages

Financial institutions in Vietnam are better placed than most to take advantage of new technologies. This is as a result of a combination of digital infrastructure, demographics, and geography.

Depending on the maturity of the market and existing IT infrastructure, financial institutions face different challenges when looking to incorporate new software. In more established banking markets such as Hong Kong, Singapore and Japan, many banks are forced to combine their old systems with the new, sometimes resulting in legacy issues. Combining new cloud-based software with existing complex IT stacks is more difficult than simply installing a brand-new system. Many Vietnamese banks, unencumbered by deep-rooted legacy systems, are at an advantage.

Demographics are also a factor. Vietnam and other emerging markets like the Philippines and Indonesia have much younger populations than Japan for instance. In markets that have moved straight into the 4th industrial revolution – which includes the trend towards cloud computing and artificial intelligence, amongst other applications – the adoption rate towards services such as online payments has been much faster. The burgeoning, younger middle classes in countries like Vietnam are far more technologically-savvy than ageing populations in Japan which may resist adopting new technologies. These younger generations are used to the smooth digital

customer journey and AI-embedded preference setting provided by Tech players such as Facebook and Netflix. They now expect their banks to provide the same experience.

Banks recognise they must innovate to meet the changing customer expectations. In the EIU report, improving customer experience and engagement, including personalisation, was cited as the top strategic priority through to 2025 and a top three factor impacting banks.

Increasingly affluent consumers in Vietnam have benefitted from the new online experience offered in retail and travelling, and they want the same in banking. With modern technology platforms that take advantage of open-APIs and advanced technologies like AI and microservices, banks are now in a position to offer it to them, innovating at speed to revolutionise the front end, customer facing part of the bank.

Finally, geography plays a role in Vietnam, which is much larger Singapore and Hong Kong, so there is a need to have an excellent online and mobile banking interface to serve customers in remote rural areas.

Case study: SACOMBANK

Sacombank was the first bank to be established in Ho Chi Minh, in 1991. Today the bank serves 6.1 million customers, domestically and around in the region. It has VND 453,581 bn (USD 19.57 bn) in assets. Like many banks in Vietnam, it has seen an explosion in customer numbers, deposits and revenues in recent years as the Vietnamese economy rapidly develops.

While Sacombank has been working with Temenos since 2004, the bank identified technology as a core pillar in its development strategy in 2010. In 2013 it launched the first breakthrough Omni-channel banking model in Vietnam that integrated Internet banking, mobile banking and transaction notification system in one platform.

Sacombank initiated a series of large technology projects in 2018. At the end of that year it rolled out the DLM (Data Lifecycle Management) for the Temenos T24 core banking platform.

The application is designed to free storage capacity and IT manpower in order to help meet Sacombank's growing data management needs as the rapidly expanding bank looks to deliver a wider range of services to its 5.5 million corporate, SME and personal account holders across Vietnam, Cambodia and Laos. Temenos and Sacombank were able to implement the software within a few weeks, while minimizing disruption of the bank's critical systems, in order to significantly increase the efficiency of its data archiving procedure by hosting a single archive environment in the future. Within weeks, the application had shown cost efficiencies while centralizing the bank's knowledge database and leveraging real-time data management. The bank now has 2.2 million users of its eBanking system, a figure that increased just under 50% YoY in 2019, while revenues from the segment nearly doubled.

How banks are taking advantage of this opportunity

Banks in Vietnam face different challenges and opportunities in how to apply new technology, depending on their business strategy and scale of their existing infrastructure.

Institutions with longer-established IT infrastructure

Big bang transformation

As the name of this approach suggests, all functionality to support the entire bank's scope is built in one step. The entire migration of business occurs at the end of the program. Banks acquire a full new "stack", from back office through the middle office and the front end, which is then run in parallel with the incumbent system before migrating all the systems over.

Continuous renovation

Acquire a product to fix or update a particular area of the bank's software infrastructure, for instance developing a multi-channel front end or internet banking. Both of these are normally applied by buying and installing the software, hosting it on the banks' premises. Using microservices, larger banks can now renovate their core banking applications component by component without compromising their end goal of a full system transformation.

Smaller institutions, which may not have the financial or IT muscle to support the set-up of a full stack

When incorporating new products, a build and migrate approach enables institutions to establish a new offering running on a new digital system and gradually migrate customers across. Using Software-as-a-Service avoid the front-loaded cost, and enables banks to install specific parts of the infrastructure and deploy it as they want. Temenos' cloud-native software and SaaS-first solutions enable banks to do this quickly and efficiently while retaining the control to make rapid changes to the system and roll out new products within days, as opposed to weeks.

The banking industry is being revolutionised by the development and adoption of technologies such as cloud computing, AI and advanced data management, meaning that banks can now serve the individual needs of a wider pool of clients better than any time in the history of the industry. In Vietnam the opportunity is, in many ways, greater than in other markets around the world. For Vietnamese financial institutions, building a relationship with the right partner, who has the experience both in the industry and in the market, the technological muscle and R&D capabilities, will be vital to capitalising this defining moment for the country and the global financial services industry.

For further information, please contact our dedicated sales representative at Apac-contactus@temenos.com

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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