

# Virus Sparks Digital Push In Asia

Even when the COVID-19 outbreak is contained, it is unlikely things will return to pre-virus normal. Financial Services is one industry that may well be forever changed by the pandemic. Already, institutions in Asia are starting to see an acceleration of digital transformation.

Egon Zehnder convened a roundtable with a dozen senior banking and FinTech leaders from across North and South Asia. They shared their perspectives on how the COVID pandemic has created both challenges and opportunities and how they plan to pivot their organizations to respond.

## Digital is no longer just a buzzword

Traditional banks that may have added some digital elements as “window dressing” in the past are now under pressure to embrace true digital transformation. Consumers are showing new willingness to use digital alternatives. Already there is a ~ 20-30% YOY increase in seniors above 60, who have started to use Internet banking; separately a two-and-half fold jump in purchase of investments online.

Over 650,000 new online customers made at least one e-commerce transaction online in the last few months, said one banking leader. At one of the digital bank's soft-launch in Hong Kong thousands applied for a credit card on the first day.

Financial institutions and governments are following the consumer lead. Asia has opened up its banking ecosystem to new players. Eight new digital bank licenses have been awarded in Hong Kong, five new ones will emerge from Singapore. There will be even more competition from non-banks, across ASEAN in the next 12-24 months. "Some have built the digital bank in less than 12 months, so technology is less of the challenge. What's important is how we solve for the customer need and how well we execute," said one banking leader in Hong Kong. The key, he said, is to focus on ways to make digital use permanent. For this, companies will need to anticipate customer needs and design new products around them.

### **The future of money is digital. Asia is in a prime position to lead**

Governments are embracing stimulus efforts to help their economies but there are doubts about the efficiency of the financial distribution system. Already companies and Central Banks globally are looking at technological ways to channel stimulus directly to ordinary people and small businesses, cutting out traditional commercial banks.

Facebook plans to launch its own global payment network called Libra. Central Banks have responded with efforts such as China's Digital Bank Currency/Electronic Payment. The Bank of England and also Bank for International Settlements (BIS) initiatives will accelerate their support of digital assets. China is undertaking government-backed tests in four urban areas, which have a combined population of more than 40 million citizens. In emerging countries such as Cambodia, the National Bank of Cambodia (NBC) aims to launch a retail central bank backed digital currency (CBDC), to encourage financial inclusion. There is an expectation that the Central Bank Digital Currency (CBDC) will be a big topic post COVID, particularly in large emerging countries.

Further fueling the demand for digital assets are the investors who wish to diversify their portfolio and protect against inflation. The volume of digital asset fundraising and M&A deals are growing in Asia. A FinTech leader proclaimed: "Asia will be the heart of Crypto. US and EU are still stuck in analog infrastructure while Asia is embracing the technology to have online life."

There was a unanimous agreement amongst the banking leaders for making cross border exchange of payments electronic and to settle in real time. “Wholesale is our biggest bet (for digital assets). It will be cheaper and more efficient,” said one.

### **Many will learn from Singapore**

Singapore has been at the forefront of digital change. The country took a deliberate stand to study the landscape, roll out progressive policies to build out a digital infrastructure, before issuing new digital bank licenses. Measures included having a national digital identity system (‘My Info on Singpass’), a trusted data infrastructure to enable data sharing in a consenting way (this will facilitate KYC/onboarding) and an open, interoperable payment system for everyone (Paynow/FAST). “Already we are seeing a ~ 6X increase in the use of electronic payments, leveraging on the national rails” said one of the banking leaders. This has created a resilient foundation for all banks and FinTechs to flow billions of dollars through the system while enabling the players to focus on what they should be doing – to provide differentiated services.

While many other countries can learn from the Singapore experience, they will proceed at differing rates of change. Leading banks in Singapore and Hong Kong launched online banks as early as 2002. Current efforts are centered on reimagining the customer journey and completing the last mile in this journey by removing ‘paper friction’ and by automating operations. Other countries are catching up. In India, the Adhaar infrastructure has accelerated the digitization of economy. However, there is a lot of debate on security and privacy, said one leader. “We need to move to the cloud to be operating efficiently and to scale. The regulations need to support that. Video KYC is approved but not yet in flight...there is much we can learn from other countries also from industries like Telecommunications. It is not an overnight process.”

### **Boon for B2B FinTechs**

“This will be a golden era for B2B players who partner with banks,’ said one investor. “The B2C story has been a subsidized growth story and if anyone has a negative margin, they are completely exposed at this moment; investors here will be more selective.”

FinTech investors envision consumers, merchants, incumbents and governments “crossing the chasm” into digital over the next two years, a move that will drive

company value and valuation. Further investments will be made to boost this sector, particularly in South East Asia, a region with over 650 million people and fast growing e-commerce powerhouse, said one established FinTech investor. However, the future will also likely see a decrease in availability of risk capital overall, highlighting the opportunity for investors that are willing to deploy capital in the near term, he added.

Banking won't be the only beneficiary of investment, said another FinTech leader. "There is a high conviction investing in digitization of financial services, insurance and health." It is encouraging to see that the crisis is forcing the industry to think about how we can share the health burden through a renewed focus on 'digital health', one that leverages on integration between financial services (credit and insurance) and technology (digital solutions).

### **A Talent War is Coming**

A FinTech policy expert predicts that countries will seek to diversify their supply chains and focus on domestic recovery. This will eventually lead towards a war for local talent.

"There will be a reverse talent flight. Every country will want to attract their home talent back. There will be an increase demand for local talents to be retained with a price," he said. With that, we expect financial institutions to be more open to digital talent from other industries in attempts to build out a more customer-centered, agile and collaborative organization.

Keeping current talent is also a priority. Leaders are working to ensure the work-from-home arrangements are engaging. "Our developers don't want to work from home. We quickly worked with our team to bring in an online development dashboard," said one.

### **Warning: Don't Miss The Innovation Opportunity**

Finally, a B2B FinTech leader was worried that many financial institutions were accelerating investments into projects that make improvements to existing products and customer service operations, at the expense of projects that challenged their assumptions, value propositions and iteratively tested new products. This may lead to missed innovation opportunities.

Risk aversion can be a barrier towards successful innovation. Leaders will need to balance between stability but still invest into customer driven innovation to differentiate themselves, to attract new customers and also retain existing ones. Now is the time to experiment and act.

Perhaps the greatest opportunity for innovation lies in the potential for collaborative efforts. Having a competitive approach may get us to a better place faster, but greater public-private collaboration will help all achieve sustainable outcomes. The pandemic has driven greater social-environmental-economic collaboration between all players; Government, Banks, FinTechs, Investors and Citizens. All must prioritize efforts to further develop the digital ecosystem. The time for “window dressing” efforts has passed.

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## Covid-19 Micro-Website

We have launched a micro-website where this and other informative pieces are posted. This site will be regularly updated: [click here](#) for further details.

## About Egon Zehnder

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