

# EVOLVE OR BE EXTINCT

Why banks must redesign their role within society

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## REGIONAL SPOTLIGHT: APAC

Can banks pursue innovation quickly enough as the pace of change accelerates?

Banks in Asia Pacific (APAC) are leading the world in their investment in technologies such as big data, machine learning and blockchain as they prepare for a new type of relationship with customers. Our new global research shows that banks across APAC are pursuing new approaches to innovation in a scramble to stay relevant in the wake of the Covid-19 pandemic.

Such investments will be critical if APAC banks are going to survive and prosper in a market landscape that is changing quickly. Our research reveals that although 59 per cent of APAC banks believe they could cease to exist within the next five to 10 years if they do not make significant changes to their operating models, the region is lagging behind on digital

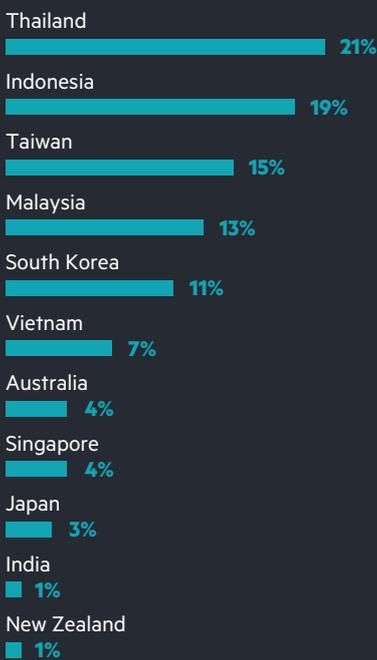
transformation. Less than a third of APAC banks describe their digital transformation strategy as mature or advanced; in North America, it is almost half of banks.

As they try to catch up, many banks in the region are aiming for a step-change in their technology competencies: 40 per cent plan to significantly increase investment in big data; 37 per cent expect to spend significantly more on machine learning; and 34 per cent are targeting distributed ledger technologies such as blockchain. In each case, APAC banks are more likely to be investing significantly in these areas than their counterparts in other regions. They also see artificial intelligence, the Internet of Things and digital twins as key areas for investment.

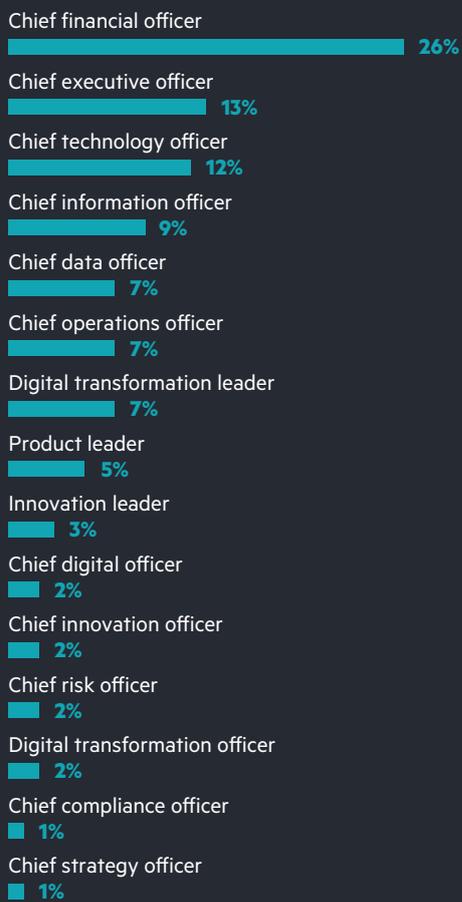
# ABOUT THE RESEARCH

We surveyed 517 senior global banking executives during April 2021. APAC countries accounted for 19% of the total sample. The breakdown for this group is as follows:

## COUNTRIES



## JOB TITLES



## REVENUES (AUM)



# FOSTER AN INNOVATION CULTURE THROUGH NEW PARTNERSHIPS

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Increased technical competency will support transformation, but APAC's banks also need to embrace cultural change in the way they approach innovation.

"We need to make decisions more quickly and get to a point where we're confident in projects before we've invested a whole lot of money or time," says Bronwyn Jones, head of digital innovation at ANZ Bank in New Zealand. "We do a lot of piloting, going one step further than proofs of concept with live pilots with real customers. We're developing a real discipline about how we go to market."

New thinking about partnership and competition is another important side of innovation, says Nimish Panchmatia, managing director and country head, global transaction banking at DBS Bank in Hong Kong. "We think one of the biggest sources of growth over the next five years will be ecosystem partnerships," he says. "Where we are not necessarily the prime mover in every one but where we partner with third parties able to support the customer journey."

As consumers embrace a broad range of digital services in the wake of the pandemic, one example of this is property transactions, where Panchmatia suggests

DBS could provide mortgage finance and within its digital ecosystem offer access to everything from home insurance to renovation services.

"We don't restrict ourselves in terms of who we partner with," he says, pointing to alliances with tech companies, fintechs and a range of smaller service providers. "We don't look at these third parties as competition or worry that they will take a share of our price — we have to come up with new ways of creating revenue streams."

But to do that, banks will need stronger relationships with customers who rely on them both as product providers and ecosystem convenors. In our research, 54 per cent of APAC banks say that increased trust in their brand is the biggest potential benefit of moving towards a customer-centric banking model, ahead of other gains such as increased revenue and new product development opportunities.



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BRONWYN JONES,  
HEAD OF DIGITAL INNOVATION, ANZ BANK,  
NEW ZEALAND

## RETHINK RELATIONSHIPS WITH REGULATORS



62 per cent of APAC banks suggest that outreach programmes that bring together regulators and market participants could support innovation.

These kinds of shifts are unlikely to be straightforward. Half of APAC banks worry that they lack key workforce skills necessary to transform, and a third are concerned that their legacy technology platforms are holding them back.

Another issue uncovered by the research is the regulatory environment: APAC banks are concerned that the authorities have not yet caught up with the pace of change. Across the region, 55 per cent of banks believe, to some extent, that industry regulation is suffocating innovation.

A related problem, according to Bronwyn Jones, is that banks often struggle to keep pace with partners operating outside the regulated arena. “When you try to

do something that is collaborative with a much smaller organisation that is not a bank or not subject to the same regulatory rigour, it can be quite prohibitive to suddenly place our levels of compliance on to them,” she says.

Many APAC banks are therefore keen to engage directly with regulators: 62 per cent suggest that outreach programmes that bring together regulators and market participants could support innovation. Similar numbers want to see APAC regulators adopt a model employed by counterparts in countries such as the UK, where so-called sandbox initiatives enable banks to develop new products outside the scope of the usual regulation.

## MOVE QUICKLY ON TRANSFORMATION



“The pace of change is so rapid that there is going to be significant disruption continuing in banking. The world requires banking services, but it might not require all those bankers.”

NIMISH PANCHMATIA,  
MANAGING DIRECTOR AND COUNTRY HEAD,  
GLOBAL TRANSACTION BANKING,  
DBS BANK HONG KONG

Despite these frustrations, many APAC banks are now beginning to make progress on transformation. Strikingly, 72 per cent of banks in the region say their speed to market with new products and services has increased over the past 12 months. This suggests that investment in new technology, combined with cultural change, is paying off.

Some banks in the region are making particularly rapid progress. Our research identifies a minority of banks around the world that are transforming at a faster pace than their rivals — because they are focusing on data technologies, shifting to more progressive thinking, and targeting customer-centricity. APAC banks account for 23 per cent of this group, despite only forming 19 per cent of the study sample.

Nimish Panchmatia urges banks that are moving more slowly to speed up — or risk being eclipsed. “The pace of change is so rapid that there is going to be significant

disruption continuing in banking,” he says. “The world requires banking services, but it might not require all those bankers.”

This is a worry shared by many in APAC: 81 per cent of banks in the region believe that technology giants such as Amazon and Google will hold the largest share of their market within five years — a higher proportion than in any other part of the world. And two-thirds of APAC banks expect to lose market share within two years if they fail to make significant progress on digital transformation.

So further innovation is now crucial, and both technological advances and cultural change have to play a role. There’s no time to lose, APAC banks must transform today to maintain their competitive edge.