

Title: Banks gearing up for change

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Innovative technologies, changing customer demands, and shifting regulatory landscapes are transforming the global banking industry.

John Garvey (left), Global Financial Services leader of professional services firm PwC, and **Grant Dennis** (right), general director of PwC Consulting Vietnam, discuss the impact of these trends on Vietnamese banks and their shift towards a more customer-centric and digital mindset.

What are the biggest trends for banks around the world right now, including Vietnam?

● **Garvey:** The emerging focus areas are, firstly, new digital competitors and how to deal with market disruption, and secondly, how to transform the current workforce for the digital age. In many places, the third major item on the minds of executives is around re-establishing trust between financial institutions, the broader populace, and regulators. That is what is driving major efforts around digitisation. With legacy financial institutions, there is a lot of work that we are doing on workforce transformation.

● **Dennis:** The global trends are only a very short way away from hitting Vietnam. Many Vietnamese banks are trying to digitise their businesses to be more customer-centric, with faster customer services. A lot of technology is being purchased and implemented, and more banks are

Banks gearing up for change



transforming their workforce for the digital age. Cybersecurity and anti-money laundering regulations are also high on the agenda at Vietnamese banks, similar to their global peers. So what is happening here does not deviate much from the global trends.

On the global scale, how are banks affected by fintech? Is it a friend or foe for banks?

● **Garvey:** There are three international trends in this area. First, most fintech firms have become partners to banks, instead of becoming competitors, so they are indirectly regulated through the banks. The banks are supposed to be responsible for the entire chain, including where the fintech firms operate.

Second, fintech companies that are not co-operating with banks have become digital-only banks and are subject to the full set of regulations just like brick-and-mortar lenders.

Third, regulators in many countries are creating special licenses for limited-use fintech banks that are different from normal brick-and-mortar ones.

Take Apple Pay as an example. Banks spent several months figuring whether Apple is a partner or a competitor and

vice versa. Ultimately, Apple decided that it did not want to be regulated like a bank and realised that it had to partner with banks. Likewise, banks realised that Apple was not taking revenue away from them. Apple was actually facilitating additional payment flows towards its favourite lenders. That is a concrete example of how fintech firms and banks started off not knowing whether they were friend or foe and then ended up partnering with each other.

What about the Vietnamese fintech sector? How do you see it progressing in the near future?

● **Dennis:** Fintech firms have received quite a lot of attention in Vietnam lately, thanks to their success in promoting different platforms for payment, personal finance, and investment activities. The regulatory framework for their operations has been gradually improved to allow for more accessibility and reliability. The State Bank of Vietnam has also set up a Fintech Steering Committee aimed at encouraging the development of fintech companies in Vietnam.

Still, Vietnam currently has a lower level of fintech devel-

opment than Asian neighbours, as is evident in the lower number of fintech companies operating here. Part of the reason is that investment capital has not been available. There is also some concern around the bilateral use of cloud services, whereas fintech firms essentially need cloud services to be effective.

● **Garvey:** To follow up on that point, I think it is a critical question of the regulators getting comfortable with the use of the public cloud and the banks understanding how to better control and secure it. Therefore, measures like data masking are very important. In Singapore, for example, the Monetary Authority of Singapore has recently allowed local banks to use the public cloud as long as the data is anonymised, meaning that the personally identifiable pieces of information are taken out. Of course, this would require more work in terms of the infrastructure, the design of the end-to-end services to clients, and security and privacy laws.

How can banks, including those in Vietnam, adopt a customer-oriented mindset in their operations?

● **Garvey:** There are a number of actions we see globally to improve client-centricity. First, banks are becoming less product-focused as they move towards adopting customer lifetime value modelling and measurement. Second, they are putting all forms of distribution under common control, from branches and telephone to mobile. Third, regulation in

many countries is driving better behaviour, in areas such as fair lending and complaints. All of these changes require much better controls and changes in culture and business models. Lastly, digitisation in banks is focusing on the customer experience, from integration of fintech firms and leveraging social media platforms.

● **Dennis:** What is important is for banks to look at the lifestyle of each customer and understand what needs or ambitions they have, whether it is to buy a car, buy an apartment or start a family. Banks should be in a position to help the customer achieve those personal goals through the use of their services, such as savings, loans, life insurance or third-party products like health insurance.

Further, banks should be able to envision the needs of the customer and offer respective services even before the customer knows or asks for them. This is possible through proactive data analytics-driven customer insights, enabled by smart technologies and very often by partnering with fintech companies or other solution providers.

How do you think free trade agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will affect the global banking sector and Vietnam?

● **Garvey:** Since the global financial crisis, banking has transitioned from being international to being much more national and regional. This

de-globalisation is mostly because of regulations around a number of elements, including capital. Looking at it in a simplified way, banks used to be able to put capital in one place and dynamically allocate it to different countries, depending on the business needs. Now, banks have to put fixed capital in every country they do business in. So I do not think trade agreements would be a big factor in terms of opening cross-border banking. As long as you have different regulators and different capital rules, banking will mostly remain a local or regional thing.

● **Dennis:** Yet from an operational sense, with the free trade agreements coming into force, there will be more opportunities for trade of goods and services across borders. At the moment, the sophistication of the trade finance systems and services in Vietnam are low. So there is significant room for Vietnamese banks to enhance those services. They can automate and digitise lease, credit, and trade finance, among others. Banks can introduce more sophisticated services that will be demanded by importers and exporters. If you look at the service revenues of local banks, they have grown very fast in recent years. The cost of capital is low so interest revenues have not grown very strongly, but many banks recorded service revenue growths of 20-40 per cent last year. Thus, I think that trade finance, lease, and credit will continue to be big growth opportunities for Vietnamese banks because of the trade agreements. ■