"Prime" Time: Looking Back and Ahead

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According to the WHO, global life expectancy at birth in 2015 was 79.1 years. In Singapore, this was 82 years, similar to most other global cities.

Give and take 3 years, our typical lifespan broadly follow 3 major phases; first 25 years of knowledge/skills acquisition, the next 30 years of active contribution and "asset" accumulation with the remaining phase in consolidation, nurturing and reflection.

Trained as an engineer, I joined the banking industry in May 1986. Thirty years is a long time and for many, it is the prime phase of one's life.

Many things happened over 30 years and looking back at Consumer Banking, an area more familiar to me; I have the privilege of experiencing 4 distinct phases over this period:

1980s: Self-Service Banking and "Branch of the Future"

Challenged by the high costs of setting up manned branches and spurred by customers demand for more banking "touch points", banks invested heavily in self-service banking (SSB) terminals, e.g. ATM, dedicated cash dispenser, notes recycling machines, rates/information terminals, interactive phone banking systems, etc.

After researches shown that customers preferred to bank where they worked, shopped and played; banks started to either set up new or relocate their existing branches/ATMs to office complexes, retail malls and supermarkets. As part of this major review, branches begun to discard their traditional formal "look-and-feel" to be more like retail stores with customer greeters, merchandise display and advertising panels.

An interesting development was the "queue-comber" where assigned staff combed the long queue to "pull" customers out to use SSB terminals. Years later, banks that successfully migrated customers to SSB lamented their branches were seeing much fewer customers leading to the loss of marketing opportunities. Some banks went on to re-design their customer servicing areas making them more suited for personalised banking consultation.

Another challenge faced by most banks then was how to offer extended banking hours service while being constrained by staff shortage, operational issues like cheque cut-off time, and security concerns over cash deposits overnight.

While several research papers provided glimpses of the "Branch of the Future"; these typically showed branches with a more modern retail façade coupled with an extended banking hours lobby for customers to visit when the branch was closed. Facilities in SSB lobbies would include ATMs, cash acceptance machine, a wall mounted phone for customers to speak to a call agent and a kiosk with information on banking products, exchange and deposit rates.

1990s: Anytime and Anywhere Banking

The **24X7** internet banking era brought numerous challenges for the Consumer Bank. One was the dis-connect between front-end presentation and backend batch processing – straight-

through processing was limited. Customers were disappointed as online applications were just mail-drop feature resulting in over-promise and under delivery.

The emergence of mobile banking brought other challenges including small screen size, lack of bandwidth, limited programming capabilities for mobile application development and the upper hand of telcos over the control and ownership of the SIM card.

With telcos setting up "walled gardens" limiting banks from offering dedicated banking applications, this resulted in banks and telcos fighting over "mind" and "wallet share" of their common customers and the wars on "telco-centric" and "bank-centric" business models. With the mobile phone becoming a ubiquitous personal device, there were intense discussions about telcos becoming banks and everyday payments made via telcos' monthly billing statements.

As banks expanded their range of self-service banking options, channel disintegration became a major issue; i.e. how to present a unified front to the customers of their recent transactions and relationship with the bank. One was the investments in call centre systems with computer-telephony integration (CTI) functions to complement non-personalised services offered at SSB terminals.

The other was trying to display similar customer data regardless of the channels they used – on hindsight, this was a futile effort as technology at those time were not ready for the formidable task on hand. Attempts to roll out the "multi-channel, integrated approach" to achieve a 360 degree view of the customer became the holy grail of service industry!

The late 1990s was also a period of market liberation and consolidation.

In Singapore there were numerous speculations on whether the market could support up to 2 or 3 major local banks. Arising from these mergers, local bank staff enjoying years of job stability experienced first-hand the uncertainties brought about by merger-integration and to adapt to different corporate culture and management approaches.

While there were no formal estimates on the productivity and economic losses during the major merger-integration period for which a couple of banks took several years; local banks were largely inward focused instead of reacting to prevailing marketing conditions.

However, the greatest feat and worry faced by banks around the world was getting ready for **Year 2000 (Y2K).** As it turned out to be a non-event of the new century, there were numerous speculations as to whether the risks were intentionally played up by some technology companies or the preparation works themselves had averted a major technological disaster.

2000s: e-Banking and e-Payment

Exhausted by the over-preparation for Y2K and integration nightmares from merger-acquisition (M&A) activities; banks especially in the US and Europe woke up to the emergence of non-bank disrupters (precursor to Fintech) chipping away banks' established franchises; one of which was banks' payment service for both domestic and cross border customers.

Capitalising on the gaps of banks' inefficient, slow and expensive payment services, technology and non-bank companies acting as payment intermediaries were soon setting up payment gateways as well as offering "instant", innovative, and cheaper remittance and fund-transfer options. One such creative fund transfer and payment service was to use the email address of the recipient instead of a bank account number.

At the height of this frenzy period, one major technology development was cryptography and its application in digital certificates to offer digital signing and as an underlying technology for virtual currencies. Almost every month, there were announcements of new variations of virtual cash, e-monies; notable examples include Checkfree, CyberCash, DigiCash, etc.

Riding on the popularity of the internet and the mushrooming of e-retailers, ***E-Commerce*** became the buzzword of this decade.

Besides fraud and security issues, the e-commerce era also saw intense debates over card-based versus account-based (direct-debit) payment mechanisms. The "super all-in-one" card was also one of the favourite products being explored. This was soon followed by the prediction that the days of cashless society was finally in the horizon.

The dot.com bubble burst brought temporary relief as banks tolled to enhance their legacy systems to become more technologically agile to offer fast-to-market financial products to meet customers' expectation and banks' own internal business users demand for better control and flexibility to configure product features for their customers.

The technology departments in banks were having an "exciting" time exploring ways to use thin client (browsers) for their non-mission critical services, hooking up middle-ware to their legacy backend host systems. All these at the same time while replacing their aging core banking systems with new systems that could scale easily by plugging in new modules similar to a Lego set. I recalled it was the time when "plug and play" was heard ever so often!

At the organisation level, banks struggled to decide if they should operate a separate online entity catering to the internet and mobile-savvy customers. One local bank started a standalone e-bank with a big fanfare only to close it discretely shortly afterwards.

It was also during this period many banks merged their operations and technology units and naming the new outfit "T&O" or "O&T". As banks had conducted centralisation activities following M&A, outsourcing became a natural option for banks with cheaper overseas options. Focusing on core activities and shedding non-core assets were also on the radar of many banks.

The "armageddon" for this decade was the global financial crisis from 2007 to 2008 which was even worse than the Great Depression in 1930 in economic terms.

2010s: The Rise of Digitalisation and Fintech

The sky-rocket adoption of mobile phone and broadband services shrunk the world in terms of connectivity and accessibility. It is also an era of the digital natives and social media becoming the new normal lifestyle. The Chinese saying; "like fish in water" is probably an understatement in describing the current phenomenon.

The ubiquitous smartphone has evolved overtime into a multipurpose device beyond communication, entertainment, photography and storage functions.

Most smartphones now offer biometric authentication, e-wallet applications that could store unlimited number of credit and debit cards, payment with more secured means such as Near Field Communication (NFC) as well as scanning and sensing capabilities whereupon a wide range of useful daily applications could be developed. The previous prediction that the mobile phone is the "bank in our pocket" is finally near.

However, banks (known as “dinosaurs” rightly so by non-banks and customers) are slow in embracing digitalisation as part of their growth strategies. Forced by non-banks and technological companies, banks are progressively taking on these head-on challenges threatening their businesses and survival.

For hundreds of years, monies are never wired across continents in the physical sense; these are but records maintained in digital ledgers of collaborative parties. Banking in this sense has always been digitalised.

Most banks are confronted by 3 key considerations when embarking on their digitalisation journey: the role of branches and systems (costly investment), transforming bank staff (mindset) trained for face-to-face interaction and the offering of greater accessibility and real-time services to customers (risk and security management).

These are not new challenges and banks have demonstrated their abilities to surmount them as shown in the past, sometimes with the help of government assistance.

Nonetheless, banks should remember that success goes to banks that are able to execute their implementation well rather than those coming up with just a robust business strategy.

Looking Ahead

As there is no universally accepted definition of “Fintech”, I loosely define it to mean the use of technology to enhance finance services. But the use of technology in banking industry is not new; I recalled reading a popular paper-based magazine, “Banking Technology” since 1986.

So how it is that Fintech becomes so popular over the past few years?

My internet searches showed that Fintech evolved shortly after the global financial crisis (GFC). The aftermath of GFC revealed there was much inefficiency in the banking industry. Secondly, regulators around the world started to impose more stringent risk management and control requirements to better manage their financial systems. Finally, the social media and mobile savvy customers are expecting a different level of interaction and fulfilment from financial service providers.

The situation presents enormous opportunities for banks and non-banks but the latter were much quicker to seize these opportunities.

Currently, there are two “popular” technologies, the poster boys of this era: Block Chain and the “rebirth” of Application Programming Interface (API). Although not an IT person, I believed Block Chain and API are not new technologies. These are extension of existing technology in new application areas supported by a more conducive environment.

When I looked back the past 3 decades, there are many lessons to be learned, many of which I admit are with the benefit of hindsight.

One is the global rapid adoption of mobile application services that drastically changed the world beyond the imagination of many. The other is the unfulfilled promises brought by the dot.com era – there were much excitement in developing cutting edge technological products but not solving day-to-day problems.

From some examples of earlier not so successful launches of digital certificates, account aggregation, e-cheque, NFC-enabled phones, etc; we learned that early customer involvement, thorough pre-launch planning and customer education programmes are found to be key success factors when transiting customers to use new technology and services.

Another important factor for organisations and banks alike, the litmus test is where is the money and if the solution is a sustainable one.

Finally, beyond technology (Fintech included), every organisation is supported by 4 core pillars; **P**eople, **P**roduct (or service), **P**rocess and **P**aradigm that distinguish itself from the competition.

Under the Fintech umbrella, banks and non-banks in Singapore are in a privilege position as the country central bank is taking an exceptional proactive role in encouraging and nurturing the adoption of Fintech initiatives not seen in the past 30 years.

Will Fintech be the revolutionary champion, a passing fade or a Dot.Com 2.0 in the making?

The outcome to this question is shaped by the practitioners that glean valuable lessons from the past, innovate for the present and influence the future.

Watch this space in 2020.

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