

## The ASEAN Retail Banking Agenda

The world of banking, in general, and retail banking in particular is going through an era of unprecedented growth and overwhelming change. In 2006, across the world, retail banking brought in \$1220 billion in revenues which accounted for 57 percent of global banking revenues. Even for the top 10 banks worldwide, retail banking represents, on an average, 37% of the total revenue pie.

At the same time, the industry is facing increased global competition, a transition to e-products, and a slew of regulations. While technology has allowed banks to expand activities and operations, increase efficiency, and automate functions, it has also presented new challenges in terms of ensuring agility, innovation, security, standardization, and cost-effectiveness.

Most importantly, the changing needs and behavior of customers have become a critical consideration for banks. Not only are customers more demanding and tech-savvy, but they are also seeking convenient and efficient banking. Customers are increasingly rewarding better offerings and penalizing inferior service.

Retail banking represented a steady 60 to 70 percent of all revenues in most markets around the world from 2000 to 2006.

Though Asia's banking systems were shaken by the 1997 currency crisis, growth is paving the way for prosperity once more in Southeast Asia, with the Association of South East Asian Nations (ASEAN) region entering a high-growth period.

While growth opportunities for retail banking in Asia are among the biggest and potentially most lucrative, banks will have to move quickly to seize opportunities generated by the key drivers of retail banking in the ASEAN nations: modern consumers, growing prosperity and the promise of new technologies.

This paper outlines the imperatives impacting retail banking products and services with specific reference to the ASEAN nations, and explores what banks need to do to forge a winning strategy in the dynamic and demanding retail banking market.

## Imperatives in Retail Banking Products and Services

Growth requires innovation and flexibility in products, services, strategy, mindset, technology, processes, and operations. As the retail banking sector across the world and in the ASEAN countries grows, banks must adapt quickly to the changing global marketplace.

ASEAN's burgeoning population, economic growth, and relatively underdeveloped retail banking services provide the most significant growth opportunities for banks. To capitalize on the opportunities the region offers, banks will have to effectively serve the retail banking segment.

Let us examine the key drivers and trends in retail banking.

### 1. Maximizing globalization

Even as globalization offers retail banks greater opportunities, it is unleashing new threats that banks must overcome to succeed in the hyper-competitive world. The imperative of globalization is pushing retail banks beyond geographic and product-centric boundaries. Bigger global players are seeking to gain a foothold in newer markets such as the ASEAN nations via mergers and acquisitions or through Greenfield projects. At the same time, dominant local players are seeking to retain and grow their market-share, even as they plan to go global.

CIMB Group, Malaysia's second largest financial services provider, already has a foothold in more than 10 countries, and is believed to be buying at least 10% of Yingkou Commercial Bank Co Ltd in Northern China, according to a March 12, 2008 Reuters report. In Thailand, foreign players are looking for openings in a market that has plenty of room for growth. GE Money bought 25% of family-owned Bank of Ayudhya in 2006. In July 2007, that stake was increased to 31%. In October 2007, ING followed, hoping to take a 25% stake in TMB, a sizeable state-owned lender belonging to Singapore's DBS. In early 2007, Canada's Bank of Nova Scotia agreed to pay about \$200m to acquire 25% of Thanachart Bank, Thailand's eighth-largest lender and a leading car financier.

Such maneuvers can dramatically alter the banking landscape and increase competition among the remaining players. ASEAN's small

banks are finding it a challenge to remain competitive with the entry of more foreign banks and multinational giants. Merged banks must fight aggressively to reach out to customers even as they align processes and technology. Banks not taken over by global players need to rethink their strategy and structure to reflect the changed reality.

## 2. Standardize processes

Globalization, M&As, the need to cut time-to-market, and, above all, demanding customers are driving retail banks to re-organize their back office and standardize processes. Banks need to know, understand and service their customers better: give them tailored products at a lower cost, manage their information effectively and coordinate multiple product channels. All of this must be achieved while continuously improving the efficiency and security of operations and processes. Only then can banks hope to retain and gain customers.

As a bank adds products, services, employees, channels, and customers, its IT environment becomes increasingly complex. In such a situation, a bank can deploy a central back office which can maintain standardized operations across geographies.

Such a core operation needs to be robust and have the flexibility and capacity models to modularize and standardize processes. It needs to be able to address the needs of demanding and diverse customers and roll out new products quickly and efficiently. The processes a back office handles must be standardized across borders, products and legal frameworks. This is imperative in today's multi-zone and multi-entity environment. In addition, many of the regulatory guidelines aim at standardization to help build trust and credibility for banks through compliance with regulatory standards.

Therefore, to capture greater wallet-share, retail banks will have to centralize back office operations and standardize processes.

## 3. Customer-centric operations

The maxim about the customer being king has never been as relevant as in today's retail banking environment. To win the battle for growth retail banks need to gear their cultures toward rolling out the red carpet for the customer. This means

putting customers' needs first.

The customer base is varied, especially in the ASEAN countries. For example, Indonesia has a fast-growing high-net-worth individual (HNWI) population, with 2006 gains of 16%. However, according to the ASEAN & India Newsletter Fall 2007, in Vietnam, individual account-holders make up less than one-third of this number and only about 6 percent of the total population. Banking assets amount to about \$75 billion (some 123 percent of GDP) at the end of 2006, compared with \$226 billion (110 percent) in Thailand and \$302 billion (195 percent) in Malaysia.

Customers are redefining the rules of the game. The retail banking industry will be forced to adapt to rapidly changing and increasingly diverse customer expectations. Customer diversity and individualism pervades buying behavior as individual customers demand services that fit their needs and meet their expectations. Failing this, they will be quick to shift loyalties to a bank that offers them what they need. Shifts in demographics, incomes, attitudes and behavior, in addition to information, are giving customers the power to demand much greater responsiveness and transparency from their banks.

As a result, retail banks have begun to rethink what, where and how they serve an increasingly informed and demanding customer base. They need to develop products for each customer before the bank around the corner goes to market with a better product. All this must be done even as they cut costs and work to increase market-share.

Retail banks in the ASEAN nations have taken steps in this direction by opting for Islamic banking options and meeting the needs of HNWIs. Malaysia leads the region in Islamic finance and has top-ranked banks such as Bank Islam. The increasing HNWI population in the region had led to great demand for private banking and wealth management services. This segment is growing the fastest in Singapore as compared to the rest of the region. The city-state saw a double-digit growth of 21.2 percent in its HNWI population. Such customers generally demand very high service levels and a vast range of specialized products.

All ASEAN retail banks must build a performance culture centered around the customer. Staff incentives linked to customer satisfaction and service levels will make for distinctive customer experiences. Banks require an IT infrastructure which builds and refreshes a comprehensive picture of customers and also protects their privacy and security. The IT infrastructure coupled with the bank's policies must empower and motivate staff to serve customers better and faster. This should not only improve productivity within the bank, but also improve customer service efficiency.

For this, retail banks need insightful metrics on each customer's needs, attitudes, and finances to allow them to gain a 360-degree unified and common view of their customer. Only by integrating information and procedures across channels with flexible technology and an open organizational culture can financial institutions satisfy today's customers. Armed with this approach, they can be confident of providing a great experience which can help capture the fickle interest of today's tech-savvy customer.

#### **4. Innovation and agility**

Given the increasing competition in the retail banking industry and rapid technological evolution, how do banks meet these challenges? There's only one route to achieve this — through product innovation and organizational agility.

Banks also need to bundle products and give add-ons to attract customers before competitors do so to capture an ever-larger slice of the market. One solution would be to invest in technology infrastructure that presents a ready-to-use repository of re-usable components and ready-to-configure product parameters to help business users at the bank churn out attractive products faster and more effectively.

Business agility is a fundamental imperative for retail banks to address unpredictable market demands and take on competition. Retail banks must anticipate trends and develop the ability to deliver rapidly. Investing in an appropriate IT landscape, managing data effectively, training employees, and creating a dynamic culture are prerequisites to improving business processes and as a result the customer experience.

#### **5. Costs, Automation and Scalability**

With the steady fall in interest rates, customers are looking for alternate avenues for savings and

investments. Thus, revenue opportunities have become very thin for banks, with customer needs having grown increasingly sophisticated and competition having intensified. In such a scenario, a retail bank's efforts at increasing wallet-share can come to naught if it is unable to put in place a cost-effective structure.

Banks need to keep fixed costs low even as they optimally grow infrastructure if they seek to deliver on the retail promise, driven by a business that is in essence high volume and low value. This can be ensured through a scalable technology platform and automation. To serve the evolving needs of this marketplace and changing regulations, banks require the scalability to welcome new customers, agility to create appropriate banking products tailored for different customers, and readiness for mobile and web-based transactions integrated with branches, call centers, ATMs and the web. Above all, the automated process needs to be error-free and secure to fulfill customer satisfaction.

In addition to driving down 'per transaction costs' such a technological initiative prepares banks for consolidation and helps increase efficiency, especially enabling smaller players to compete effectively with larger conglomerates.

It can also play a significant role in successfully driving 'Green IT' initiatives to address global warming and other environmental issues.

### **Conclusion**

Banks need to align and integrate processes across channels and the various entities of the entire organization, while leveraging IT to deliver a customer-centric experience. The customer-centric approach is the most effective way to attract and retain clients, while continuing to expand business through related products and services. As banks look to expand in retail banking, they can leverage their knowledge from various markets along with robust back office infrastructure to better serve customers.

Banks across the ASEAN region are recognizing the value of the customer, and are evolving toward increasingly customer-centric models. The region's growing prosperity means more money is flowing through the banking system — which should translate to more profits for retail banks if they go about their business in an efficient and effective manner, with innovation and out-of-the-box strategies thrown in for good measure.

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