



ASIA PACIFIC FINTECH MONTH 2022

DIGITAL BANKING MATURITY

Across Asia Pacific, financial companies are seeking to establish a share of the digital banking market. During CFA Institute Asia-Pacific FinTech Month 2022, Bank Islam Malaysia's Fatin Nabila Sam moderated a panel discussion on how aspiring digital banks can succeed. The contributors included Sam Ho, alternative chief executive and CFO of Ant Bank Hong Kong; Siva Raj Jeyarajah, executive vice president of Maybank; Dharmasri Kumaratunge, assistant governor of Central Bank Sri Lanka; and TengFu Li, assistant vice president and analyst of Moody's Investors Service.

The panellists agree that the pandemic hastened the rise of existing digital banks and innovations by incumbents, with consumers often shaping preferences and behaviour. At the same time, traditional banks face the challenge of maintaining branch networks and the realisation that millennials are very different from their parents' generation. Key characteristics of this younger social strata include a limited loyalty to brands and a desire for convenience and efficiency. Against this backdrop, disrupters have an immense opportunity, while incumbents must embrace innovation to stay relevant.

SIGNIFICANT OPPORTUNITIES ACROSS APAC

While internet banks have existed since the early 2000s, "It wasn't until the advent of the smartphone that mobile banking became a reality," says TengFu Li. This online transition required an easing of financial regulations so new entrants could take on the dominant players on a more level playing field. In addition, regulators realised the need for more competition to improve efficiency and drive financial inclusion. "The segment of underbanked and underserved represents a massive opportunity that stretches from China to the more populous nations in Southeast Asia," Li adds.

REGULATIONS: BOON OR BANE?

Regulators, however, are understandably nervous. Potentially positive outcomes can be gained, such as financial inclusivity among the unbanked and reaching a younger segment of the population, but "the authorities worry about safeguarding financial stability and consumer protections," observes Kumaratunge. Although some see these regulations as an impediment to progress, being careful offers a value proposition. Failure would hurt the individual depositor and the economy on a broader level.

Taking a cautious approach of capping the size of digital banks and enforcing a trial trading period could contain any potential mishaps. Kumaratunge also believes that “regulators and aspiring players are on the same learning curve.” If done well, consumers would have greater confidence in these new banks. Once these businesses gain sufficient heft, the training wheels can come off, and they should be able to operate under the same rules as traditional banks.

INGREDIENTS FOR SUCCESS

The panel summarises the following key elements of a successful digital bank. Digital banks should

- serve a large market, such as Indonesia or the Philippines;
- compete with established institutions on an equal footing by, for example, performing real-time transactions and having a robust regulatory framework;
- have a well-supported ecosystem, for example, being plugged into an e-wallet or an online shopping platform with a ready pool of potential customers; and
- develop technological know-how, which may seem obvious, but many incumbents suffer from being entrenched in legacy systems, hindering their ambitions to turn fully digital.

There are caveats. Given intense competition, not all digital banks will be profitable. Public trust is lacking, too: customers may be willing to test the water by depositing a trial amount but not their entire life savings. Also, machine learning has had a limited test period and remains untested over a complete financial cycle. Although the recent market correction in tech valuations has made it harder to raise capital, and some expansion plans have been put on hold, the panellists all agreed that change is inevitable, no matter how undulating the process.