DIGITAL REINVENTION DIALOGUES

Transforming financial services in Southeast Asia

THE ASIAN BANKER®
STRATEGIC BUSINESS INTELLIGENCE FOR THE FINANCIAL SERVICES COMMUNITY

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10

Exclusive and inspiring conversations with leading banks on their digital transformation journeys

Nguyen Hung, TPBank, Vietnam
Noel Santiago, BPI, Philippines
Adinate Widia, Bank Mandiri, Indonesia
Arapat Sangkharat, Krungthai Bank, Thailand
Xuan Thanh Nghiem, Vietcombank, Vietnam
Jahja Setiadmadja, Bank Central Asia, Indonesia
Nguyen Chien Thang, BIDV, Vietnam
Lito Villanueva, RCBC, Philippines
Robert Anghel, TMB Bank, Thailand
Henry Aguda, UnionBank, Philippines










The complete guide to digital innovation and technology transformation for 2020/21

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Reinventing financial services in the digital age

The financial services industry is witnessing the rise of some of the most exciting and disruptive innovations within and outside of the traditional banking sector. The pace of change in financial technology today is unparalleled, presenting new opportunities and challenges to industry leaders and decision makers.

Leaders have to navigate their banks through new possibilities and realities and not try to hold on to the business as they know it now. The sustenance of growth in an ever hasher operating environment marked by ever evolving regulations, the unrelenting pace of competition as well as mounting pressure on margins, is not one that can be done by optimising existing business models but by reinventing the business altogether.

Of course, banking is not just about technology, but leaders in the industry, including regulators, cannot ignore the very clear signs that the industry is going through its deepest transformation in history at this moment in time amid the ongoing COVID-19 pandemic.

In this Digital Reinvention Dialogue E-Book, The Asian Banker and Backbase have partnered to capture and publish a series of ten exclusive and inspiring conversations with chief executives and heads of digital, innovation, technology and transformation from leading institutions in Indonesia, Philippines, Thailand and Vietnam on their reinvention journeys.

We hope it can serve as your complete guide to digital innovation and organisational transformation in the region.

Foo Boon Ping
Managing Editor
The Asian Banker

The silver lining from any crisis is an opportunity to rebuild, recover, and, most importantly, reinvent.

As the COVID-19 pandemic unravelled across the world, the region as we knew completely changed. People were working, playing, shopping, and socialising online at unprecedented scale. Looking forward, as communities carve out their new normal, leaders must take on the mantle of driving innovation and change, leading in reinvention.

A research report by Backbase highlights that 2020 to 2025 will be a period of accelerated pursuit of digital-first by banks across Asia Pacific. Banks must unleash their potential to reinvent and innovate at speed in order to keep pace with competitors in an increasingly digital-first world.

In this e-book published in collaboration with The Asian Banker, successful leaders from banks across Southeast Asia share their take on what reinvention really means and how they look to apply those values to bring about innovative changes in their banks. Interestingly, many of them spoke about the need for sustainability in these plans, tapping into their foresight and industry trends to ensure that their decisions outlive the short-term challenges.

We are grateful for the candid sharing and inspiring stories from all the leaders. I hope that their experiences and insights will set you and your teams off on an expedition to reinvent the future of the industry.

Riddhi Dutta

Riddhi Dutta
Regional Sales Director of ASEAN & India,
Backbase

NGUYEN HUNG
CEO, TPBANK | VIETNAM

With a technology partner like Backbase, our time to market has been significantly shortened as it took only 10 months from kick-off to successfully migrate nearly three million customers to the new platform. And in the eighth month, TPBank's team could confidently take over the development process.

TECHNOLOGY IS ONLY ONE-THIRD OF THE ANSWER

NGUYEN HUNG
CEO, TPBANK

TPBank CEO Nguyen Hung shares how the bank's digital transformation is being anchored not just on technology, but also right mindset of its staff and process.

- TPBank's goal is to build a win-win partnership with neobanks and fintechs, instead of treating them as rivals
- TPBank investing in new and critical platforms such as AI, big data, biometrics and Open API
- The bank is undertaking POC (proof of concept) projects in its digital transformation initiative to plot ideas on reasonable scales and minimise financial loss and other risks

Tien Phong Commercial Joint Stock Bank, popularly known as TPBank, has been in the thick of digital transformation for years now as it aspires to be the leading digital bank in Vietnam. Although a relatively new financial institution – having been founded just in May 2008 – TPBank's digital banking services and products are becoming more and more diversified and friendly to customers.

TPBank prides itself as inheriting strength from strategic shareholders, including DOJI Gold & Gems Group, FPT Group, Vietnam National Reinsurance Corporation (Vinare), SBI Ven Holding Pte. Ltd (Singapore), IFC International Finance Company (under World Bank) and PYN Elite Fund.

In July 2012, the bank appointed Nguyen Hung as CEO. Nguyen, who was re-appointed CEO in September 2017, has 30 years of experience in the banking and finance sector, including more than 20 years of senior management.

He held various senior management positions at different banks, including Vietnam Prosperity Joint Stock Commercial Bank (VPBank) from 2009 to 2012 and Vietnam Technological and Commercial Joint Stock Bank (Techcombank) from 2000 to 2009. For his important contributions in restructuring TPBank and excellent achievements as CEO of the bank, Nguyen was awarded two certificates of merit by the Governor of the State Bank of Vietnam.

Nguyen discusses in this instalment of the Reinvention Series TPBank's investment in emerging digital platforms to drive better results in key areas such as risk management, human resources management and marketing. He also emphasises the need to invest in people through education and training to make sure they have the right mindset as they balance innovation with development.

Foo Boon Ping : What does "reinvention" mean to you personally?

Nguyen Hung : "Reinvention" to me is to constantly find something new, to renew myself, and to be better at what I'm already doing. It doesn't have to be something brand new that has never been found or been done by anyone. As long as it is new knowledge to me and brings me new experiences which help me improve myself, that is what I try to do every day.

Digital banking is transforming the landscape in Vietnam and ASEAN, with neobanks and big tech challenging the traditional banks. In your opinion, where is the future headed for banks like yourself?

The rise of fintech is clearly getting more powerful than ever. Even though it does bring challenges to traditional banks, I don't think of fintechs and neobanks as rivals. I'd like to think they're "partners". As innovative as they are, there are some businesses that fintechs and neobanks have not been able to do but only traditional banks can. After all, traditional financial institutions have been around for hundreds of years, they cannot be replaced so easily in a day or two.

That's why I believe cooperation is the best way to go. We want to work with fintechs and neobanks for their expertise in technology and offer them ours in providing financial services as well as risk-management, to build a win-win partnership.

TPBank is a rather young bank and we keep ourselves open-minded. We also establish fintech departments within ourselves so that we can guarantee to have both the advantages of advanced technology and traditional banking expertise.

What does "reinvention" mean for your bank and what you're trying to drive? Why is it so important?

"Reinvention" process for our bank means both digitisation and digitalisation. Some projects are about digitising parts of the original process to better suit the current demand. However, some other projects require a complete transformation of the product to meet our customers' expectation. In a way, it is the balance between invention and reinvention.

In essence, with every project, customers' benefit will be our main focus, and we try to balance our economics and technological resources to make strategic decisions. Naturally, all resources have their limitations. Therefore, it is the CEO's duty to prioritise multiple investments. Only by doing that can we maintain our competitive advantages yet balance our financial book and guarantee the confidence of our shareholders, while serving the customers to the best of our abilities.

What role is technology playing in the reinvention of the bank? Can you give us some examples of technologies in use and how they're supporting this?

Technology is surely one of the three most important links in the reinvention of the bank. Along with that is people (or "Mindset") and process. I believe that only when these three elements work together to change can we come up with new and advanced financial products / services.

For the time being, we are investing in new and critical platforms such as AI, big data, biometrics and open PI. These technologies will not only play a big part in creating new and improved products / services for our customers, but also benefit us in terms of managing certain operations of a financial institution such as risk management, human resources management, marketing, etc.

With a technology partner like Backbase, our time to market has been significantly shortened as it took only 10 months from kick-off to successfully migrate nearly three million customers to the new platform. And in the eighth month, TPBank's team could confidently take over the development process.

The new microservice architecture allowed us to expose to Backbase's services and to different partners. Overall performance of the system was also greatly enhanced even with millions of request per day.

With reinvention comes risks and failures. What professional "failure" have you survived?

For us, digital transformation is not simply a project, but it is a strategic roadmap that includes many experiments and POC (proof of concept) projects. Due to the frequent changing of customers' habits, all of our plans must have high agility, which means they can be done quickly with minimised impacts so that we can start over if they don't work out.

Much like all financial institutions, our investments can't always be successful; we have made the wrong bets at times. What we've learned from our failures is to carry out POC projects, to pilot our ideas on reason-

able scales, and to always have an exit strategy so as to minimise financial loss and other risks. For example, we have set up a pilot environment of nearly 10,000 employees, which is proof of how cautious we are when we aim to alter customers' behavior in general.

How are you teaching people at your bank about risks and failures?

There are always occupational hazards in any work that we do, maybe even more so in the banking industry, as these hazards can involve issues like finance, reputation and the law. Therefore, understanding, classifying and managing risks are extremely important to the bank.

At the same time, we must have the right mindset when it comes to risk management so as to balance with innovation and development. Simply put, risks should be classified based on characteristics as well as severity. Once that's done, we can come up with suitable action plans.

Banks don't necessarily have the best reputation and it's a highly regulated market. How do you think your bank can become the bank that people love?

Our slogan is "A deeper understanding", which means whatever we choose to do eventually is to bring meaningful values to our customers. TPBank does its best to understand the customers' needs and even to foresee what will benefit them most in the future. We believe once our customers see how our products / services can better their lives, we'll naturally become "the bank that people love".

That being said, TPBank's goal has always been to bring true values to society, not simply build up our reputation and status.

What are your personal aspirations for the new year?

This year we were met with the COVID-19 challenge and so our priorities must change accordingly.

For our customers, we're doing whatever we can to help promote the economy and overcome the damage of this pandemic by debt restructuring, interest and fee reductions. For our employees, we're currently providing them with the best working conditions and opportunities without resorting to pay cut or staff reduction. For our shareholders, we're maintaining profitability as planned by reducing costs and minimising losses.

In the first quarter, we can still closely follow the plan and have nearly the highest growth rate in the industry. However, the rest of the year will be very challenging and we must stay focused in order to guarantee growing profit.

What personal advice do you have for people wanting to follow in your footsteps?

In my opinion, there needs to be a transparent and cooperative top-down digital transformation strategy that transpires from the leadership to every employee. As I mentioned above, technology is only one-third of the answer. What we need to invest in is the people, or their mindset to be exact, through education and training. Only by that can we make real changes to a system with old habits that's been around many years. TAB

"Our slogan is "A deeper understanding", which means whatever we choose to do eventually is to bring meaningful values to our customers. TPBank does its best to understand the customers' needs and even to foresee what will benefit them most in the future. We believe once our customers see how our products / services can better their lives, we'll naturally become "the bank that people love"."

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NOEL SANTIAGO
CHIEF DIGITAL OFFICER, BPI | PHILIPPINES

"Our digital customer base has grown 100%. From 2.2 million, it's now more than four million. We're going to hit more than 100% by the end of 2020."

WE DON'T WANT TO BUILD NEW CAPACITIES ON OLD TECHNOLOGY

Noel Santiago
Chief Digital Officer, BPI

BPI chief digital officer, Noel Santiago, shares his ideas on how important it is to carry digital transformation across the entire ecosystem, and knowing when it is necessary to shift to new technologies and practices.

- BPI re-asseses capabilities and areas for growth
- Transitioning into 'new world' capabilities
- The bank embarks on a digital expedition

The Bank of the Philippine Islands (BPI), one of the largest and oldest in the country, has always embraced a culture of change. The bank was the first to introduce through-the-wall 24/7 automated teller machines (ATM) in the Philippines in 1983. It was also one of the early adopters of phone banking in 1991 and online banking in 1999, when the idea has barely taken hold in the country.

Throughout the years, BPI has steadily introduced new products and adopted new technologies and practices that aim to improve customer service. However, in 2016, the bank has decided that it is nearly reaching the top end of its capabilities and that the only way forward is to phase out old practices and undergo an aggressive digital transformation.

Noel Santiago, the bank's chief digital officer, shares that BPI's roadmap goes beyond just upgrading its technology stack. The bank has opted to apply digitalisation across the entire ecosystem, demanding massive overhauls in processes and bank culture.

This decision is now starting to show good results amid the COVID-19 pandemic, as its digital customer base has nearly doubled from 2.2 million to four million, and boasts a 400% increase in transaction volumes compared to 2019. The bank is now well-positioned to take more risks, onboard more customers and deliver quality service.

Foo Boon Ping: Tell us about your own experience in technology and in bringing your organisation through dramatic changes and what you bring to the role of digital reinvention at BPI.

Noel Santiago: When we started our digital transformation in 2016, we took it upon ourselves to revisit our capabilities and said, "Well, these capabilities will take us to where we want to be." We know that the old ways will need to change. We all know that in order to compete in the new world, you can't compete with an old weapon.

We did an inventory of all these. We took a call to action and determined the areas that needed to be improved. Most important is our technology infrastructure. We were running our digital channels in the old world. It's not broken, it's running, but we know that it will no longer scale. It will no longer be able to sustain the demands of the new world and the new customer segment that we're looking at. So, we said, "We're going to build our capabilities around this."

We put up a roadmap. We selected 10 action items on the roadmap comprising of different organisational areas: our agility in developing products and services, our analytics in building our insight team, etc. What's most important is the channel that the customer interacts with, so we took certain priorities.

It took us two years to progressively overhaul and prepare ourselves. As we look at it now, especially in this time of pandemic, our decision 40 years ago is paying off. Our digital customer base has grown 100%. From 2.2 million, it's now more than four million. We're going to hit more than 100% by the end of 2020. Our transaction volume has grown by 400%.

"A traditional bank would only invest in something that has a clear business case. Right now, we are prepared to invest, take a look, see the results and make a quick decision to continue or to stop. That's a big change in the culture."

On top of that, we're able to monetise this. If I put an aggregate, excluding cost reduction, cost efficiency and data acquisition costs, just for retail we're close to PHP 10 billion ($200 million). That's coming from where we were. We had nothing in 2016. We were able to do that in the span of three years and a half, and it's a significant improvement.

What do you see your own position as? And what is most critical, getting the technology stack right or are you reinventing the bank as a whole?

It has to be both. There's no point putting up the best technology without people in the organisation being able to rethink the way they do things. We have, as part of our transformation programme, organisational changes that were pushed. The most important is the culture change. There's a constant review of how we approach business problems now. We have inculcated the mindset of challenging the old ways.

A traditional bank would only invest in something that has a clear business case. Right now, we are prepared to invest, take a look, see the results and make a quick decision to continue or to stop. That's a big change in the culture.

Where do you see the key opportunity is for your bank? How has COVID-19 changed or accelerated that opportunity?

The best influence in adoption is necessity. With the lockdown, the exchange of transactions, goods and services, had to be conducted virtually. All of a sudden, you have this proliferation of homegrown business that's now advertising their products and services over messaging apps and social media. We have put up the foundation early and it was a normal day for us. We kept on seeing the volume grow every day, and we keep on enabling the customer to make it easy for them to sign up and enroll their account to become a digital customer.

However, the biggest thing that we did during this period is the constant reminder of how to protect themselves. If there was a growth in adoption, there was also growth in the reported frauds. We were also aggressive in constantly reminding our customer how they can protect themselves, how the bank is protecting them, etc.

How do you see the move towards open banking and creating third-party ecosystem playing out within the Philippine environment and how big of an opportunity is that in terms of acquiring more customers?

We know the true definition of open banking is still not in the country, like in Europe, but we prepared ourselves for that. We started with putting our open application programming interfaces (APIs) and letting our partners consume them.

We put ourselves to be at the centre of the customers' activities. We didn't really mind working with competitors. We call it "coopetition". We work with fintech and wallet companies. Our connections and open APIs today allowed us to connect to more than 300 partners. For customer inciting, we also invested in big data. We're now more targeted. It's not about creating new products, it's about understanding what the customers will need, how to best address them and when it's best to deliver those services.

What are your views about open architecture and how cloud-ready is BPI?

We have a subsidiary called BPI Direct BanKo running in the cloud. That's a full digital core banking platform. The focus is on our microfinance, and we're growing that business signal. We're not going to the cloud just because everybody's doing it. It has to have a purpose for us. It has to be based on the objective of what we are trying to do.

Our subsidiary is going after a certain segment. The cost to serve in a traditional bank would be very expensive, so we did a fit for a purpose platform that would allow us to serve them in the most cost effective way.

Any incumbent who wants to move into more advanced technology has to be aggressive, but should balance it with some caution. What we're doing is we're surrounding the legacy platforms so that it will be shielded from the changes as we move forward. It's not going to be like a swap overnight. We're doing a phased approach.

Talk to us about some of your key digital initiatives, the context that you started them, what you have achieved and the central role of this new generation technology in enabling them.

We ensured that we are ready to service our big customer base and slowly gravitate to improving our acquisition. We're now working on digital onboarding. We also look at the maturity, both in the regulatory and the legal side of it, and the country is ready. We have seen implementations from our peers, putting them up. We're now ready to host more customers. We continue with our partnerships and we're trying to put ourselves embedded in the payment activity, regardless of the industry.

What is the impact of digitalisation on your customers and internal organisation? How about the financial performance, in terms of cost to income, cost of acquisition and your transaction costs?

We're looking at our cost to serve from the transactions that used to be done at the branch. The shift happened during the pandemic period, because all the branches are close. So, the behaviour has now shifted from the traditional over-the-counter to digital. The good news is that people who got the taste of convenience did not shift back after we opened the branches. We see a big cost savings for that, but it can't be compared. Our cost to serve has gone down. We've seen a reduction as high as 20% of traffic in the branch after re-opening.

The people who used to wait at the branch to be serviced used to have a higher tolerance, but now they want it fast, frictionless and efficient, and no tolerance for failure. Because of the sheer volume that we have, even a .01% of that is still a significant amount. That's what makes the challenge for a big bank different from a challenger bank. A small incumbent bank that's doing a million transactions a month can easily just say, "I can spend more time improving things that I need to do", but maintaining a 10 million customer base is a bigger challenge. A 1% failure from 10 million customers is still bigger.

What is the one professional risk that you're proud of taking? And how are you imparting that knowledge and experience to the people in the bank?

The beauty of digitalisation, as the organisation sees, is it's producing the result that they promised in the old days that when you go online, there's this e-world. People question the benefit. The biggest risk we took was when we put up our new digital platform in 2017. Had we waited to move everything that we used to have in the new platform, that would have taken us another year, and that other year would deprive us of new customers being onboarded. We believe that the return of going out to the market early, alleviating the capacity issues that we have, ensuring that we showed our commitment to the customer base that we are improving and we're doing this for their interests, is worth that rating stigma that will haunt us for years to come.

What would be that one advice to your successor or your subordinate in the organisation, when it comes to taking risk and failure?

Never stop. Transformation seems to connote that there will be a completion phase from A to Z. It's not really true. This is a never-ending transformation. Behaviours change, technology is changing the way we do things. The organisation must commit to that. Constant investment and change. I don't call it the journey. I call it an expedition. I don't know how long it will take.

What is your vision for this transformation of the bank? Where do you see it? What is your personal advice for those who will be following in your footsteps?

If you look at it on a bigger scale, the absolute return for the organisation cannot come from looking at it in pieces. It has to come from looking at the bigger picture. How do I bring value across this chain so that the outcome is more effective and compelling? That's what I'm doing right now or what we're doing right now.

We believe that capitalising our strength is the way to go. Why compete on an equal playing field? Capitalise on your strengths and claim that area. TAB

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ARAPAT SANGKHARAT

HEAD OF DIGITAL TRANSFORMATION, KRUNGTHAI BANK | THAILAND

For transformation, there is a cap to how much capacity we can do. And one of the things that most banks may not have paid enough attention to is attracting different types of talent to do digital transformation.

Technology will NOT MAGICALLY CHANGE the entire ORGANISATION

Arapat Sangkharat
Head of Digital Transformation, Krungthai Bank

The head of digital transformation at Krungthai Bank, Arapat Sangkharat, speaks about the importance of taking a holistic approach to change, prioritising people change as core of the effort and leveraging technologies to impact business and customer outcomes.

- Focus on attracting talents and changing the way people work
- Fintechs are made to be acquired, and to make banks stronger, more customer-centric
- Overcoming organisational pushbacks and turning skeptics into advocates

Krungthai Bank's head of digital transformation, Arapat Sangkharat, has a long career of helping organisations reinvent themselves before he found himself in the current role of leading the digital change efforts at Thailand's largest state-owned bank.

He had worked extensively in banking and management consulting in areas such as strategy and transformation, process re-engineering, risk management, merger, integration and divestiture, business and organisation redesign, and technology implementation.

His 19-year career was spent mostly outside Thailand where he has worked in five countries and served over 20 financial services institutions across Asia and the United States.

Sangkharat returned to Thailand in 2014 to a short stint to lead the local financial services industry practice at Deloitte Consulting before joining Siam Commercial Bank to head it retail segment strategy and subsequently to Krungthai Bank which he describes as a unique bank that presented him the opportunity to serve the country and people.

He believes that banks should not be overly fixated on technologies to transform the organisations although they are critical tools that play an important role to enable change. It is people who ultimately bring about tangible changes and so it important to take a holistic approach.

He also sees fintechs as an immense opportunity for banks to strengthen themselves, to dramatically enhance customer experience and lower costs.

In 2019, Krungthai Bank rolled out an ambitious plan to roll out its digital banking platform, setting aside a THB 19 billion ($603.75 million) IT budget, that will help it acquire new customers and lower its cost to income ratio over three years. It had earlier launched a

new version of the mobile banking app, Krungthai Next, which had increased user base by more than 2-fold to 10 million by the end of the year and maintained an active user ratio of at least 80%.

Foo Boon Ping: How would you define reinvention and what do you hope to achieve with Krungthai Bank's digital transformation?

Arapat Sangkharat: A lot of the work I did in the past, especially in the US, was around fixing organisations, from redefining a strategy to reengineering a process, consolidating operations, doing mergers and acquisitions, they are all part of transformation.

I moved to Krungthai Bank, partly because it is unique and a government bank. We have the mandate for Thailand, but we still have to make money, be a profitable company. I wanted to do something to effectively influence this country and help the people.

What is the impact of COVID-19 on digital transformation?

With COVID-19, we have tons of work for the government, the relief programme. Previously, it is depositing money into savings accounts or sending cheques. But these days, it is distributing money through online applications.

We also have to transform the more traditional side of banking, the lending side. And that comes with revamping new channels, a mobile channel for retail customers, to corporate, SME customers through internet banking.

In addition, our internal operations have to be upgraded. These days, with all these fintechs and consortium partnerships, it gives you a different approach on how to fix "internal" internally.

We set aside THB19 billion ($603.75 million). The part that is concerning is you still have the same number of people to support BAU (business as usual) work. For transformation, there is a cap to how much capacity we can do. And one of the things that most banks may not have paid enough attention to is attracting different types of talent to do digital transformation. Even if you attract 200 to 300 people to build a new team, transformation still requires interfacing with the existing BAUs. And it requires influencing existing people to move along, you cannot move by yourself.

How are the entry of new digital players and introduction of digital and open banking regulations driving transformation?

A lot of the transformation in the last few years have been initiated through fear. That is the wrong way to approach it. All these fintechs and startups present an opportunity. I don't think banks need to be afraid of some of those coming over just because they have a different cost or business model. I draw upon what I had seen in the US. The behemoth players, Goldman Sachs, Citigroup, JP Morgan, are buying up all these fintechs to make themselves stronger. Fintechs don't have the money, they could keep raising money, but in reality, they are made to be acquired. I look at them as huge opportunities to make banks stronger. And having more competition is good because it is waking up banking to make sure we are more customer centric.

> *"Compared to where it was a few years, we had a retail mobile app that had 3 million customers, but most of them were not active. The new one is already approaching 10 million users. That team did a very good job of not just creating a new app, but acquiring more."*

What is your vision for Krungthai Bank as you reinvent it?

My focus now is to help a very specific part of the business, like global transaction services that touch the corporate and small medium enterprise (SME) segments through a complete redesign of our internet banking. For example, being able to do trade finance and FX online and improving our inward outward remittance through partnership with fintechs. To make sure that instead of taking two days that we take hours or within one day, and at a cheaper rate. Trade finance, lending, digital supply chain, bringing that to the forefront. There is an overall strategy of how we're connecting the dots. It is really one piece of trying to win in the corporate and SME segment, increasing loan volume, managing NPLs, getting more fee revenue, using technology to make it more efficient and delivering a better customer experience for our clients.

What are your thoughts on an open architecture cloud-based technology platform?

My view on open architecture, application programming interface (API), blockchain, and other technology buzzwords, is they are tools of the future to improve how we market, sell and service customers and clients. And they are tools I want to use. For instance, we talked about trade financing, it is a very document driven business with so many players involved, from the freight forwarder to shipper to the corresponding banks. It is a huge mess with hundreds, thousands of bunches of paper.

The solution is to build a consortium with blockchain to make sure that the digital ledger has the single version of truth. I do not focus on the technology part.

How much of the bank is digital today, how much of the processing is automated?

For most banks, not just Krungthai Bank, it is not enough. When we compare where banks are relative to the new players, we are not anywhere near where we should be. You could walk into a branch, they are still very paper based. Most people want to go paperless, it is just one of the benefits of digitisation. But that should not be the driving factor in digitising.

Many tend to either forget or need to be reminded that digital transformation means it will require technology to accomplish your business goals. But you will need to change the organisation structure, processes, policies, too. Transformation in itself is holistic and the biggest component many firms tend to forget is the change in people. People is always the key that makes or breaks a lot of the transformation effort.

And what drives you? What performance metrics are most important to you in terms of informing you where your transformation initiatives are achieving?

My unit is project based. We do not own the profit and loss (P&L) or segments. Our job is to help different departments, segments, units transform their business. When we initiate a project, our KPIs will be based on that project goal. If that project goal is to build a new platform, revamp internet banking, then one of the KPIs would definitely have to be increase in customer acquisition, increase in transaction traffic, increase in the services being used. It depends on the project itself.

Compared to where it was a few years, we had a retail mobile app that had 3 million customers, but most of them were not active. The new one is already approaching 10 million users. That team did a very good job of not just creating a new app, but acquiring more customers who are active.

How are you teaching the people in your bank about taking risk and failure?

The biggest part is not about changing technology, it is changing people. So, transformation efforts often fail. Success is hard to achieve. That in itself is a huge risk.

When you are part of the organisation, it is a lot harder but there is a huge upside that you are going to be there from beginning to end. But on the risk side, it is hard to do. It is a lot more headache to try to transform from inside. But I do think there is a huge upside on a personal level and a professional level.

We execute, conceptualise, design and work with technology development and with the business unit to launch and make sure we achieve our KPI, almost like a business owner. You are involved with everything to make sure at the end of the day you make more money, or at least you are keeping customers happy.

What are some of your proudest achievements?

with 25,000 people. And I gave that quote and explained that our job here is not to act like we are smarter than the rest of the organisation, that we are more innovative.

Part of transformation is about getting the rest of organisation to see what you see. And it has moved a whole organisation forward, it's a true partnership. And we have to recognise that the organisation has been around and successful for decades because it is doing something right.

The biggest accomplishment with 20 plus people is we have gotten so much more done at significantly smaller budgets. More importantly, we won over many people who thought that transformation cannot be done.

Finally, what personal advice do you have for people who are getting into this transformation business?

Don't fall for all the buzzwords. In order to be successful, you have to really love what you do. And it's not about jumping in because it is a cool thing. It is not easy work. We enjoy not just seeing change but doing something that is truly impactful on a companywide level.

And it is not just a think tank to throw ideas at other people and point fingers, watch management. It is a lot of hands on work in the frontline and late nights. You are going to get a lot of pushbacks and resistance. That's 50% of the work. You have to take some of that pain but that's endurable. TAB

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ADINATA WIDIA

SENIOR VICE PRESIDENT OF TRANSFORMATION OFFICE, BANK MANDIRI | INDONESIA

In terms of open banking, most of our connections right now – big customers, vendors and fintech partners – are using APIs. These new players disrupt our traditional banking business, but in a way, it also helps us get more transactions.

A TRADITIONAL BANK ALWAYS HAS A PROBLEM WITH PROCESSES

Adinata Widia
Senior Vice President of Transformation Office,
Bank Mandiri

The senior vice president of the transformation office at Bank Mandiri, Adinata Widia, shares how the bank starts to digitise manual processes and leverage fintechs to help maintain market share and increase revenue.

- Customers started moving towards digital channels during the pandemic
- The main focus is on digitising processes for wholesale, SME and micro, and retail businesses
- Banks have to be fast and agile, and follow regulatory requirements

Bank Mandiri, one of the largest banks in Indonesia in terms of assets, started its digital transformation in 2019. The bank was established in October 1998 as part of the government's bank restructuring programme. In July 1999, four state-owned banks, including Bank Bumi Daya, Bank Dagang Negara, Bank Exim and Bapindo, were legally merged into Bank Mandiri.

Adinata Widia, who is part of the digital transformation team, joined Bank Mandiri in September 2014. He brought his expertise to help improve the bank's existing processes.

Before moving to the transformation office, Widia was the bank's head of transaction banking, where he managed to simplify processes between the bank and corporate customers and implemented a significant number of digital connections using application programming interface (API), enabling around 1.3 million transactions a month. Serving between 70 and 75 corporate customers, with IDR 15 trillion ($1 billion) to IDR 18 trillion ($1.2 billion) worth of transactions a month.

Widia is currently investing his time in helping the bank digitise its processes, focusing on the micro, small and medium-sized enterprises (SMEs). Prior to joining Bank Mandiri, he also worked at Bank Danamon, CIMB Niaga, Lippo Bank and Citibank NA Indonesia in various senior product development roles.

Foo Boon Ping: What is your vision for Bank Mandiri as it goes through a digital reinvention?

Adinata Widia: We have many competitors in the market, not just traditional banks, but also fintechs, especially in terms of their product offerings and service level agreements (SLAs). Being a traditional bank always has a problem internally in terms of process. When the board asked me to move from my previous role in transaction banking to the transformation office, the challenge was to review existing processes, improve and digitise them. I engage with our venture capital, Mandiri Capital Indonesia (MCI), to get in touch

and collaborate with fintechs to help us maintain our market share or increase our revenue. The bank needs to transform. This is the time. Otherwise, we will miss the train.

In terms of open banking, most of our connections right now – big customers, vendors and fintech partners – are using APIs. These new players disrupt our traditional banking business, but in a way, it also helps us get more transactions. For the past two to three years, e-commerce has been very big in this market. We know for sure that they cannot handle the payments by themselves. They still need banks to do payment, so we came up with our own e-commerce solution. We partnered with them as one of their settlement banks.

We also leverage our position. We have a lot of products – banking products and products of our subsidiaries. We have our fund management products, such as Mandiri Investasi, multi-finance products and insurance. We leverage e-commerce to be able to sell our products. It brings more transaction volumes and gives us a fee-based income. They also maintain their account with us, the funding is also with us. The important thing here is not to compete, but partner with them. You also have to choose who you partner with. We partnered with some fintechs before, but it didn't go so well. With their process, although fast, the fraud risk is quite high. We learned from that.

Has COVID-19 been a driver for Bank Mandiri in terms of accelerating some of the opportunities that you have identified?

In the past, customers who are not willing to use our digital channel are slowly moving towards it. A lot of people who used to go to ATMs are starting to use our internet banking. The number of transaction in the branch reduced significantly. But while the number of transactions using our channel is increasing, it's not apple to apple since the economic condition has not rebounded yet. There are still some businesses closing.

During COVID-19, the physical merchants, such as restaurants and hotels, are affected. People are transacting using their credit and debit cards on the e-commerce platform (Bukalapak, Tokopedia, Shopee) for their daily shopping. The positive thing is, the bank doesn't have to push the customers to move, because they willingly move to the digital channels by themselves. Here, we see an opportunity to come up with new solutions that will encourage them to use digital platforms rather than go to the branch and use ATM.

When we talk about value chain, at the bottom level, there's always an issue of cash. People go to the store and pay using cash. With the introduction of digital money, such as OVO, LinkAja and GoPay, people have the option to pay using that. The value chain can now be connected through a system. In the future, we are going there. There are still a lot of cash, but the trend is going down. That's a good starting point. One day, the cash composition will be very minimal, so everything can be part of the system.

Regarding the trend in payments and fintech collaboration, here's an example. When LinkAja was established, the goal was to provide digital money for people using government services, such as public transportation and railway transits. The focus is not to burn money in promoting using campaigns. GoPay, on the other hand, focuses on the rights. The idea was to connect them and make it more seamless for enhanced user experience.

What is your key pillar and strategy to succeed at Bank Mandiri?

Speed is the key here. Right now, we are trying our best to move. We know we cannot move as fast as fintechs, because they are less regulated than us, but we use fintechs. I'm currently looking at the business processes of SMEs. We identify the business processes from end to end and we find out where we can make it digital. The relationship management (RM) process, getting the customer experience, to become better. The key challenge here is people. It's not easy to convert people who are used to everything manual.

"We work together with the business and product units related to the pillars – wholesale, SME and micro as well as retail. We want to make sure that our investment and strategy going forward for the next four or five years is really moving toward digitising the process in each of the pillars."

We are trying to introduce the use of biometric ID as a replacement for customer signature. The discussion will take some time because of regulation, that's the challenge. The opportunity is that once we have that, we can move faster. We also leverage our investment in MCI, which is investing in quite a lot of fintechs, such as Jurnal that focuses on

accounting software for SMEs. We connect with them, so our customers that use Jurnal can use our host to host connection rather than go to the bank.

How much of a constraint is your current technology?

We started fixing our IT architecture and using more applications such as APIs. We also started using cloud and artificial intelligence (AI). There is a project that provides a 360 evaluation of customers. We are also investing a lot in the database. There are a lot of initiatives going on right now. In the transformation office itself, we have three heads of projects. I'm one of them. I'm doing the SME and micro, there is another guy doing the wholesale and another guy doing the retail. That's how serious we are with the transformation. We work together with the business and product units related to the pillars – wholesale, SME and micro as well as retail. We want to make sure that our investment and strategy going forward for the next four or five years is really moving towards digitising the processes in each of the pillars.

What are the advantages and disadvantages among the different types of platforms that are available today?

The existing connection with the traditional vendors is already there. As long as it's still up and running, and it's quite good, we don't want to disrupt that. We don't want to jeopardise the transactions that are already working well. But for the new solutions, products and use cases, we try to move it to the vendor that is using platform as a service. That is the strategy IT is doing right now.

We're leaning towards collaborating with peer-to-peer SME lenders. We provide financing (funds and capital) and leverage their front-end origination.

Are there key digital initiatives that you want to highlight as part of your strategy?

Our main focus is more on how we can digitalise the lending process for SME and micro businesses. We have a lot of internal systems and manual processes. There are still a lot of work we can do to digitise the processes. We can simplify the SLA from weeks to days.

We only started this transformation in 2019. The impact is not yet big. But during my time in transaction banking, we managed to do quite a lot of digital connections to our customers using APIs host to host. By 2019, they have around 1.3 million transactions a month. With close to 70 to 75 big corporate customers that we serve, the value of transaction is around IDR 15 trillion ($1 billion) to IDR 18 trillion ($1.2 billion) a month. That's a good achievement for us because we managed to simplify the processes with our customers. We also introduced a lot of digital applications.

One of the projects that we are doing is digital onboarding of our SME customers. It's a bit more complicated, requiring more documents, compared to retail. We launched the retail project last year, where customers can open an account without going to the branch.

How are you teaching the people at your bank how to handle risk and failure and what is one professional risk that you are proud of taking?

Based on the analysis that we see in the market towards fintech, they are fast and agile, but they are prone to fraud and credit risk. There were more than hundreds of peer-to-peer lenders in the market, but now they are being closed down by the Otoritas Jasa Keuangan (OJK is the financial services authority of Indonesia) because of fraud issues. The key strategy here is that, we should move fast, but we should not ignore the regulatory part of it.

What we did differently was the use of agile concept. In terms of system development, we use streams, so we don't wait until the whole thing is completed before, we roll it out. Basically, before the project starts, we place the blueprint, and then we create multiple streams that can move individually. But at the end of the day, it can be connected. That creates a faster delivery to the market. We do this rather than wait until everything is perfect before rolling out. That's how we do it these days, kind of a portfolio development approach, especially with the IT development.

What personal advice do you have for people stepping into digital transformation?

It's difficult. You have to move fast, but you cannot rush. You really have to look at all aspects, because banks are highly regulated. We are highly regulated for a reason, and it's to protect our customers and ourselves. If you're rushing, everything will backfire. Do it in streams using the agile concept. It needs collaboration. All parties involved need to have the same vision. Before you start the initiative, you have to sit together and make sure that your vision is aligned. Once your vision is aligned, everybody knows their role. You need to have one common goal and same vision. TAB

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NGHIEM XUAN THANH
CHAIRMAN, VIETCOMBANK | VIETNAM

During the lockdown, we onboarded close to around 150,000 new customers, and we're seeing digital transactions moving up 11 times more than before.

BECOMING DIGITALISED IS THE FUTURE FOR BANKS

Nghiem Xuan Thanh
Chairman, Vietcombank

Nghiem Xuan Thanh, Chairman of Hanoi-based Vietcombank, maps out the bank's journey towards digital reinvention as one of its top agendas to remain competitive.

- Vietcombank started its digital transformation roadmap in 2019 and aims to be the top digital player in Vietnam and a world-class bank by 2025
- The bank has implemented an open architecture core banking system built on APIs that enhances its connectivity with other financial institutions and fintechs
- It builds its vision on a legacy of successful reinvention, from shifting its asset book from dollar to dong, to transforming from a wholesale to a leading retail bank

Commercial Bank for Foreign Trade of Vietnam, commonly known as Vietcombank, has been operating since 1955. It was spun off from the State Bank of Vietnam and is considered one of the country's four largest state-run commercial banks. It is a known name in international trade payment settlement as well as retail lending.

Digital transformation has also been on top of the bank's agendas. In this interview, Vietcombank Chairman Nghiem Xuan Thanh details the bank's experiences and plans, as well as the structural changes digital technology necessitates in the industry at large. He also shares how the bank decided to change its asset structure to cushion the impact of the 2009 economic crisis on its profitability.

The transformation that saw Vietcombank becoming a retail bank both in assets and income structure has been the key behind its improved financial performance in recent years. Ngiem emphasises the importance of right orientation, clear goals and perseverance to become successful.

Nghiem joined Vietcombank in 2013. He was appointed as the chief executive of the bank, and then assumed chairmanship in November 2014. Prior to joining the bank, he served in various positions at Vietnam Joint Stock Commercial Bank for Industry and Trade (VietinBank), his last position being the deputy CEO in 2012.

In 2001, he earned his master's degree in economics, major in banking and finance, at the Banking Academy of Vietnam, a public higher education institution governed by the State Bank of Vietnam. He also got an advanced degree in politics from the National Academy of Politics in 2009.

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In 2001, he earned his master's degree in economics, major in banking and finance, at the Banking Academy of Vietnam, a public higher education institution governed by the State Bank of Vietnam. He also got an advanced degree in politics from the National Academy of Politics in 2009.

Foo Boon Ping: What does digital reinvention mean to you?

Nghiem Xuan Thanh: With rapid changes in technology, the future for banks in Vietnam in general – and Vietcombank, in particular – is to become digitalised banking businesses. Institutions must be able to provide products and services that integrate new technology and apply new analytics to enhance customer experience. The goal is to gradually move customers towards more advanced platforms and solutions that allows them to design their own banking products for their personalised needs.

The new era is coming with vast opportunities for banks to get access to and freely embark on state-of-the-art digital technology. However, banks face a tough challenge in finding a suitable way to transform themselves digitally to stay active and competitive.

In Vietcombank's case, we completed a digital transformation roadmap in 2019 after spending a significant amount of resources on research and development. Our target is to become the number one bank in Vietnam in terms of digital transformation by 2025. To realise this goal, we have focused on a number of initiatives, including enhancing customer experience and improving operations efficiency.

"Recognising we're on the right track over the past 10 years, Vietcombank has consistently implemented many effective solutions. Suffice to say, by now, we have become a retail bank both in assets and income structure."

For better customer experience, we have continuously reduced transaction processing time and synchronised all distribution channels. As regards improving operational efficiency, we have digitalised many processes, applied smart management principles and automated transaction processing.

What is your key strategy to succeed and the key priority pillars that support the strategy?

There are two key pillars in Vietcombank's strategy to succeed in digital transformation.
First, it is to have the right team. We set up a digital transformation steering committee at the board of directors (BOD) level led by myself. This body helps smoothen and unify our transformation stages. Under the committee, we have a digital transformation management unit and a digital banking centre.

The second pillar is our customers. We aim to become the leading bank in Vietnam in terms of customer satisfaction by continuously improving their banking experience and creating an omnichannel solution for uninterrupted interaction with us across channels.

What are your views about a cloud and open architecture-based platform-as-a-service (PaaS) core banking infrastructure platform that supports application programming interfaces (APIs) and microservices?

From our point of view, the model of cloud and open architecture-based PaaS core banking infrastructure platform that supports APIs and microservices is an indispensable trend in digital banking development. We have been promoting such a model, especially on our new core banking system which will enhance the connectivity between Vietcombank and other financial institutions as well as fintechs. Cloud and open architecture are in line with the agile approach the bank needs not only to catch up but also to keep up with the ever-changing market.

What are the key digital initiatives that you have launched and talk through the background/context to why you started them and what you have achieved?

Over the past years, Vietcombank has been implementing a number of digital initiatives. These are aimed at boosting operational efficiency, laying the foundation for digital banking development, improving flexibility and the ability to quickly adapt to the market. We also have had initiatives focused on enhancing customer experience and convenience, supplying more utilities and simultaneously, strengthening and standardising risk management processes in line with international standards.

Digital initiatives to be implemented include projects aimed at developing and modernising activities of business divisions, standardising IT infrastructure, as well as enhancing systems security and stability.

Important projects include the rollout of a new core banking system following modern banking management standards, building service-oriented architecture (SOA platform), upgrading card system, deploying new payment systems (trade finance, payment hub, etc.), centralising credit approval management (through corporate and retail loan origination system, etc.) and launching management information system (MIS, etc.).

These initiatives enable the bank to develop flexible products, respond quickly to customers' diverse needs, improve operational processes and service quality, as well as to control operational risk and eventually outgrow competitors.

How have these initiatives impacted your customers, internal organisation and financial performance?

Digital technology has revolutionised the way we communicate and conduct business by allowing interactions and transactions to happen via digital channels. This is expected to bring about a structural transformation across the entire banking system. Banks have adopted new business models under the influence of digital technology with its basic characteristics of personalisation, scalability, and high connectivity.

Through both physical and digital channels, customers are offered a variety of new services at higher quality, lower cost, and stronger connectivity. This requires banks to adjust not only processing practices and distribution channels, but also their organisational structure, management approach and even their corporate culture.

We expect to invest heavily in our digital banking transformation project and related initiatives that follow. However, we are also confident of the financial efficiency that will result from the successful implementation of this project.

What's one professional risk you're proud of taking? How are you teaching people at your bank about risks and failures?

I would not use the term risks and failures, but we indeed experienced some difficulties during Vietcombank's restructuring over ten years ago.

For a long time, Vietcombank was a wholesale bank and possessed the largest proportion of foreign currency assets in Vietnam. This portion of our assets suffered greatly in terms of income generation from the economic crisis of 2009. As a result, Vietcombank had to make a rather difficult decision to quickly transform our asset structure towards a larger portion of Vietnam dong (VND) assets. This was a decision that has been proven both correct and timely. Had Vietcombank not taken this step, the impact on our profitability would have been quite severe.

Another example is our strategy to switch from wholesale to retail. We were originally a wholesale bank with a strong customer base, including many large corporations. Therefore, shifting the focus to retail was not easy. We had to make drastic changes to the bank's organisational structure as well as increase investment in physical network, people and technology, among others.

The most difficult is a change in mindset. Recognising we're on the right track over the past 10 years, Vietcombank has consistently implemented many effective solutions. Suffice to say, by now, we have become a retail bank both in assets and income structure. This transformation has been key behind a sharp improvement in our financial performance in recent years. Looking back now, it seems easy, but to start such a change a decade ago was no light task.

My takeaway from this is: if you have the right orientation, clear goals and perseverance, you will surely succeed.

What personal advice do you have for people wanting to follow in your footsteps?

At Vietcombank, we share a common aspiration: the desire to make our bank a regional, then a world-class bank, building upon a proud history nurtured through generations of Vietcombankers.

The year 2020 is an important milestone for our development strategy. On the one hand, we endeavour to offer support for businesses, individuals, communities and the economy as a whole amid an increasingly challenging macroeconomic landscape. On the other hand, I trust that we will still achieve our goals and action plans, continue to affirm its leading position in Vietnam and realise its global ambitions.

I hope each Vietcombanker, especially the younger generations, will continue to carry within them the pride and love for Vietcombank and the high spirit to overcome all difficulties and challenges. Together, these people shall write the next pages of our history. TAB

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JAHJA SETIAATMADJA

PRESIDENT DIRECTOR, BCA | INDONESIA

For transformation, there is a cap to how much capacity we can do. And one of the things that most banks may not have paid enough attention to is attracting different types of talent to do digital transformation.

ACCELERATING DIGITAL STRATEGY VITAL TO GROWING CUSTOMER BASE AND BUSINESS STABILITY AMID UNCERTAIN TIMES

Jahja Setiaatmadja
President Director, BCA

The president director of Bank Central Asia (BCA), Jahja Setiaatmadja, talks about how accelerating the bank's digital transformation has helped in expanding customer engagement and how the financial services industry will play out during the current crisis brought about by COVID-19.

- Continuous expansion in digital capabilities is key to growing customer base and ecosystem
- Customer engagement surged as a result of strategic digitalisation initiatives
- Adopting conservative measures and sustaining ample liquidity as buffer for unforeseen events

Despite the headwinds triggered by the extraordinary disruption caused by the COVID-19 pandemic, Bank Central Asia (BCA) has continued to evolve its digital transformation to bring about expanded customer experience and tap marketable opportunities.

Jahja Setiaatmadja, the bank's longtime president director, tells us that BCA has committed to growing its digital potentials to adopt to customer behaviour and position itself as a leader in digital based financial services.

Setiaatmadja is currently leading the bank in digitising its processes by focusing on enhancing their digital platforms such as internet and mobile banking to meet ever-changing customer needs and to stay abreast of the competition.

His initiatives resulted in a 72% increase on the number of accounts opened online getting 6,950 transactions a day in the second quarter 2020 from 4,041 transactions a day in the first quarter of the year. The number of current and savings account (CASA) opened also grew steadily to 13% year on year (YoY) and 8.3% year to date (YtD) to IDR 586 trillion ($39.75 billion) in the first half of 2020. Account balance also rose to 18% from the pre-pandemic times.

Setiaatmadja credits the significant increase in the bank's digital banking transactions to key digital investments and its ability to turn market disruptions into opportunities.

BCA, Indonesia's largest private bank, is also Southeast Asia's largest lender by value with a market capital of about $24.5 billion.

Foo Boon Ping: Where do you think the future is headed for banks like yourself? What is the one key opportunity and challenge that your bank faces in this age of digital innovation and disruption?

Jahja Setiaatmadja: With a strong footing as transaction banking player in Indonesia, Bank Central Asia (BCA) has been expanding its digital capabilities to respond to the changing customer behaviour and heading towards digital based financial service provider. In the past few months during the pandemic, we have seen the promising results of our digital investments. The number of customers and accounts has increased steadily, and so has current and savings account (CASA). By growing CASA, which entails lower cost of funds, we have the luxury to opt for good quality assets.

Time is of the essence when tapping market opportunities. We have to be agile, to learn from the market swiftly and see what we can add more value to customers, hence turning "disruption" or "challenge" into "opportunity". The pandemic itself could be seen as an opportunity to read market behaviour in transacting, as BCA is now connected to a wider ecosystem compared to the pre-pandemic period.

"As a transactional bank, BCA has the luxury of being able to observe customer operating accounts, develop potential products in the market and finally let the market decide."

Going forward, we expect cashless and cardless transactions to be a significant part of the "new normal". Furthermore, Indonesia's young demographic also gives the benefit of embracing digital era in a faster way and be of help in educating the more senior generation when using digital channel. Once conveniently used, the chance of more people embracing digitalisation is wide open, and we see this as an opportunity to tap.

Support from the government and regulators have been tremendous during this difficult time. The banking industry is witnessing how the global health crisis has spurred customers to embrace digital services, forcing banks like BCA to catch up on digitalisation at an unprecedented pace. With the rising number of online transactions, BCA has to continuously complement digital functionality with IT security systems to mitigate the potential cybercrime attacks. Investments in digital is also expensive and have to be continuous.

What is your key strategy to succeed and the key priority pillars that support the strategy? What is your vision for your bank in towards its journey of "reinvention"?

BCA's journey as a transactional bank began with building critical mass for its payment systems and offering customer convenience as the added value. BCA has to be within the top three payment options for both individual and business purposes. Fast forward, customer loyalty has proven that our strategy works and our achievements today suggested that continuous expansion in digital capabilities is vital, especially in growing low cost funds of CASA.

BCA's competitive edge is in growing customer base and enriching customer experience through expanded ecosystem. Mobile banking and internet banking have been our key channels to remain ahead of our peers. We are among the country's pioneers to launch internet banking in early 2000s and mobile banking in 2006. We have introduced application programming interface (API) back in 2017, connecting to major fintech and e-commerce players. Our online account opening facility, which was launched in April 2019, has garnered 38% contribution of growth in the number of accounts opened during the first half of 2020.

Going forward, we see that digitalisation has a greater opportunity to be permanent in some areas of "new normal". Continued feature enhancements in our digital platforms, such as internet banking and mobile banking, are required to meet the ever-changing customer needs that shift towards cashless, cardless and contactless culture.

Acceleration of digital strategy, such as moving towards open banking platform is pivotal to grow our customer base including merchants and to create banking experience. Relentless efforts are in place to ensure convenient and secured transactions supported by system stability.

What are your views about a cloud and open architecture-based platform as a service (PaaS) core banking infrastructure platform that support APIs and microservices?

We embrace open platform, open architecture and cloud-based infrastructure. Cloud services offer cost and space efficiency in addition to more data capacity. However, the implementation shall be within the regulator's guidelines.

What role is technology playing in the reinvention of the bank? Can you give us some examples of the technologies in use and how they're supporting this?

Online account opening through mobile banking was introduced in April 2019, and the results have been encouraging. During the pandemic, the peak number of account opened online surged by 72% on quarter to 6,950 per day in the second quarter of 2020 from 4,041 per day in the first quarter of the year. Account balance also increased by 18% from the pre-COVID period. New online account opening contribution to total new account was 38% YoY in June 2020.

BCA now processed IDR 31 million ($2115.25) transaction per day, rose by 26% YoY in the first half of 2020. Robust mobile banking use in the first semester also booked a 73% YoY increase. Combined mobile and internet banking transaction numbers grew ~51% YoY. Mobile and internet banking transaction value contributed 47% of total transactions, outperformed branch banking of 45% contribution. Mobile banking number of transactions increase was boosted by transfer transaction (up by 88% YoY) and virtual account (rose by 51%).

What's one professional risk you're proud of taking? How are you teaching people at your bank about risks and failures?

We believe that there are no success stories without invention or re-invention. We launch a new product only after we study market or customer behaviour. As a transactional bank, BCA has the luxury of being able to observe customer operating accounts, develop potential products in the market and finally let the market decide. Everything comes with risks, but we can say that it is always a learning process, and therefore has lessons learned to keep moving on and growing endlessly.

What are your personal aspirations for the new year and what personal advice do you have for people wanting to follow your footsteps?

The impact of economic headwinds caused by the pandemic, which is translated into pressured asset quality and profitability is likely to linger until 2021. Particularly for the Indonesia banking sector, the true asset quality condition will emerge once the loan moratorium period ends in March 2021, if not extended. Given such uncertainties, adopting conservative measures will be in our agenda, while at the same time sustaining ample liquidity as the buffer for any unforeseen events.

What is your personal assessment of how this crisis will play out and the outlook for the industry?

This crisis is different from the Asian financial crisis in 1997 and the global financial crisis in 2008. The 1997 crisis was a combination of political turmoil with public distrust in the banking system, while the 2008 crisis only lasted for a short cycle. Today, Indonesia banking systems are more prudent and we have seen government initiatives to protect the economy.

Observing the recent digital trends, especially during the current pandemic, the banking industry will change towards open banking, that is, more collaboration with non-banks financial service providers such as e-commerce and fintech players. IT role will be more important especially in the area of data analytics and cybersecurity.

The good news is that the government and regulators have been very supportive to the industry. A series of stimulus were launched to address the challenges in the economy, health and financial sector, which include loan restructuring relaxation.

Would you say that your bank is "ready" for this crisis, and if so how?

No one is prepared for this COVID-19 crisis. What we are focusing on now is to prioritise the safety of our staff and optimise convenient services within our large ecosystem. During the pandemic, we introduced among others the #Bankingfromhome campaign, Payment Link and QRIS feature enhancements for ease of transactions. On the lending front, we pay more attention on credit restructuring and monitoring to see debtor recovery capabilities. As always, BCA will stand by our customers to go through this challenging time and uphold customer satisfaction and loyalty in the long run.

What were some of your bank's first line responses to the crisis (both for customers as well as to staff)?

BCA ensures the adherence to health protocols as the safety of our customers and staff comes first. Various measures are taken, such as working from home, virtual meetings and provision of health necessities (sanitisers, surgical masks, body temperature checks, etc,). For the community, through BaktiBCA programmes, we provide assistance in the form of masks, APD (personal protective equipment), ventilators and foods. TAB

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NGUYEN CHIEN THANG

HEAD OF DIGITAL BANKING DIVISION, BIDV | VIETNAM

"COVID-19 is a good test and lesson for any bank who already has this response strategy. For our bank, the volume of digital transaction is about a 300% increase."

DIGITAL TRANSFORMATION IS NOT JUST A CONCEPT BUT A STRATEGY

Nguyen Chien Thang
Head of Digital Banking Division, BIDV

BIDV digital banking division head Nguyen Chien Thang shares the bank's journey towards digital transformation, along with the strategies it follows and the initiatives it introduced.

- During the COVID-19 pandemic, the volume of digital transaction increased by about 300%, and this tested BIDV's products and strategies
- Mobile money will soon be accepted in Vietnam, and every customer who has a mobile number can become a mobile wallet user right away
- BIDV focuses on the customers' journey, capability for open banking, capability for data analysis as well as security and IT infrastructure

State-owned BIDV (Bank for Investment and Development of Vietnam) is one of the oldest and largest banks in Vietnam. It stands at the forefront of Vietnam's growth by providing investments and meeting development and financing needs of enterprises and consumers across the country.

In 2017, the Vietnamese government sold a minority stake of BIDV, which propelled the bank to reorganise its corporate structure, upgrade products and services as well as enhance governance framework in order to meet the requirements of a joint stock commercial bank.

In 2018, BIDV digitalised key aspects of its retail banking business. The bank was able to reduce processing time from 42 minutes to 7 minutes through BIDV e-zone. Its SmartBanking offering also aimed to foster greater cooperation between BIDV and fintechs. Finally, it also launched a virtual card through its partnership with Samsung Pay.

In 2019, BIDV officially established its Digital Banking Centre, which will drive its digitalisation goals for the next decade and enable the bank to face competition from new digital players. For example, its latest BIDV SmartBanking app is compatible with wearables, such as the Apple iWatch, and allows customers to perform financial transactions on their devices. A virtual assistant has also been integrated into the app, enabling customers to use voice-based instructions to perform banking transactions.

This year, the bank announced that it is aiming for 80% of customers to access and use its e-banking products by 2025.

Nguyen Chien Thang is the head of digital banking division at BIDV. Prior to this, he was the director of digital sales and partners at Vietnam Prosperity Joint-Stock Commercial Bank (VPBank) from 2016 to 2019 and served as the director of eBanking from 2013 to 2016.

Foo Boon Ping: In your opinion, where do you think the future is headed for banks like yourself? How important is digital transformation?

Nguyen Chien Thang: Digital transformation is not just a concept. It is a strategy, an action for an organisation, especially for a bank to compete in this era.

We don't call (fintechs) competitors, but we think that this is a challenge. It challenges our resolve to apply (digital) to our strategy and business development. Digital support (to customers) is what we really try to sell, so we must first be on track in terms of digital transformation.

Next is from the new entrants like the fintechs and non-banks. They must provide a quick and lean service to offer the customers an alternative channel for traditional banking services.

"This is a chance for us. It is a journey. Our end target is to transform in the long term. In some ways, we already got some good achievements, but the journey is still far ahead. So, we try our best to be very consistent and focus on the targets as a whole."

We also compete because any bank that knows about retailing knows that post-digital transformation is important for their development. Next, the high demand from customers, especially for a new service. In Vietnam, it's easy to switch between channels and expectations, and the requirement is higher. It has to be quick, confident, smart and free of charge. And these are the challenges in the digital transformation.

How do you see COVID-19 affecting the consumer and the banks? Are all banks able to quickly roll out transaction services? What is that one single biggest challenge that BIDV faces during this time of digital innovation and disruption?

COVID-19 is a good test and lesson for any bank who already has a transformation strategy ready. For our bank, the volume of digital transaction is about a 300% increase. We were not surprised because we are prepared. if it were last year, we must run a lot of campaigns to motivate and educate customers to use the digital channels. We were already well-prepared for this by the time of COVID-19 since we have been testing our system, products and digital strategy.

The biggest opportunity is to upsell. Before COVID-19, customers do just very basic transactions, fund transfer and utility payment. But during COVID-19, we enhanced the upsell, especially when we launched the online shopping via our mobile banking. Customers can go into mobile banking and shop. They can go shopping, go to every supermarket to buy goods. Also, SME and corporate banking, the growth of offline transaction to online is very high, so it is a good opportunity. Before COVID-19, it is difficult to sell and send a message to SME or upsell for retail banking, but during COVID-19, it seems good to increase the transaction.

The active rate has increased. Before COVID-19, it was just around 55%. But during COVID-19, we recognised that over 75% are active.

That's based on the customers already registered on our online channel. It's because we have a big customer base for retail. Now, around 45% to 47% of our customers are on the digital channel. We have around 11 million customers.

Soon, Mobile money would be widely accepted in Vietnam. Momo and ZaloPay are capitalising on this trend. Mobile money is the new trend that the government is promoting. Mobile money will be a wise decision to use since every customer who has a mobile number can become a mobile wallet user right away to check and transact. The customer does not need any bank account.

What is your key strategy to be successful in digitalisation? Can you talk about some of the initiatives that you have introduced to support these key strategies?

The key strategy for BIDV is very simple. The first pillar is, we focus on the customer journey. We try to digitise the journey for customers who want to transact with the bank. The second is, the IT capability for open banking. We have application programming interface (API) management. We can work with any third-party vendors and others, like insurance or securities companies. We try to use APIs on all our services, so that we can easily expand our ecosystem.

Third, we have the capability for data analysis. Data is the key, and that is more important because we are using data to know and understand customer profile and behaviour, allowing us to offer a personalised message for the customer. Data analysis capabilities are key, certainly. Lastly, we have the security and the IT infrastructure. We are prepared for a high volume of transaction and customers. COVID-19 is a good test for our system. If we were not prepared before that, we cannot meet the requirements.

We have a lot of initiatives. We applied blockchain, letter of credit (LC) management and budget finance for corporations and corporate customers. It is a good thing in terms of connecting many countries, not only in Vietnam.

We will try to launch the data model and analyse the churn rates of customers who use a digital channel. We have a model for customer segmentation, which means we can know exactly what and how customers with certain banking services can contribute to the bank. So, based on that, we can offer them a service that is personalised.

How would you describe your bank's digital journey? Do you consider it a reinvention of the bank, a transformation of the bank or an evolution of the bank?

This is a chance for us, it is a journey. Our end target is to transform in the long term. In some ways, we already got some good achievements, but the journey is still far ahead. So, we try our best to be very consistent and focus on the targets.

What is your view about cloud-based open IT architecture? Do you think that these are critical components of a bank for the future and how do you achieve that?

In terms of API and microservice, we've already done that and we are already preparing many changes in our architecture. We also try to use API and follow the microservice trend.

We are already following this trend, but this is not for the future. It is already happening right now for cloud. I've talked about cloud many years ago. In the short term, it still does not work very well because we still have a lot of limits, like limit by regulation, limit by the infrastructure and the mindset of the decision makers.

For private cloud, we've already applied some, but not on a large scale. It takes a certain time. In reality, we have a team that is already looking into migration and we are also learning many services from many vendors. It takes time. We can move to cloud eventually, but not in the short term.

We already applied AI as well in some industries. But from my point of view, it is not successful yet. We already applied AI last year for chatting with customers via chat bots. The result wasn't very good. We also have our mobile phone application. We use Siri to recognise the voice, but that is just a small thing. It doesn't run smoothly and not very smart. So, we still try to evolve more. We already applied AI some ways, but we need to improve.

At BIDV, we also applied online onboarding for a certain group of customers. We use this to allow our customers to register for online banking. Customers no longer need to go to a branch to register and do online banking. The rate of customers who are using that has increased.

We talked about some of the initiatives as well as some of the technology that you're using. Next, we want to know what has the impact been around three areas – impact on customers, impact on your internal organisation and the impact on your financial performance?

There a lot of benefits for merchants. The transaction volume is doubling every year. The customers also have a lot of benefits. They can possibly transact free of charge. It's very easy. We decreased the fee and the volume increased. The total benefit is the increase.

There are also a lot of risks involved. We follow a product management rule in our digital banking. We are quite confident with our risk management. Our products are ready for the customers.

What personal advice do you have for people who are undergoing the same thing that you're going through, driving the digital transformation of your organisation?

The technology, the markets and digital banking are still very new. We just focus and believe in our roles. We are very consistent. My advice is to follow the way you already chose or follow the strategy implemented according to your roadmap. TAB

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LITO VILLANUEVA

EVP AND CHIEF INNOVATION AND INCLUSION OFFICER, RCBC | PHILIPPINES

We've had three-digit exponential growth in adoption across all of RCBC's digital channels. This exponential growth will be sustained even post lockdown or during the new normal.

We are a TRADITIONAL BANK, now trying to be a CHALLENGER BANK

Lito Villanueva
EVP and Chief Innovation and Inclusion Officer
RCBC

Lito Villanueva, executive vice president and chief innovation and inclusion officer of RCBC, discusses the bank's journey in establishing its own digital bank and the need for digital transformation, especially amid the COVID-19 pandemic.

- RCBC will launch its own digital bank using a rural banking licence from the Philippine regulator Bangko Sentral ng Pilipinas (BSP)
- The bank is keen to tap the Philippines' unbanked population of 58 million and make financial services more accessible to this segment through its digital bank
- The coronavirus crisis has highlighted the need to migrate branch-based over-the-counter transaction to digital channels as much as possible

Rizal Commercial Banking Corporation (RCBC) is one of the largest universal banks in the Philippines. Majority-owned by the conglomerate Yuchengco Group of Companies (YGC), RCBC has been operating since 1960. Yet, despite its long history, the bank is keen to take on a new journey, to try its hand in the digital arena with the establishment of its own challenger bank.

At the helm of this effort is RCBC executive vice president and chief innovation and inclusion officer Lito Villanueva. In this interview, he details where the bank is at in its digital banking journey and how the COVID-19 pandemic has emphasised the need to fast-track going digital.

Foo Boon Ping: I want to start the interview with a personal profile. Tell us about your own experience and what you bring to the role of leading the digital reinvention at your bank.

Lito Villanueva: I've gone through a lot of organisations geared towards inclusive digital finance. I've been with a government bank before, Land Bank of the Philippines, doing remittances or money transfers. I've been with the International Finance Corporation (IFC) World Bank, as well as with Visa and a telco. I was also with Voyager Innovations, PayMaya and FinTech Alliance.

I've gone through a wide array of interfaces with various markets. When I was with Visa, I was handling about 36 markets at the time and looking into various implementations when it comes to mobile money. That gave me the opportunity to look into the essential elements needed to come up with innovative digital solutions that would best fit the Philippine market.

I moved to RCBC, one of the biggest banks in the country. Although traditional in mindset and ways of doing business, the management of RCBC – or the entirety of the YGC – were cognisant of the reality that digital is the way forward.

What is your definition of digital reinvention and transformation?

Digital transformation is not just about technology. It's not just about adopting the latest innovations or what's

new in the market, but it's really about people, mindset and culture. We have seen that the management, the owners are dead set in pushing for digital. Now, the investments made into digital are bearing fruit, as we've seen exponential growth in consumer adoption of digital transactions.

> *The idea behind our strategy is really on how we can offer variety. In the Philippines, we want a variety of choices because for us, as Filipinos, freedom of choice empowers us.*

COVID-19 lockdown really restricted Filipinos' mobility. As they are not allowed to get out of their homes, everybody was forced to go digital in their transactions. For example, we've had three-digit exponential growth in adoption across all of RCBC's digital channels. This exponential growth will be sustained even post-lockdown or during the new normal, because we are seeing it's increasing on a daily basis. After all, going digital is habit forming. Once you've tried it or gotten used to it, you won't go back to your old, traditional ways of doing things.

In your opinion, where do you think the future is headed for banks like yourself? What is the one key opportunity and challenge that your bank faces in this age of digital innovation and disruption?

I would say that we have the best of both worlds. RCBC, as a traditional bank, is now trying to be a challenger bank in a sense that moving towards digital would now be a new order.

What is happening right now is that RCBC is creating its own digital bank with a rural bank licence. We are one of the first, if not the first, regulator in Southeast Asia that has come up with regulations targeting digital banking without having to pull it together and call it as a digital bank code or regulation. All of those regulations pertaining to eKYC, agent banking – practically, you have more than 10 regulations talking about digital banking. This is already the framework of going into the digital banking landscape.

We are the first Philippine universal bank that is now venturing into a digital bank. The digital bank that RCBC is pushing – which we already applied formally to our BSP – will be the country's first digital bank owned as a subsidiary by a Philippine-based or Philippine-owned universal bank.

How do we now place RCBC as a traditional bank vis-à-vis that of a challenger bank like what we are now creating? There will definitely be no competition, no conflict at all, because both would be complementing each other. RCBC is more targeting the mass affluent, while the digital bank that we are now creating is more targeting the mass base, the unbanked or underserved Filipinos that constitute majority of the population.

There are about 58 million adult Filipinos that do not even have a bank account until now. Imagine that magnitude of opportunity in terms of addressable market is so huge for any player in the Philippines to take advantage of. Looking at the CASA (current account, savings account) base across Philippine banks, more than 80% of their average daily balance (ADB) is way below $1000.

This is where we will be playing. There are two major metrics that we want to really emphasise here: acquisition and usage. Acquisition is quite a very straightforward initiative, but usage is a different story altogether. What is critical is how the market traction and consumer adoption of all these digital transactions and channels are measured.

You have developed a formula for it, you call it the 4Ps + 3Vs = PDC.

The four Ps would be people, process, product and platform; the triple Vs – volume, value and velocity. These would now result in PDC: profit optimisation, data generation and cost minimisation. At the end of the day, the value of going into digital would really mean having to achieve these three.

What is your key strategy to succeed and the key priority pillars that support the strategy? What is your vision for your bank in its journey of "reinvention"?

The digital banking offer that we will launch is DiskarTech. This is practically the country's first inclusion super app. This will address not only financial but also social, livelihood and even health and wellness. We will offer a whole slew of financial services in the app as well as other features that will encourage the user to maximise its use.

There are many perceived barriers in opening a bank account in the Philippines. For some farmers or other folks in remote areas, it would take so much money

and effort to even go to the nearest branch or financial touchpoint for their transaction. In this particular case, DiskarTech resolves the access issue. The language issue and the issue concerning variety of services have also been resolved.

The idea behind our strategy is really on how we can offer variety. In the Philippines, we want a variety of choices because for us, as Filipinos, freedom of choice empowers us.

What are your views about a cloud and open architecture-based PaaS core banking infrastructure platform that support APIs and microservices? Would open banking be one of the features of your bank?

Since day one, I have been an advocate of open banking, open architecture and cloud. DiskarTech will be 100% on cloud. Our core banking is on cloud. For RCBC to adopt cloud banking, we had to separate the digital bank from the legacy bank. The quickest way to transition to a digital bank is to separate an entity that will now venture into pure cloud, pure digital and advocate open banking as well as open architecture.

The main thrust of digital banking is how you could advocate and push forward all of these principles pertaining to open banking, cloud computing and all the other facets of having a democratised way of doing financial services.

We discussed DiskarTech, which going forward might be a subsidiary, a standalone digital bank. Are there other key initiatives that you're working on?

We've seen that more than 50% of the branch network of most banks have been closed during the lockdown. That's why it really makes so much sense for us – or for any bank, for that matter – to really shift the branch-based OTC transactions to digital.

What is the impact that this reinvention brings on RCBC's internal organisation as well as your financial performance and statement in terms of key ratios?

Digital banking has had so much impact in the internal organisation of RCBC, even on the culture, the mindset. Employee morale is now record high, because they have seen RCBC at the forefront of this dramatic change in providing digital services right at the very core of this crisis.

In the first five weeks of lockdown, RCBC got at least six BSP approvals, one of which was given to us in a matter of six hours. We got one Monetary Board authority as well, which granted RCBC the authority to receive government funds so we can assist with the social amelioration programme for 18 million beneficiaries affected by the lockdown.

What are some of the risks and failures from your experience that you can talk about and what to look out for?

In terms of risk, you have to invest heavily in cybersecurity. The more you become digital and leverage technology, the higher risk you have of facing potential cyber hacks or cyber attempts. This is also a huge investment on the part of whoever will be venturing into digitalisation. You don't want to be just one step ahead of the hackers, you have to be more sophisticated when it comes to having all of those platforms or solutions on how to prevent cyber fraud along the way.

The commodity we are offering the public is trust. Any digital offer is hinged on trust. As soon as there are attacks, fraudulent transactions or cyber attempts, the trust level of the consumers diminish. You don't want that issue or problem to arise, so you have to be always ahead of the game.

What are your personal aspirations for the new year? What personal advice do you have for people wanting to follow in your footsteps?

You just have to be yourself. As long as you have that genuineness, sincerity of purpose and clarity of vision, you will be able to implement anything that you want – provided that you also have the support of the principals. No matter how good you are, no matter how sexy or how robust your platforms are, if you don't have the support of management or the principal and they don't believe in you, you're also doomed to fail.

Any digital initiative or any digital transformation has to start from the top. It would be very difficult for you to rock the boat at the bottom. You have to ensure that you capture the imagination, get the approval and the support from your principals. Share that vision and aspiration you intend to drive up and how you intend to deliver it. Of course, make sure that all of your actions are well-grounded. This is not the time for you to have lofty goals that would be impossible to even reach.

The third critical element is, again, collaboration. It is not just about cooperating with any external entity outside your organisation. Collaboration is also about internal.

One single person cannot do it alone. It has to be a concerted effort across departments, groups, across the men and women of any organisation towards achieving one common goal. TAB

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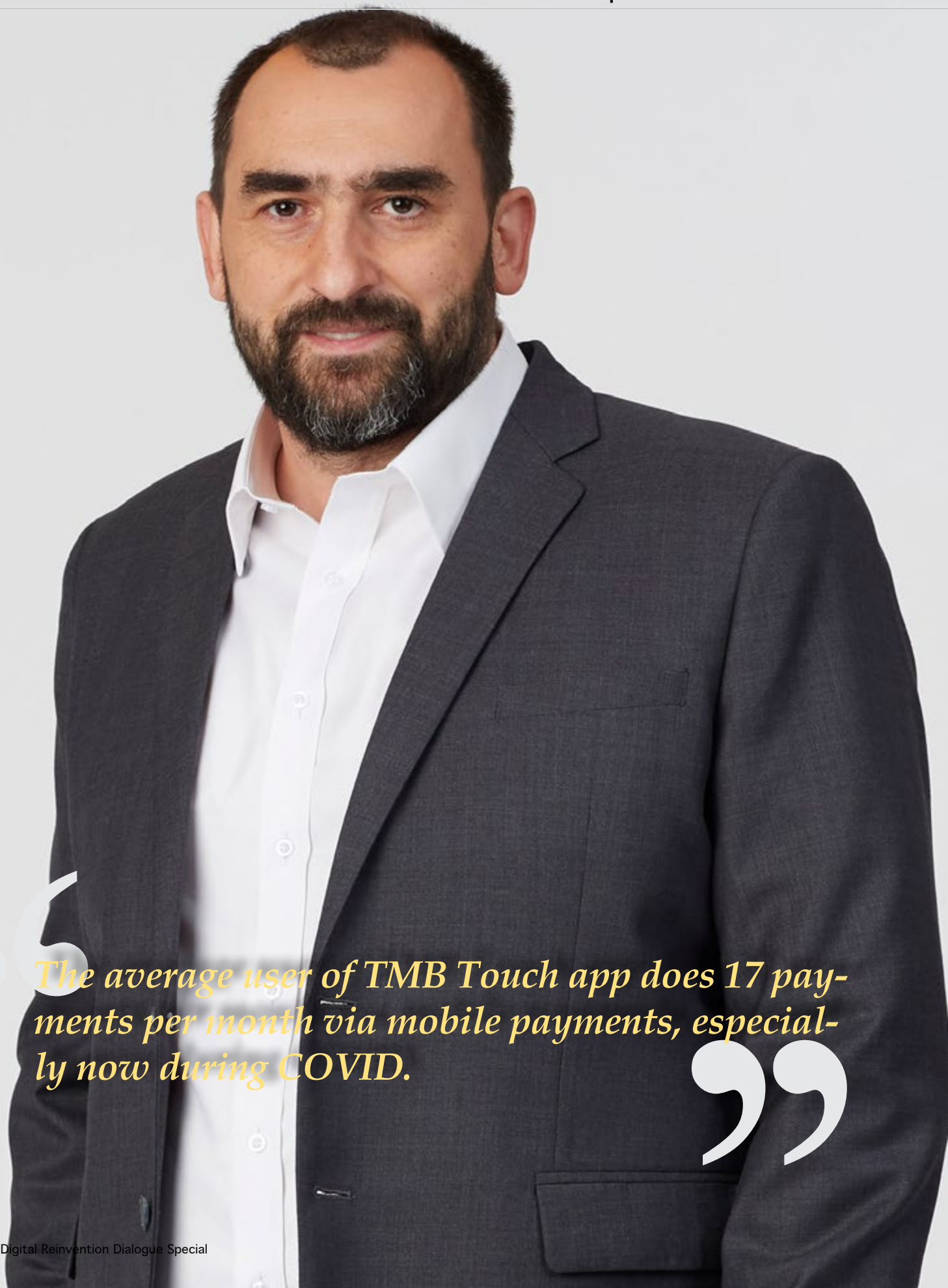
ROBERT ANGHEL

HEAD OF DIGITAL AND USER EXPERIENCE, TMB BANK | THAILAND



"The average user of TMB Touch app does 17 payments per month via mobile payments, especially now during COVID."

"STAY FOCUSED AND IMPATIENT"

Robert Anghel
Head of Digital and User Experience,
TMB Bank

The head of digital and user experience at TMB Bank, Robert Anghel, discusses how the bank is focusing on consumers' growing appetite for digital services to lead in the market, the impact of COVID and its target technology model after the merger with TBank

- Leveraging consumers' high appetite and usage for digital services
- Targeting a single system for the combined bank
- COVID: A test of agility and customer validation

Robert Anghel, head of digital and user experience at TMB Bank, joined in 2019 after spending eight years in ING Bank Romania to develop the Dutch bank's digital platform ING Bazar. He then focused on mobile payments and the launch of the ING Pay service.

ING Group is the biggest shareholder in TMB Bank with a 30% stake and Anghel was promoted to lead the Thai bank's digital strategy and consolidate its presence in the market.

He is responsible for the bank's mobile banking service that has seen transaction volume growth of over 20% in the last couple of years. TMB Touch, its mobile banking app, has over 2.5 million users of which over 70% are active.

It is one of six domestic banks involved in the pilot use of biometric and blockchain technology through the National Digital Identification (NDID) platform under Bank of Thailand to digitally verify customer identity for the opening of savings accounts.

At the end of 2019, TMB Bank, then the seventh largest commercial bank in Thailand with the reputation of being a digital innovator, completed a THB 156 billion ($5.1 billion) merger with leading auto loan provider, Thanachart Bank (TBank).

The merger more than doubled the combined bank's total assets to THB 1.9 trillion ($61.7 billion) and moved it up a notch to become the sixth largest in the country. It enlarged its customer base to 10 million, its branch network to about 920, and the total number of employees to about 19,000.

ING Group retains its majority shareholding at 21.3% with the other major shareholders such as parent company of TB Bank, Thanachart Capital, the Thai ministry of finance and Canada's Scotiabank holding 20.4%, 18.4% and 5.6% of shares respectively, while minority shareholders account for 34.3%.

Foo Boon Ping: You were in ING Romania before you joined TMB Bank last year. Tell us what you did and how that experience affect your current role?

Robert Anghel: I have always been passionate about delivering customer experience through digital services. I was responsible for the digital platforms with a very deep focus on mobile payments. Mobile payments in Europe is about tokenisation. Services like Samsung Pay, Apple Pay, ING Pay are focused on tokenisation of the card on the device. In Thailand and Asia, mobile payment is mainly about quick response (QR) codes. The level of the market is supported by very heavy investment in mobile banking application. This is embraced by our customers. In the past months, more than 1.8 million customers had logged in to the mobile application. Our customers use our app every day.

TMB Bank is on a mission to be a closer, more proactive partner of our customers and help them reach their financial well-being. To inculcate four financial behaviours, namely disciplined spending, regular saving, solid protection (insurance) and, responsible borrowing, we need to be more active in talking to our customers about these behaviors via digital channels and support our customers to embrace them.

The foundation for developing disciplined spending behaviour is to move more transactions to mobile payments. The average user of TMB Touch app does 17 payments per month via mobile payments, especially now during COVID. Cash usage is down. There is an accelerated trend of adaptation of digital transactions. And it is at the core to teach discipline. If you can track spending with features like push notifications, you can see and monitor your financial behaviour.

For regular saving, we have features like saving goals. A customer can define a goal. There are at least 10,000 people with 10,000 dreams that have become reality. For responsible lending and solid protection, we have features where customers can see their products or they can buy new products and new services via the digital channels. We need to be more proactive to anticipate what they want and show them their next best actions.

What is the vision for the bank in this journey of reinvention and with the merger with TBank?

The core value of TMB is "Everything starts with the customer". There are two main expectations that customers have of us. One is a constant evolution in products and services and their mobile app. They want to have trust, that they are engaged with a partner who looks into the future and brings what is best into their apps. And the other is everything that we build needs to be the best. There must be constant progress and user experience.

We are going through an organisational transformation on two dimensions. First, we are putting agile as a methodology within the organisation and all the implementations that we are doing in digital channels are based on the most rigorous agile methodology. Second, we are applying design thinking principles to test with customers all the features that we are developing so that we know that everything that we put in the app is valuable and useful. And these are the key transformational changes that are coming through the organisation.

We are a full digital bank. All of our products are exposed to digital. Most of our customers use digital and the transactional behaviour is a very obvious proof that the bank is digital. We hope with the merger to enlarge the services and value to our customers.

Talk to us about the digital architecture of the combined bank.

What we are targeting in terms of technology is open application programming interface (API), microservices, domain design driven applications which enable us to connect with external parties but also to automate seamlessly internal processes in a scalable and reliable way. Scalable means that whenever we see a peak in traffic for a component of the application such as mutual funds, we can increase the size of infrastructure that is dedicated to that model without impacting all the other components. Reliable means the same thing but on the opposite side. Whenever we have downtime for whatever services, that service can be isolated, and does not affect the reliability of the entire system.

Microservices and API technologies are at the core of the design. We are connecting to external parties to get information about products and to push transactions from our customers to these connected partners. More than 30% of the transactions are already done through the mobile banking app. We have in our ecosystem this concept of product-as-a-service developed together with our partners.

A customer can choose whatever best fits his needs and can do this remotely using his mobile app without any intervention from human operations in the process of inspecting, exploring and buying.

The target model is that we merge everything into a single system for each of the products. We have already gone through the exercise of understanding our target

product shelf. We know the target systems we want. With dual systems that will complicate our lives both technically and with the relationship with customers. The end goal is to take away the complexity and not be impacted by the complexity of the design.

So indeed, it is a complex digital ecosystem that we are looking at. We need to imagine TMB Bank as a gateway to our digital experience. Most of the focus will be oriented towards TMB Touch at this point.

Has COVID accelerated any plan that you have in terms of rationalising your branch footprint?

The movement of customers' behavior during COVID towards digital was accelerated. People didn't need too much cash overall, and spent more on electronic channels with mobile apps and cards. Rationalising the branch footprint is something that is happening on a normal basis. We are in a happy spot. Most of our customers already embrace digital, most of our payments are done via digital. More than 98% are done digitally.

Talk about increasing digitalisation and operational resilience to unforeseen event like COVID.

These are the two components that have helped us to achieve this. Adaptability to the current state. One was solid business continuity plan, everything worked by the book. Whenever we needed any decision we knew who to call, when to call, what kind of decisions to be made in what kind of context. The continuity plan was well designed and useful. The organisation is flexible and people understand that this is a special situation.

For example, we received a request for loan installment delay by the authority. In two days we managed to digitalise the process. And there are more examples that our colleagues managed to understand and deliver what the customers needed even though the workforce is working remotely. You might not be together but you're able to implement changes because you are agile.

"What we are targeting in terms of technology is open application programming interface (API), microservices, domain design driven applications which enable us to connect with external parties but also to automate seamlessly internal processes in a scalable and reliable way."

It is very important because the agile methodology is based on the autonomy of the squads that are building the app. This was one of the components that helped us succeed. The fact that we can mobilise. Digitalising the request for installment delay was done by three people over two days.

Digital reinvention projects are fraught with risk. How do you manage the risk, failures and what experience can you share?

There are two types of risks that we need to cater for. The IT and technical risks such as coding mistakes, that banks in general know how to manage. We have good policies put in place to cater for these risks. And there is a lot of tools and technology that cover these risks.

The other type of risk that we need to start paying more attention to is the risk of developing something that is not relevant. We need to make sure that whatever we invest in terms of features that they are really valuable and useful to the customers. And that's why we validate with customers through design thinking principles. I'm happy whenever an idea is validated because it means that we have saved time and money.

What advice do you have for people who want to follow your footsteps to drive the digital reinvention of their organisations? What are some of the lessons that you can pass on to them?

If I were to give advice to anyone from the learnings that I've had in my professional background is to stay focused and not have patience. Whenever you are focused on something you can't wait for it to become reality. Then it will happen. This is maybe the most important thing that I've learned during these last few years. It is okay to be focused and to be impatient at the same time. TAB

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HENRY AGUDA

CHIEF TECHNOLOGY AND TRANSFORMATION OFFICER, UNIONBANK | PHILIPPINES

During the lockdown, we onboarded close to around 150,000 new customers, and we're seeing digital transactions moving up 11 times more than before.

"THE 50 MILLION CUSTOMERS AND 1 MILLION SMES ASPIRATION IS NOW A HARD TARGET"

Henry Aguda
Chief Technology and Transformation Officer, UnionBank

The chief technology and transformation officer of Union Bank of the Philippines (UnionBank), Henry Aguda, shares the bank's ambition of reaching 50 million consumers and one million SMEs as well as how it amplified the culture of teamwork and integrity in its digital transformation.

- Creating infrastructure that allows people to operate the bank from home during the pandemic
- Heavily invested in multi-sided platforms that aim to help rural banks and SMEs
- Failing and taking accountability for it

With more than two decades of experience in the telecommunications industry, Henry Aguda, UnionBank's chief technology officer and chief transformation officer, jumped into the banking space to be at the forefront of innovation as the bank goes through a tremendous digital transformation journey.

Prior to joining the bank, he worked for the government service insurance system for about two years. He also tried his luck in startup companies in the US. A year later, he came home to the Philippines and met UnionBank Chairman Justo "Tito" Ortiz, who picked his brains on transformation. He subsequently joined the bank a few months later.

Aguda, who had zero banking experience at the time he joined UnionBank, was introduced at events as "the non-banker who was going to transform banking". Joining the bank was a risk he took, which turned out to be a gratifying learning experience and resulted to a fruitful digital journey.

As reflected in its latest financial statement up to the first quarter of 2020, UnionBank made a 22% increase in net profit. The bank onboarded around 150,000 new customers amid the COVID-19 pandemic, with its digital transactions increasing 11 times more than before, and is planning to scale out the blockchain experiments they've done.

Foo Boon Ping: What are some of the highlights of UnionBank's digital transformation?

Henry Aguda: A lot of people think that digital transformation is largely about technology. It's not. When I joined UnionBank, it was performing very well financially and operationally. You have to amplify some of the key ingredients of the bank's DNA, like integrity. In a transformation period, it has to be heightened. Integrity is not just about honesty, it's also about transparency and openness.

We also have this culture of magis: "Do better, do greater and do more". In a transformation age, even if you're doing very well without automation, you have to be open minded that you can still do more with automation. That's a key to us. There's also the aspect of teamwork. At UnionBank, we call it Ubuntu. It's cross functional, from our compliance people to our product people, business and lawyers. There has to be financial inclusion in everything we do, which means it's not good enough that we develop a great app. The way we approach our products, it has to address the biggest base of customers possible. So, we said, "We will listen to our customers." Our products were developed with the customer in mind.

We were the first to launch a chat bot, which now has half a million users. We have our fantastic conversion app, which we had for about a year, even before the lockdowns. People can open an account without going to any of our branches. During COVID-19, this became very handy because customers can open an account by downloading the app, taking a selfie of themselves and taking a picture of their IDs. We also introduced artificial intelligence (AI) into our processes, especially in financial crimes. If you visit our branches, you'll see live robots moving around the place already functioning. We've created a platform that scales gracefully as the load comes.

"We realised that if you give customers the tools to do the process changes and automate those changes themselves, engagement goes up. Once it goes up, it accelerates the organisation's innate ability to transform itself."

During the lockdown, we onboarded close to around 150,000 new customers, and we're seeing digital transactions moving up 11 times more than before. The moonshot is we will onboard 50 million customers and one million SMEs. When we started, we called it moonshot, so that we shake the organisation's comfort level. Even if you work 10 times harder, you won't get to 50 million, so something has to change.

The competition has prompted banks to go digital. What do you see as the key opportunity for UnionBank as a first mover?

We have all the advantages that a first mover has. One, brand recall. If you go around the Philippines and ask them about digital banking, they'll say hands down it's UnionBank. Second, we have two to three steps ahead of the competitor. It took us three years to get here and get our systems working. We applied the Agile methodology. We make mistakes along the way and we fail forward. The other banks would have to experience the same hardship that we went through. The advantage of the first mover is we get to maximise the benefit of the new technology that we implemented. Aside from the fact that we're onboarding a lot of customers right now, we're seeing a lot of switchers from other banks, heightened more because of this current lockdown.

How do you see COVID-19 shaking things up?

We're the only one right now in the Philippines that is onboarding new clients that couldn't be onboarded for various reasons. During COVID-19, a lot of people started doing work from home. The struggle of most companies in the Philippines is, their infrastructure wasn't built for work from home. In 2019, UnionBank implemented an infrastructure in anticipation of the Philippine law that encourages work from home. In anticipation of the worsening traffic in Metro Manila, we also created an infrastructure that allows our people to not just work from home but operate the bank from home. Our call centre is 100% operated from the homes of the employees.

UnionBank is very particular with risk management and business continuity. Since we did business continuity planning (BCP), when the pandemic hit, we didn't lose a beat. Unfortunately, the pandemic came at the heels of a disaster like this, but it validated the processes, automated work streams and a lot of the plans that we prepared for BCP. After COVID-19, once we open up the economy, a lot of the customers will now have top of mind recall of UnionBank as the digital bank that allowed them to facilitate the transaction during the lockdown. Our CEO Edwin Bautista came up with an idea of increasing our cashout centre facilities. The solution was to integrate with the remittance companies. In two weeks, we have 11,000 cashout centres that you can withdraw money from.

Is there any update in the strategy and any change to the vision of your digital reinvention?

The 50 million customers and one million SMEs started as an aspiration. But now, as our CEO said, "It's no longer aspirational, that's now a hard target". The change in

strategy is we're not going to aspire for the 50 million, we will make it happen. Several years down the road, we want to get as many, not just local Filipinos, but also overseas Filipinos in our banking system. Another change in the strategy is we will scale out the blockchain experiments that we've done. We are also exploiting the advantages of having a working AI infrastructure. Now that most of our processes are automated and digitised, it's time to create a real, live and working experiment that we will apply on customer segmentation, dynamic understanding customer needs. The situation worldwide is evolving. We're trying to be ideal and flexible enough to move to the next mega trend in terms of banking.

Talk to us about your view of cloud and open architecture banking.

The reference architecture that we built the bank on was BIAN, banking industry architectural network. We're at version nine right now. Included in that framework is the ability to do open banking. We have a lot of advantage because we're a smaller bank. If we have open banking, it will be more fluid for customers to move from one bank to another bank. We're waiting for the regulation to happen.

We're heavily invested in multi-sided platforms, such as i2i, to bring the rural banks together. We've connected the rural banks to banks overseas so that they can transfer money flawlessly through the bank as an intermediary. We're creating a platform that allows SMEs to create a payment gateway and an internet presence and connect it potentially to an international group of SMEs through our global link platform. All of these SMEs can also be easily connected to our i2i platform. The platforms that UnionBank is creating are platforms that will eventually interact with one another. We're heavily invested in that, and we're going to start scaling those platforms that we've deployed in 2019.

How do the digital initiatives that you've launched impacted your customers?

We're proud of our employee engagements. There are situations where once you introduce change, engagement goes down because people are more concerned about their day-to-day habits – the usual fear of change. But at UnionBank, we have a Gallup score of 4.23. The global standard is 4.20 for high engagement. In 2018, ours was 4.23, and in 2019, it went up further to 4.24. The area with the highest engagement score is the operations area. We realised that if you give customers the tools to do the process changes and automate those changes themselves, engagement goes up. Once it goes up, it accelerates the organisation's innate ability to transform itself. UnionBank has a very strong Six Sigma discipline prior to automation. Now that they're automating, that quality-first attitude translates into better codes and better processes that we've been able to deploy. For our customers, they see the intensity of the engagement that UnionBank has with the customers.

How are you teaching people at your bank about risk and failure?

One of the fears I had then was working with the regulators. Pleasantly surprised, the regulator is helping us. We started off as the sandbox for the new regulations. Together with the regulators, we've worked on cybersecurity, agency banking, the retail payment system, etc. The regulations now say that every bank must comply to become digital. Don't worry about failing. If you have integrity, own up to the failure. Everybody wants to succeed, but if you do fail, take accountability for it and move on.

What personal advice do you have for people who are looking to follow in your footsteps to reinvent their bank?

Transformation is a long game. A lot of people make the mistake of thinking that transformation is a one-off technology project. Transformation, the kind that UnionBank underwent, requires culture change, buy-in from the top and engagement with employees. Transformation is multifaceted. The technology piece is the easiest component. The more difficult piece is trying to figure out the regulation, what is allowed and not allowed. Once you figure that one out, technology is plugged into it. If they want to follow in that endeavor, they have to be sure. It's a big race, but like most endeavor, there is a reward.

In order for you to mitigate the risk, you have to surround yourself with people that are equally committed to the mission and open to listening to other people. My aspiration is for more people to take the plunge into transforming an industry. It's no longer about competing with one another; it's about helping one another. That's why UnionBank is very generous in sharing what we've done and experienced.

The year 2021 should no longer be the year of competition. It has to be people with a culture to learn, never fearing the unknown, because if we fear the unknown, we won't be able to invent, innovate and discover. TAB

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