



Banking Trends and Way Forward

An emerging APAC market perspective

A millennial population marching towards more evolved digital banking

Banking in the APAC region is showing early signs of a paradigm shift. A growing economy with a large millennial population has been steadily shifting towards a more evolved form of digital banking, which is both quick and contextual. While Neobanks and Fintechs have been the trendsetters, full suite banks in APAC too have been taking proactive steps in providing a better banking experience to their customers.

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Incumbent banks in countries like Vietnam, Malaysia, Indonesia and Philippines, will have to carefully analyze the trends in their region and adapt their goals for transformation. Further, banks will need to take into account the evolving technology, regulations and market expectations.

Read this article authored by Paramdeep Singh, Partner, Executive Vice President & Head - Asia Pacific, Intellect Global Consumer Banking (iGCB), to understand the 5 key trends which are impacting Asia Pacific markets and how investing in a composable architecture can help Banks deliver the much desired contextual experience.

The Key Banking Trends



The shift to digital banking has been particularly significant with the realignment of the business outlook from product-centric models to customer-centric models.

As the economic shock of the pandemic slowly peters out, the APAC banking sector is on the road to recovery. That said, the rise of digital banking, new regulatory developments, and other factors have forced many institutions to rethink how they structure and deliver products to their customers. The shift to digital banking has been particularly significant with the realignment of the business outlook from product-centric models to customer-centric models.

But as the region's digital banking start-ups have discovered, customer expectations are higher than ever and have an increasing focus on personalized service delivered 'everywhere, all the time'. Let's take a look at some of the latest emerging trends in APAC banking and examine how banks can evolve in order to keep pace with a burgeoning fintech sector.

The Key Banking Trends

Millennials make up

30%

of the APAC population and represent the largest banking segment in APAC.¹

Platformification of services is booming.

78%

of SEA consumers viewing service platforms positively.²

The unbanked are a key target market.

29%

of APAC consumers still don't have a bank account.³

The neobank explosion has driven

54%

of APAC citizens to open a digital wallet.⁴

In 2021, large APAC banks participated in a staggering

53 fintech equity rounds.⁹

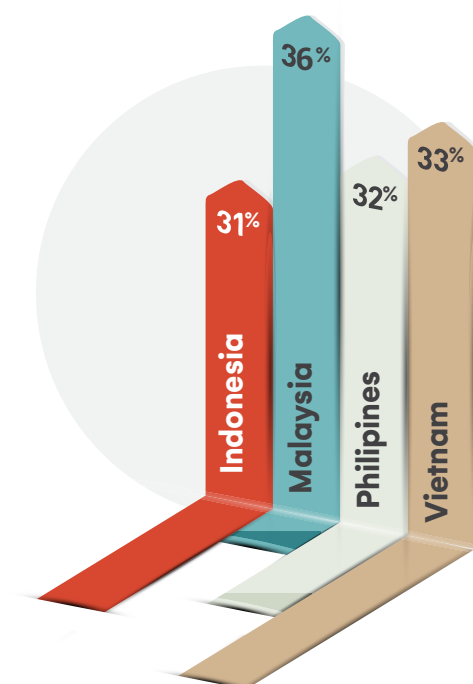
Studies have shown that nearly half of adults in Southeast Asia alone (about 200 million people) don't have a bank account. In addition, a further 90 million people only have access to basic banking services without the benefits of investment, insurance, or credit products.⁵

Take Indonesia, for instance, where the prospect of building the physical banking infrastructure to service 275 million spread across thousands of small and large islands leaves many financiers queasy.⁶ However, where traditional Asian banks have failed to act, fintech and digital banks have stepped up to the challenge with entirely app-driven service portfolios that are steadily gaining market share among both younger and older generational cohorts.



Trend 1

Millennial Banking is the New Normal



Country-wise millennial population

■ ■ ■ ■ % of millennials (out of total population)

By 2025, millennials will comprise more than 60% of the global workforce, making them the primary banking target market.⁷ For many APAC millennials, the economic crises of the recent past have painted a bleak financial picture, with home ownership plummeting and many unsure of meeting their financial goals. However, on the flip side, the start-up generation paired with a resurgent, post-pandemic economy has triggered an increased demand for business loans and hyper-personalized financial services. Banks should realign their products and overall experience with the financial needs of the Millennial customer.

Trend 2

The Platform Economy is here to Stay



The term omnichannel is more relevant than ever, with fintech players using APIs to embed their products across different touchpoints in the user's day-to-day engagements.

Banking-as-a-service is increasingly becoming the preferred customer engagement model, with digital bank adoption growing to 88% in 2021 across emerging APAC markets.⁸

More and more banks are coming to terms with the need to transform their infrastructure into a cloud-based, coreless model that offers lower TCO and on-demand scalability while also allowing for shorter product development cycles and expanded customer accessibility. In fact, the term omnichannel is more relevant than ever, with fintech players using APIs to embed their products across different touchpoints in the user's day-to-day engagements and creating a new open banking ecosystem in the process.

Trend 3

Unlocking the Unbanked

A large part of APAC adults still remain unbanked. They represent an untapped FS market worth billions of dollars. This segment has been inadequately served by traditional banks, mainly due to low service penetration outside of highly urbanized areas. However, the smartphone revolution has created the opportunity to tap into this market – this is particularly true for neo and challenger banks since they offer low-friction user experiences that dispense with the cumbersome KYC and authorization protocols typical of traditional banks.

Population without access to the banks or similar organizations¹⁶ – 2021

69%
Vietnam

51%
Indonesia

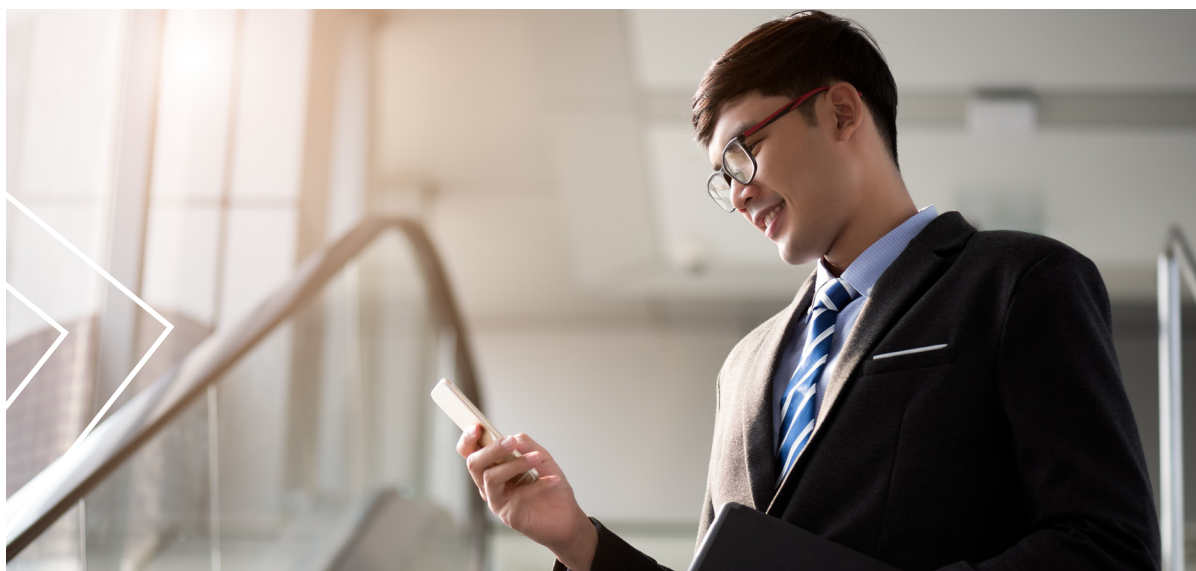
15%
Malaysia

66%
Philippines

Trend 4

The Neobank Explosion

Digital banking services are gaining ground in core banking services in all emerging APAC countries, with adoption reaching new highs. **Fintech app and e-wallet penetration rose to 54% across the region in 2021, from 54% in 2017, while cash usage fell to about 30% of total transactions – a critical metric in a geography that has long been dominated by cash.**⁹



Trend 5

A New Financial Ecosystem

Increasingly, major banks are seeing fintechs as potential collaborators. For a while now, the larger banks in APAC have been strong fintech investors, and some see this as precipitating their expansion into the region's emerging markets. **For example, in 2021, large APAC banks participated in a staggering 53 fintech equity rounds.**¹⁰

Understanding the gaps

The attraction of fintechs lies in how their services are available at multiple touchpoints and their total eschewing of physical branches. Open banking innovations have made it much easier for third-party financial service providers to access banking data (via API), and this has had a real impact. Roughly 60% of consumers across APAC state that they might consider switching to an entirely digital bank, while surveys show that affluent customers would be willing to move over 30% of their portfolios to a digital bank.¹¹

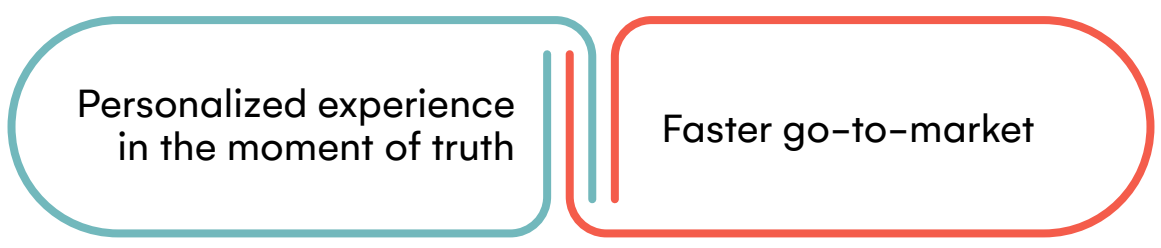
- In emerging markets like the **Philippines**, the unbanked comprise over 70% of the adult population, and many of them are accessing financial services via smartphone for the first time rapid growth of e wallets.
- In neighboring **Indonesia**, where the middle and affluent economic classes have seen massive growth in the past three years,¹³ searches for deferred payment services and online loans grew by 84% and 96%, respectively.¹⁴
- In **Vietnam**, consumers across rural and urban markets are rebounding from the shock of COVID with a renewed interest in

the digital economy. This year saw a 91% increase in searches for shopping discount codes – a development that neobanks, with their ubiquitous multi-app integrations, are poised to take advantage of. Similarly, greater financial literacy and digital penetration have resulted in +100% increases in searches for online stock trading and cryptocurrency, with a significant amount of interest originating in rural populations.¹⁵

These numbers reflect growing gaps in the APAC financial services market between what traditional banks offer and what consumers demand. These gaps are, in turn, being filled by new, digitally savvy entrants to the market but threaten to widen into an uncrossable chasm unless traditional players act fast.

Learnings from the Digitally Savvy banks reflects two common elements that stand out strongly – **Contextual offerings** catering to the customer's need in the moment of truth and **Composable solution sets**, which allow banks to go to market faster.

Two key goals for banks looking to be future resilient



Personalized experience
in the moment of truth

Faster go-to-market

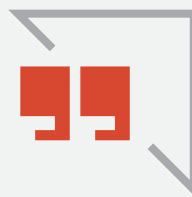
Contextual Banking: The Smarter Way Forward

Today, banks exist in a world where consumers are used to high levels of personalization, where they can instantly stream content on smart platforms that make AI-driven viewing suggestions, where they acquire tailored apparel without ever visiting a store, and where they can travel anywhere with a few taps on their phone, or successfully rent out a property entirely on their own terms. **These developments have been made possible by digital channels and increased interactivity, but behind them lies a wealth of data, collected at every opportunity and leveraged in real-time.**

At this point, we think it's fair to say that customer expectations of digital experiences are at an all-time high.

Is it too much of a stretch to expect the same level of accessibility and ease of use from financial products? As evidenced by the growing shift from traditional to digital banking, the APAC consumer certainly seems to think so. Contextual banking offers a way for banks to redress this imbalance. Not only does it give customers an evolving set of offerings that are customized to their circumstances, but it also takes the notion of banking to a deeper, more personal level. Contextual banking allows banks to create products and services that understand their motivations, their financial challenges, and address obstacles in the customer's path to financial success and stability.

Effective contextual banking needs more than just data and AI suggestions. It requires a concerted customer experience strategy, imagined by business leaders and brought to life by banking CIOs.



For example, many ride-sharing apps have launched a debit product that lets drivers spend their earnings instantly on in-shift expenses such as fuel or repairs. Similarly, thousands of e-commerce business owners and entrepreneurs across APAC might find it handy to have a banking service integrated into their preferred online marketplaces and sales platforms. These examples illustrate how banking can become truly customer-centric by bringing products and services to the touch points that are integrated into technology-powered lifestyles.

Extended to the enterprise space, contextual banking makes even more sense. Why wouldn't you want banking integrated into your ERP? As a CFO, why would you want to wait weeks for reconciliation if a service provider could offer you an instant, real-time view of your entire accounting value chain?

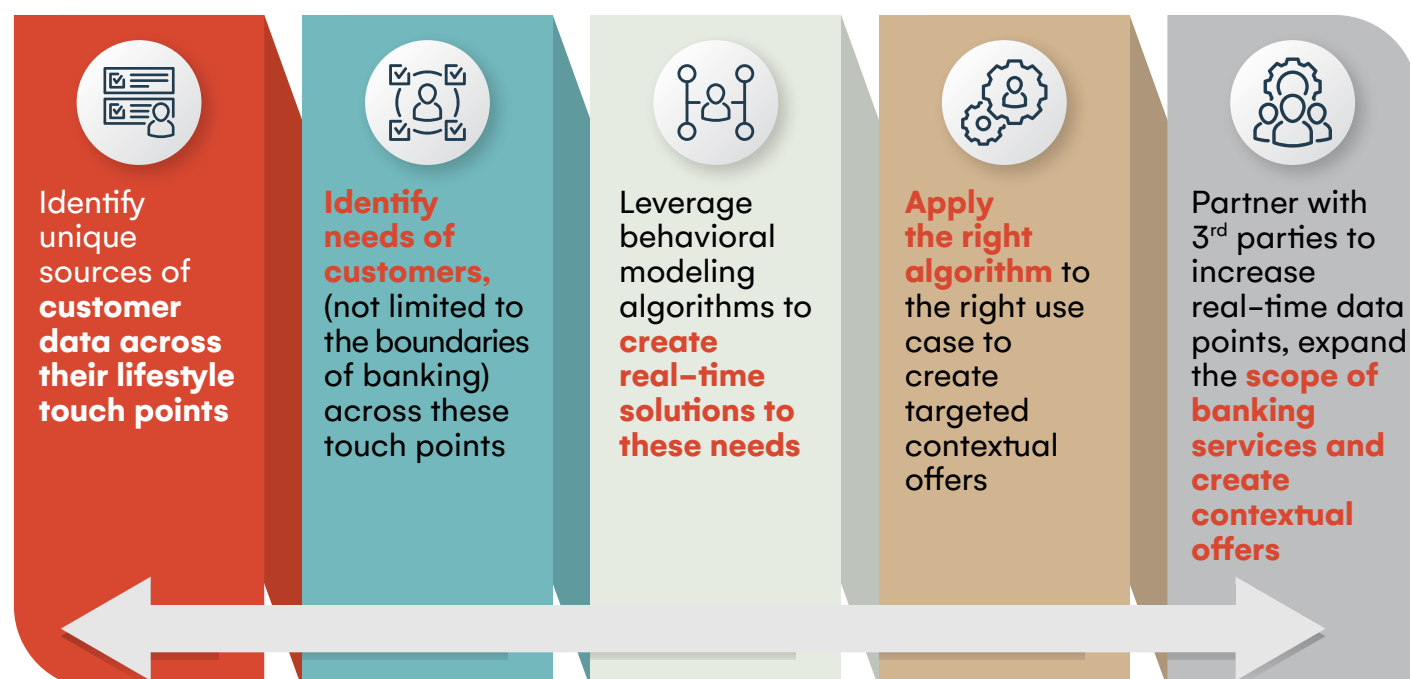
While the thought of having to integrate your banking services into multiple applications and platforms may seem daunting, technology has greased the proverbial slide. Open APIs allow banking platforms (whether legacy or coreless) to communicate with thousands of applications simultaneously and are relatively inexpensive to build and launch.

The idea of contextual banking also raises the question of partnering with fintech firms instead of viewing them solely as threats.

Partnerships that leverage fintech's innovation, agility and technological expertise with traditional banks' large customer base and massive data resources will spell the beginning of a merger between traditional and neo banking ecosystems.

This is particularly key in emerging Asia, where a combination of big brand trust and the ability to launch fresh products and services via low-friction digital channels may be essential to capturing new markets.

Approach to contextual banking



Transforming Faster with Composable Architecture

Contextual banking may be the go-to strategy as far as customer experience is concerned but transforming core banking systems to support a contextually driven ecosystem of products requires a new technological approach – composable banking architecture.

Composability is built on the idea that banking systems should comprise of many different components that can be quickly assembled and configured to address specific system requirements, just like Lego blocks. In the context of financial services, it means that banks will have to move legacy cores to a cloud-based architecture, with containerized microservices delivered on demand, as opposed to the rigid workflows, siloes, and limited data conduits in traditional bank systems. The benefits of composable banking are myriad but chiefly revolve around lowered TCO, increased personalization, and faster time-to-market.

Instead of having to hard code new systems from scratch, composable systems allow software engineers to assemble new products from a library of components. That translates into fewer resources spent building baseline functionality, which can be repurposed toward delivering exceptional customer experiences.

Composable architecture lets banks quickly tweak products and add features to suit evolving demographics and customer needs without having to worry about glitches and long testing cycles.



Approach to creating a composable transformation strategy

- 1 Create a transformation roadmap visualizing the desired end-state, in terms of business offerings and customer experience with scope, budget and timelines.
- 2 Identify the **right solution partners and ecosystem partners**
- 3 Create a **thorough data migration plan**
- 4 Choose the **right cloud based approach**
- 5 Leverage a agile delivery approach for a **progressive transformation**

The Time to Wait and Watch is way past.



The pace of technological and experiential change in banking has been unprecedented and will only continue to accelerate as low-cost devices and connectivity proliferates. If you thought the last ten years of disruption and innovation were a rollercoaster ride, prepare for lightspeed maneuvers over the next decade.

In response, CIOs and business heads must align towards tech-enabled business agility.

In fact, to effectively compete in the fintech era, CIOs will have to work with business leaders to overhaul both their technology foundations and their approach to customer acquisition.

Composable architecture offers stakeholders a means to achieve this overhaul with minimal risk, by enabling contextual products to be quickly and seamlessly rolled out, while delivering a friction-free customer experience.

Ideally, while taking the composable route, banks should look for a platform that allows for them to create composable offers via a progressive route, rolling out MVPs as a collection of modular components. CIOs that are able to work successfully with business leaders in pursuit of these objectives will be able to deploy agile, flexible customer engagement models while connecting the right dots in terms of digital banking and e-commerce partnerships

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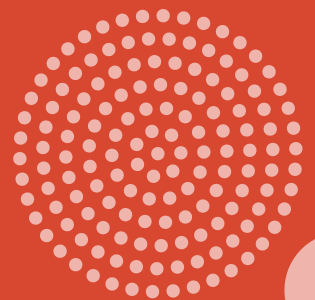
Resources

- ¹ <https://twimbit.com/banking-reimagined/millennial-banking-in-apac>
- ² https://techforgoodinstitute.org/wp-content/uploads/2021/10/UPDATED_TFGI-Bain_Full-Report.pdf
- ³ <https://www.statista.com/statistics/1040575/apac-share-of-banked-population/>
- ⁴ <https://www.mckinsey.com/industries/financial-services/our-insights/emerging-markets-leap-forward-in-digital-banking-innovation-and-adoption>
- ⁵ https://www.bain.com/globalassets/noindex/2019/google_temasek_bain_economy_sea_2019_report.pdf
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- ⁹ <https://www.mckinsey.com/industries/financial-services/our-insights/emerging-markets-leap-forward-in-digital-banking-innovation-and-adoption>
- ¹⁰ <https://www.spglobal.com/marketintelligence/en/news-insights/research/major-apac-banks-could-embrace-fintechs-in-emerging-asia-for-next-wave-of-growth>
- ¹¹ <https://www.mckinsey.com/industries/financial-services/our-insights/emerging-markets-leap-forward-in-digital-banking-innovation-and-adoption>
- ¹² <https://www.thinkwithgoogle.com/intl/en-apac/consumer-insights/consumer-journey/digital-finance-transformation-philippines/>
- ¹³ <https://www.bcg.com/publications/2021/digital-banking-asia-pacific>
- ¹⁴ <https://www.thinkwithgoogle.com/intl/en-apac/marketing-strategies/search/pandemic-accelerated-inequality-indonesia/>
- ¹⁵ <https://www.thinkwithgoogle.com/intl/en-apac/marketing-strategies/search/lifestyle-changes-pandemic-vietnam/>
- ¹⁶ <https://www.statista.com/statistics/1246963/unbanked-population-in-selected-countries/>

About Intellect Global Consumer Banking (iGCB)

iGCB, the Retail and Central Banking Solutions arm of Intellect, offers an end-to-end Contextual Banking suite for retail and corporate banking across Core Banking, Lending, Cards, Digital Banking, and Central Banking. Its unique blend of integrated functionality and agility is made possible by its Microservices-based, API-first, cloud-native architecture with powerful integration capabilities.

iGCB brings to the table a deep knowledge of the developed and developing financial market space and seeks to be the Innovation Partner for those who are passionate about transforming the future of fintech!



The Author



Paramdeep Singh

Partner, Executive Vice President &
Head - Asia Pacific, iGCB,
Intellect Design Arena



www.igcb.com



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