

Banking Practice

The future of banking in ASEAN

Tengku Zafrul Aziz, group chief executive officer and executive director of CIMB Group Holdings, discusses the challenges to traditional banking in Southeast Asia and how banks can adapt.



Traditional banking is changing across the world as more customers move from branches to mobile. How can banks adapt to best serve consumers and businesses? As part of our Future of Asia research project, Tengku Zafrul Aziz shared his insights on these challenges for banks in the Association of Southeast Asian Nations (ASEAN). An edited version of his remarks follows.

Joydeep Sengupta: What are the major trends affecting banking in Asia over the next several years?

Tengku Zafrul Aziz: For CIMB, we are already seeing new challenger banks coming to our space. Most of the banks in this region have accepted the fact that our margins will be somewhat compressed by the new nonfinancial institutions that are coming to our space. If you look at Asia, we look at the potential margin compression that can happen to us. Sixty-five percent of the margin comes from distribution.

Of course, there are other challenges that we face, as banks, on what's happening on the macro side. Taking out the macro challenges, the industry itself is facing new challenges. I don't think banks will continue to look the same as they do today in ten years' time.

Joydeep Sengupta: What are the key opportunities for banking in Asia?

Tengku Zafrul Aziz: If we look at opportunities, banks really need to change first. Let's say we do change, and therefore what do we change into? For banks, the first thing we need to do is manage our costs better. The cost-to-income ratio in banks today ranges between 40 to 50. I think we need to go lower—45 to 55, on average.

We need to get the cost-to-income ratio below 40 because our competitors' will be around 25, 35. That's something we need to do. Let's say we can achieve all that: cost-to-income ratio, change in culture, investment in relevant technologies,

participation with the right partners—even building your own ecosystem or participating in other people's ecosystems.

What are banks? Because at the end of the day, you've heard this many times before: people don't need banks, but they will need banking services. The data are there. Ownership of data, ownership of customers, is something that banks will continue to have. The opportunity is trust. Banks need to capitalize on that. But first, we need to fix all the issues that we think we are behind on, and then the opportunities will be there if we can do that. With the data that we have and with the trust that we still have with the customers, we should be able to compete with nonbanks and the other banks.

Joydeep Sengupta: Do you see a shift in the way consumers and businesses use banking services?

Tengku Zafrul Aziz: Yeah, we're obviously seeing it today. People are more comfortable using mobile for banking, and of course demographics helps. But having said that, even the older generation is also adapting to technology very fast—it is not just the millennials that are comfortable with banking through technology, especially through mobile.

We have started this initiative in two countries, in the Philippines and Vietnam, where we launched our complete mobile-banking services. We're seeing the results. It is something that I think we'll see moving faster than people think because if you look at the adoption of technology by customers when it comes to banking, it's very, very fast.

Even in more developed markets, more than 60 percent of banking is mobile already. Of course, China is a separate region. But in this region, we are seeing the penetration rate going up very high because of mobile banking. And it has become more inclusive.

Banks must invest in technology to cater to the needs of the customers. Mobile banking will be something that we, as banks, need to embrace

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quickly. Basically, whatever a bank can do through branches or through online services must be offered on mobile. Of course, there's regulators as well and eKYC [electronic know your customer]—all that will be important.

The second part is the small and midsize enterprises [SMEs]. So again, SMEs also are getting more comfortable with doing banking with technology. In fact, technology has enabled them to get more services because you need a human touch. There's so much we can do to support SMEs. The cost is higher to have that human touch. With technology, you can serve more customers, more SME customers. At the same time, you can serve them better. I think we are seeing that today, and banks are starting to embrace that.

Joydeep Sengupta: How do you think workers will be affected by the future of banking?

Tengku Zafrul Aziz: There will be groups in any institution that know they have to change because of what's going to happen in the future. They know that the change will affect them. Some of them will say that “If we do change, it means I am out of a job.” Naturally, they will resist that. As part of the leadership team, leading the firm, we need to make sure that we educate employees first. We need to

engage them. The best way is to tell them the truth—that this is coming, this is the new way of banking. We need a new way of thinking, we need new skill sets, and we want you to be a part of the team.

What we're doing as an institution is spending about 75 million ringgit to reskill people. At the same time, we're looking at those employees who are just not willing or able to reskill and doing placements for them outside the bank. It's not immediate, but at the same time it's inevitable.

The other challenge for banks relating to talent is new talent. We now are no longer competing for talent with other banks; we are competing for talent with nonbanks and technology companies themselves. To target that talent to come and join us is also something that we need to really think about—how we retain and recruit.

The old way of recruiting, the old way of retaining talent, also has to change. Our HR, our chief people officer, must look at different ways of attracting talent. People now want to be compensated differently, so you also need to be agile and flexible, just as we are trying to customize products for customers. Similarly, we need to customize the benefits and compensation packages for our staff. There's no more “one size that fits all” for HR as well.

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