

# BANKING WITH THE TIMES

BY CHIA TEK YEW

Banks are responding to a new platform economy and changing customer demands



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**T**ODAY'S banks operate in unique times. As they rapidly digitalise to seize new opportunities of growth, they are also confronted with the challenges presented by the platform economy and strong financial technology (fintech) entrants that could pose serious competition.

The vortex of forces that they face includes: the ongoing impact and adoption of technology such as robotic process automation and cognitive technologies as they digitalise, an acceleration of the demands and effects of the platform economy as well as the commercialisation of data and analytics to provide a better customer experience.

While these developments create many opportunities for banks, they have also created anxieties in equal proportions.

In reality, banks now have to grapple with the increasing demands of retail and institutional customers who seek agile, "on-demand", "high-touch" personalised services that they are accustomed to from the services provided by platform disruptors such as Uber and Amazon.

At the operational level, they also struggle with existing legacy systems as well as more stringent compliance requirements as a result of increasing

regulations over know-your customer (KYC) and anti-money laundering activities.

At the same time, the relentless march of fintechs into areas where these entrants spot gaps and under-served segments is gaining stronger ground.

This is most evident in the area of peer-to-peer lending, or micro-payments and remittances for small and medium enterprises (SMEs) that need to access business loans or be digitally connected for payments to suppliers locally and overseas.

Such challenges have led banks to reposition their strategy around one central theme: constant innovation.

## COPING WITH CHANGE

In targeting SMEs, banks are beginning to respond by collaborating with fintechs. They recognise that they have to become "partners" with their SME customers as opposed to being a transaction banker. In particular, banks are providing tools for SMEs to manage their customers, operations and financial health.

For example, UOB offers its SME customers UOB BizSmart, a curated set of five business apps that assist them with their accounting, point of sales, inventory management,

data security and human resource management needs.

Meanwhile, DBS has nurtured a Business Class community to connect SMEs with one another, bringing to life a networking and content platform that offers relevant insights that SMEs would find useful. The bank also seeks technology solutions for their clients.

Further from home, UK's Barclays has launched a business dashboard which enables the bank's customers to see their banking and business information all in one place for the first time. This was made possible by collaborating with a fintech partner, 9 Spokes of New Zealand, which essentially allows SME clients to use a Web banking portal which offers high security and convenience, and to download curated cloud-based business apps from within the mobile in one place.

Interestingly, we now see banks play an active role in their customers' ecosystem. A case in point is HSBC Commercial Banking which introduced the HSBC Connections Hub, a digital platform designed to enable business customers to leverage the bank's global network to connect with trusted buyers and sellers around the world.

Going forward, we anticipate that banks will take such platforms a notch up to provide cash management solutions such as invoice financing in integrated end-to-end supply chain offerings.

In such ecosystems, the banks can also offer other services and products such as insurance and trade finance and payments to serve all the buyers and sellers in its usual sector-based ecosystems.

While banks are clearly on the right track with some of the examples cited above, we believe that for them to become true partners to their SME customers, they will need to take a few active steps:

### 1. Leverage customer behavioral data and artificial intelligence

Customers expect banks to understand them well and provide customised products and services that fit their needs. Any products or services which allow banks to obtain quality data of the customers should be prioritised.

### 2. Leverage the platform economy

The rise of the platform economy is forcing banks to move away from pure product strategies and capabilities. Banks will instead need to create strategies which allow them to be embedded in their customers' ecosystem.

### 3. Engage in "co-opetition"

Banks should look to collaborate with fintechs in order to be able to quickly respond to the rapidly changing needs of the customers.

Tomorrow's successful banks will be characterised by management who embrace change, and are agile and able to evolve quickly with an innovation culture at the heart of its business. Such banks will be best positioned to become partners with their SME clients, including those which are currently under-served. ■

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