

Title: Digital banking: The way forward

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Digital banking: The way forward

Technology solutions are transforming every aspect of life, lining up a plethora of services readily available at the swipe of a finger – and banking and finance is a hotbed of such innovation. **Do Danh Thanh**, technology consulting director at PwC Consulting Vietnam, told *VIR*'s **Hoang Anh** how digital banking is an inevitable trend that puts pressure on banks all over the world to transform their traditional operating models.

What potential do you see in digital banking?

I think there is huge potential for digital banking to become the norm because of the core values that it delivers, such as simplicity, connectivity, and effectiveness. Many of us are already familiar with e-banking systems, which allow customers to make payments, transfer money or check their bank balances online. Digital banking is more advanced in that it enables the provision of all such and other products and services through mobile devices.

The high flexibility of digital banking products and services helps banks serve customers in a timely and highly interactive manner. This not only benefits banks and their customers, but also third-party partners and end users.

Moreover, with a similar scale and investment, a digital bank can yield substantially higher economic benefits compared to the traditional operating model. One case in point is India's Digibank, which amassed over 1.8 million customers and started making profit within only 18 months of its establishment.

According to PwC's 2018 Global Digital Banking Consumer Survey, 15 per cent of participants use their mobile phones as the primary device to transact with banks (up from 10 per cent in 2017). A survey by the State Bank of Vietnam in 2017 further showed that the number of financial transactions via mobile devices increased by 81 per cent, while Internet banking transactions rose by 67 per cent compared to the previous year. Despite the

fact that many customers still stick with traditional banking, digital banking services have been growing rapidly and are expected to replace traditional banking gradually.

What do you think about the current digital banking transformation practices?

Aligned with the government's objective to create a cashless economy by 2020 and for at least two Vietnamese commercial banks to rank among the 100 largest Asian banks in terms of total assets, competition in the banking industry will boil down to one question: who will come first in the digital banking transformation, thereby winning in the high-potential domestic market and expanding internationally?

As per our assessment,

most of Vietnam's banks have started implementing digital core banking systems to accommodate Internet banking payment services and digital payments. Some banks have authorised payments via QR codes on mobile device applications, payments through social networks, and cash withdrawals from ATM without cards. Currently, some Vietnamese banks are using data analytics to synchronise data and support customer behaviour analysis. These are very positive developments showing that the banking sector is going digital.

How do you think banks should start their digital transformation journey?

We have come up with three main approaches based on

our experience in delivering digital transformation projects. The first approach is to set up a digital team who reports to the CEO and fully takes part in the transformation process. With the advantages of direct involvement and deep understanding of the client's business, this approach puts customers at the centre and brings them new digital experiences. The second approach is to establish an entity separate from the traditional bank. With such segregation, the entity will focus on creative capabilities and piloting to generate new ideas that can be implemented at the original bank at a much larger scale. The third approach is to build an integrated transformation team tasked with solving current customers' needs with digitalised solutions. With this approach, banks can focus on customers' needs entirely and form partnerships with fintech startups to implement effective solutions.

Even though each approach has its own pros and cons, these are the three methods that have brought success to many banks around the world in practice.

We believe that Vietnamese banks, subject to their own characteristics, should seriously consider one of these three approaches to start their digital transformations.

Objectively speaking, are Vietnamese banks ready to undertake the digital journey?

Looking back at the successful digital transformations of some banks in the region, we have identified some common drivers, such as changing demographics, better and cheaper technologies, a need for optimising returns on investment, and open and flexible legal systems. These are the core drivers for banks to transform their operations to meet more complex and diverse customer needs.

Vietnam has all these drivers and is, in fact, a potential market for digital banking transformations. To achieve this, banks should start by building their digital strategies and visions. Then, they can assess their current digital state and select the appropriate approach for digital transformation with clear objectives aligned with financial effectiveness.■

There are now over 30 banking institutions in Asia that have successfully transformed to digital banking operating models. Examples include DBS (Singapore), Shinhan Bank (Korea), CBA (Australia), Jibun Bank (Japan). In Vietnam, Timo (sponsored by VP Bank) is currently the only digital bank.