DECODED
THE FUTURE OF BANKING IN ASIA, AFRICA AND LATIN AMERICA

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Summary

Several factors are coming together to shape the future of banking in emerging markets. The COVID-19 pandemic added fuel to the fire by changing consumer behaviour and accelerating digital adoption. To succeed in the new era of banking, banks in emerging markets need a new approach. In this article we discuss a 5C framework that would be critical to building the resilient bank of tomorrow.

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In the last decade, the banking industry has witnessed major disruption. Powered by cutting edge technology, rapid digital transformation, and changing consumer needs, today's banks bear little resemblance to their counterparts of just a few years ago. For a heavily, and rightly so, regulated industry, banking has truly made fantastic leaps in consumer experience, innovative products and services, technology architecture and operational efficiencies. While the technology-led banking transformation began in developed economies, the emerging markets of Asia, Africa and Latin America are not far behind. Banks operating in these markets are actively investing in technology to keep pace with consumer demands and achieve key business goals. Interestingly, one of the major factors contributing to the accelerated growth of digital banking has inadvertently been the COVID-19 pandemic.

The changing face of banking post COVID-19

Digital Payments on the Rise

Growth in Digital Banking Adoption

Increased Competition from new age Fintechs and micro lenders

Instability in the SME/ Corporate Sector

The use of cash in its physical form has been declining since the beginning of the century, aided by a rapid increase in the adoption of cards and online remittances for transactions. The pandemic has further fueled this change. Restrictions on physical interactions and limited mobility made digital payments the only alternative for most of the population. **According to a survey[i], there has been a net fall of 57% in cash usage for transactions since the beginning of the pandemic. About 20% of this net change is estimated to be sticky and result in a permanent shift away from physical cash usage in favor of cards and online payment tools. In addition, a survey by McKinsey found that active users of digital banking in the Asia Pacific have grown by 33 percentage points since 2017 to reach 88%[ii].**

The uptick in consumer adoption of digital banking has opened up opportunities for fintech and micro-lenders to offer innovative products. Operating outside the traditional jurisdiction of banking, these smaller, nimbler players have been capturing the market share quite effectively. This lucrative new space has even attracted the interest of larger technology companies to consider offering financial services seriously. The new battleground for banking in emerging markets will be in a digital arena, and banks will have to gear up to compete in multiple service areas.

i https://www.ey.com/en_gl/banking-capital-markets/four-ways-covid-19-is-reshaping-consumer-banking-behavior

ii https://www.mckinsey.com/industries/financial-services/our-insights/emerging-markets-leap-forward-in-digital-banking-innovation-and-adoption

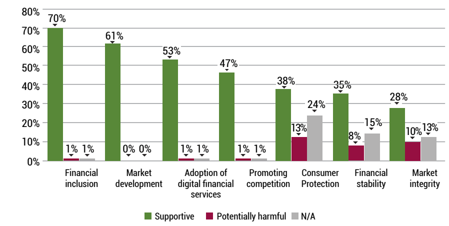
Impact Area	Developed Economies	Emerging Economies
Growth in Digital Banking Adoption	**While Digital Banking was highly prevalent pre-2020, the pandemic encouraged the end consumer to adopt more services into the digital ambit.**	**Pandemic-led lockdowns have accelerated digital penetration and will lead to the continued adoption of digital banking. A recent Deloitte report stated that "Diverse communities (e.g., Black/African Americans, Hispanic/ Latinx Americans, etc.) are 50% more likely then the average American to increase adoption of mobile or digital tools as a result of the crisis[iii].**
Digital Payments on the rise	While developed economies have had better Internet penetration and usage of digital payments currently, the government's focus on promoting the digital economy seems to be relatively lesser than in emerging economies like India. Another reason could be the aging population. China and Korea, however, seem to be an exception, with second and third highest digital payments globally.	Among the list of top 10 countries in global real-time payments are: India in the 1st position, Thailand in the 4th and Nigeria in the 6th position. India, in fact, records more real-time transactions than China, the US, and UK combined. A large reason for the same has been the launch of UPI, a real-time payment system launched by the government[iv].
Instability in the SME/Corporate Sector	Banks in developed economies have been able to meet SME needs augmented by government support. A US Survey of SMEs indicated that 43% of SMEs have temporarily closed, but 80% of the same have recouped from the impact[v].	In most emerging markets, SMEs make up a substantial percentage of the GDP. In some emerging economies, the banking regulations around liquidity for both SMEs and banks are liberal, allowing for growth. This impacted the availability of necessary funds during the pandemic.
Increased competition from Fintech and microlenders	A late 2021 report by Statista revealed that America had the highest number of fintech startups in the world at 10,755, followed closely by EMEA at 9323. The last 4-year data shows a consistent rise in startups in America, while EMEA showed a meteoric rise since 2020[vi].	The same report by Statista showed APAC doubling the number of fintech companies between 2019 to 2020. The number further grew in 2021 to 6268 fintech companies. Support by the government, regulators, a vast potential consumer base, and increasing interest from investors are some of the key reasons for this rise.

What does this mean for banks in emerging markets?

As digitization progresses, more and more customers – individuals as well as SMEs and corporates - in emerging economies will be keen on exploring offerings from Fintechs which focus on simpler, faster, and seamless experiences. AI-driven insights and innovative partnerships will be powerful tools for banks to create similar experiences. Banks will need to configure their technology landscape to one that supports innovation at scale and also drives operational efficiency to reduce costs and improve agility.

Banks looking to succeed amidst new competition and ever-evolving consumer demands need to focus on building resilience on multiple fronts. The one size fits all approach will neither apply to products and services nor to their technology landscape. Banks in emerging markets need to zoom in on personalization and move it from the purview of a select few HNIs to reach every banking customer. Personalization, though, is easier said than done and requires a radical shift in the way banks think about the future.

Figure 5: Perceived impact of fintech on regulatory objectives in light of COVID - 19 (N=88)



Source: World Bank and CCAF, 2020.

iii https://www.deloittedigital.com/us/en/offerings/next-gen-digital-banking/digital-banking-redefined-in-2021.html
iv https://finshots.in/infographic/who-leads-real-time-payment-transactions-around-the-world/
v https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/
vi https://www.statista.com/statistics/893954/number-fintech-startups-by-region/#:~:text=As%20of%20November%202021%2C%20there,in%20the%20Asia%20Pacific%20region.

The 5C framework for banking success

A framework (see fig) focusing on customer experience and growth can guide banks to stay relevant in this era.

1 **Contextual experiences:** Contextual experience is often confused with a personalized experience. While personalized experience involves understanding who you are, contextual experience goes a step further and understands the said customer's situation as well. Naturally, it requires more data in real-time and an AI-based analytics engine to suggest the recourse.

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There are many possibilities for contextualization in banking. For instance, AI-powered, integrated marketing campaigns and product design that identify customer interests and the relevant product or service and then promote a custom offer for that segment of one. For example, you get an offer on a home loan if you have been checking out real estate sites but customized to an EMI that you would be comfortable with. Even SMEs are now looking for more contextual experience from their banks. In the coming years, contextual experiences will be key for banks to maximize the quality of service, increase cross-sell and lower the cost of customer acquisition and retention.

Many disciplines and technologies need to come together to make these experiences possible and create a win-win scenario for the bank and the customer. Banks in emerging markets can take a leaf from the book of their developed market counterparts (and even consumer brands) to drive personalization at scale. What they need first is a single view of the customer and a technology ecosystem including AI, Data Analytics, agile architecture, and core-agnostic integration that can keep pace with the need for change.

2 **Comprehensive offerings:** Pandemic led digitalization and new entrants in the market have improved financial inclusion. On the other hand, especially in emerging economies, banks have a higher threshold for customers accessing banking services. Lowering these thresholds and offering solutions across the depth and breadth of a customer's financial lifecycle can improve brand loyalty, retention, and profitability.

Creating comprehensive offerings requires banks to take a design thinking approach to create suitable products and services for evolving customer needs. Offering wide-ranging products will also need robust core banking systems that can deliver the highest degree of flexibility in terms of product architecture. In addition, the integrated banking platform should also enfold seamless experience across the entire suite of products from deposits to lending, treasury, cards and payments, etc.

3 **Connected ecosystem:** A connected ecosystem has two key advantages – reduced time to market for financial offerings and becoming a one-stop-shop for non-financial offerings.

A connected ecosystem can help banks reduce the time to launch and innovate continuously by focusing more on experience and less on creating every feature in-house. Banks can partner with third parties to offer cutting edge features like video KYC, paperless onboarding, cardless payments and many more. Core banking solution providers offer ready to use marketplaces that banks can leverage for the same. Many traditional banking services, such as payments, loans etc., have been democratized and integrated into everyday marketplaces.

Coming to B2C marketplaces, today, you can book flight tickets, pay bills, and shop for essentially all on your digital wallet. Banks are slowly venturing into this arena and becoming a one-stop shop for all consumer needs. However, success in this model requires the ability to leverage a connected ecosystem and omnichannel approach to serve the customer at their moment and place of need. It is inevitable that open banking and marketplace integration via APIs is the immediate future for the banking system in emerging markets.

4 **Composable architecture:** The future of banking hinges on continuously evolving products and services that deliver a seamless experience. This requires staying up to date on technology that can be reconfigured to meet changing business needs. Banks in the emerging markets that have been slow on digital transformation have a unique opportunity to leap to composable architectures that are modular, autonomous, and resilient. Composable architectures are reusable or replaceable pieces of code or features. Think of the entire architecture like a Lego block or molding clay. Depending on the need, one can reuse parts, switch or swap. Composable architectures based on microservices and hosted on the cloud are essential for banks to break free from legacy restrictions and quickly release new products and offerings with a pre-built catalogue of components.

5 **Cloud nativity:** Emerging markets are set on a growth trajectory. Growing incomes, increasing economic activity, and governments' initiatives for financial inclusion will see more people avail of banking services in the coming years. Banks need to make their systems resilient enough to absorb this influx. Cloud will be the cornerstone of this resilience, giving banks the ability to scale on demand.

Yet again, the relatively slow pace of digitization pre-pandemic has given banks a unique opportunity to build new services with a cloud-native approach. Technology advancements and hybrid models are also making banking on the cloud more secure and accessible.

> "Embracing the cloud is a matter of survival in a business environment where innovation, disruption and competition are pushing banks to improve efficiency and become more agile while adding value for their customers. Successful leaders should think 'cloud first' if they want to survive in today's fast-evolving and competitive marketplace." – Deloitte [vii]

Banking with resilience

The banking industry as a whole is standing at the cusp of a great revolution. We are witnessing an era where banking is truly becoming integrated into our day-to-day lives unobtrusively. Traditional banking services have been democratized, and a new competitive landscape, driven by consumer demands, is taking shape. These shifts have been accelerated by the COVID-19 pandemic. This is an opportunity for banks in emerging markets to step forward with confidence and adopt a new approach to banking that is customer-first and technology-led. Resilient infrastructure for the new banks will need to be contextual, comprehensive, connected, composable and cloud-native. And the sooner banks invest in it, the faster they will reap the benefits.

vii https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-services/deloitte-ch-fs-Cloud-for-Swiss-Banks-report-digital.pdf