



# Navigating the New Normal

Why Accelerating End-to-End Digitisation  
is a Must for Financial Services Today

**September 2020**



# How IBM can help

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# Navigating the New Normal

As the resulting impacts of COVID-19 continues to unfold across Hong Kong and beyond together with the expanded cross-border opportunities presented by the opening up of Greater Bay Area's financial industry, this report examines how modern financial needs are being reshaped and why banks need to accelerate their journey to become a cognitive enterprise in order to capture and capitalise a greater share of wallet under the 'new normal' of a reality today.

# i. Introduction

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In this initial section, we provide an overview of important business dynamics that underscore the significance of this report, an outline of key objectives and the methodology taken to collect our data points.

To end this section, the report offers a summary of 8 enterprise-wide cognitive imperatives necessary to survive and thrive in the age of post-pandemic banking.



# Preface

Given the significance of year 2020, we are pleased to debut IBM's industry-focused report that examines the business dynamics impacting Hong Kong's financial services landscape today.

Indeed, ongoing socio-political unrest and the outbreak of COVID-19 has caused major disruption and challenges to economies, businesses, communities and people worldwide.

This pandemic will forever change the banking sector, with the industry having to respond and rebound to a new normal. This report is our attempt to support our enterprise clients in **Navigating the New Normal.**

In this year's survey, we review the general performance and unique business challenges faced by traditional and virtual banks when it comes to customer acquisition and retention.

We also offer our views and predictions on the future of the industry, especially in light of the onset of COVID-19.

Here we track the development in both retail and commercial banking across a spectrum of digital dimensions including products and services, data, ecosystem and channels.

Our study reveals that high-performing financial institutions display greater success and stronger resiliency by making investments across eight key enterprise-wide capabilities. They are doing this to a more significant degree than less mature organisations.

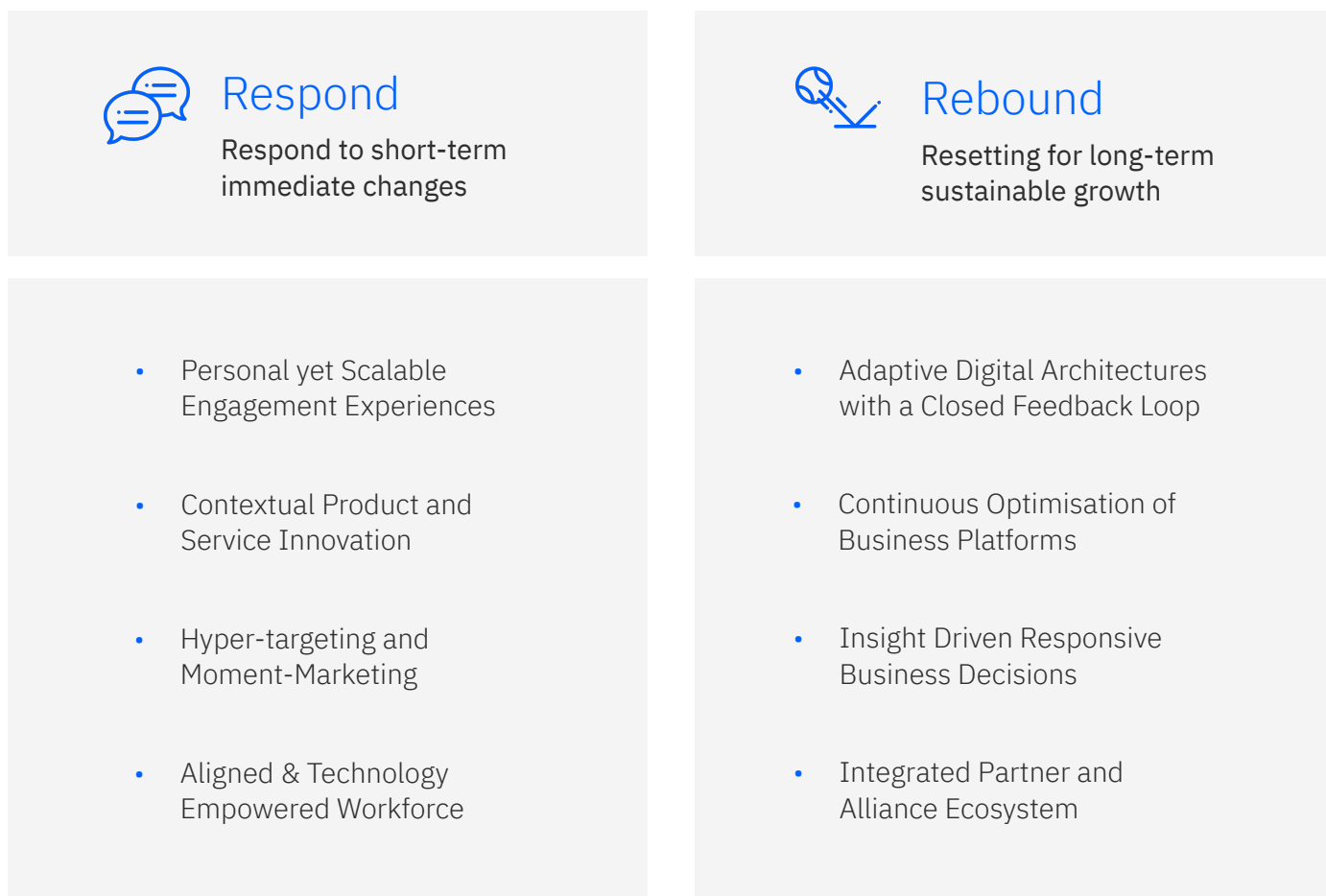
Banks that focus their strategic initiatives according to business priorities and determine where best to invest their digital transformational efforts are most likely to excel and achieve end to end digitization across their business, products and services portfolio.

The survey was conducted through online questionnaires, face-to-face private interviews, mail correspondence and extensive academic research. A large amount of accurate and valuable data has been collected with a total of 35 senior level management level banking executive respondents obtained over three months.

Our scope of research tracks the internal and external economic conditions surrounding Hong Kong and takes into account the fast-evolving digital landscape in Mainland China resulting in a broad representation of opinions with a high level of quality and efficiency.

The first part of this report examines the direct impact of COVID-19 and what this means for banks as they respond to the immediate challenges presented by the New Normal. In the latter sections, we proceed to discuss critical capabilities banks need to prepare for a strong and sustainable rebound.

**Figure 1: IBM’s Eight Enterprise-wide Strategic Imperatives Prioritised by Short and Long Term Business Objectives**



These recommendations build on our view of what the New Normal might look like in terms of changed customer behaviour and expectations, Hong Kong’s challenged position as an international financial centre and the exciting growth opportunities enabled by the opening of the Greater Bay Area.

By identifying industry-wide shared pain points, our goal is to establish focused focused thought leadership in the pursuit of achieving digital marketing excellence in banking. We also seek to identify technology strategies which are most likely to benefit the industry as a whole.

The effects of COVID-19 are expected to have a significant impact on the results of banks in Hong Kong in 2020 and beyond, and will change the banking landscape permanently.

**Navigating the New Normal** will be key for banks in order to continue to grow and succeed, especially with profitability expected to be significantly impacted in 2020.



# Digital Disruption in the COVID-19 era

In the last few years, the global rise of FinTech and the launch of new Virtual Banks have caused significant disruption to the traditional banking industry and has blurred the lines between different industry sectors. The sudden dramatic impact of the COVID-19 pandemic has come as an additional heavier blow to the global society and world economics.

The effects of the ongoing COVID-19 pandemic have caused a world health crisis, a rapidly developing world-wide economic recession, deepening political and social instability. Although Hong Kong has arguably performed well to date in containing the COVID-19 in comparison with USA and Europe, it has not escaped widespread economic damage to many industries.

From a banking perspective, the available global evidence so far strongly suggests that COVID-19 is accelerating ongoing customer behaviour shifts, including a sharp acceleration in digital preference across all customer segments, particularly for everyday banking services such as credit transfer and balance inquiries. Furthermore, COVID-19 has resulted in significant earnings challenges for banks as well as severe liquidity problems for its customers.



Global evidence so far strongly suggests that COVID-19 is accelerating ongoing customer behaviour shifts, particularly a sharp acceleration in digital preference

The socio-economic consequences of COVID-19 will make the post-crisis normal an enduring reality. These ramifications are accelerating the arrival of technology solutions that will enable a leaner and more agile remote workforce, while growing a new army of cost-efficient automated virtual workforce to realise the forward vision of an intuitive and intelligent customer-facing service operations.

In the post-pandemic age, acceleration towards end-to-end digitalisation is a must for financial services. As a city-wide corporate and social responsibility response, several of the larger established financial institutions we interviewed are having discussions to reduce their branch network and operations as a way to encourage customers to stay home and bank online to ensure public safety.

Despite the acceleration towards digitalisation, the general consensus among our interviewed banking respondents suggests that Hong Kong is not ready for a ‘pure digital play’ approach to fulfil the everyday product selling and customer service needs required to keep the average customer satisfied today.

According to one C-level executive we interviewed from a large multi-national bank, human interaction and a high-level of personal touch remains crucial and is especially key to winning over and retaining the most profitable customer base.

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– *C-level Executive Interviewee*

As the world slowly eases back into a ‘new normal’ of a reality comprised of unpredictable relapses of social distancing measures and constraint, we can expect traditional banks to continue to struggle – as an industry – with preserving the deep level of personal connectivity intimacy they once enjoyed with their customers.

Given increased precautions around human contact, banks may anticipate a widening relationship gap and eroding loyalty with customers across every passing day. It is therefore critical that banks must identify key opportunities to tighten customer connection across their existing digital customer journey and put humanised engagement back at the centre of the product and service delivery experience.

# 8 Essentials for Post-Pandemic Banking

In today's unpredictable reality, people demand and deserve unprecedented levels of 'always available' customer service. Enterprises are challenged to continuously address and resolve customer and employee inquiries scaling across multiple channels. Among our sample of interviewed banks, there are few respondents, if any, that are not undergoing a major digital transformation programme.

The dynamic fast-evolving socio-political landscape is putting stress on banking organisational structures. It is therefore essential that banks revisit and start thinking about their next-generation digital end-to-end operating model.

At the simplest level, a bank's technological infrastructure must fulfil the primary duty as the orchestration epicentre with the core competency to control and coordinate between service functions to drive seamless and consistent operations.

Banks must build strategies and grow stronger digital capabilities that enable the rapid dissemination of deep customer insight across departments and service functions. In our Hong Kong survey, almost 70% of banking executives believe the greatest value they can expect from leveraging customer data will be in helping them define their future digital strategy and vision.



67%

of banking executives believe the greatest value from leveraging customer data will be to define their digital strategy and vision

In our view, the key to successfully reinventing a bank's operating model to fit modern day challenges lies in its ability to become a 'cognitive enterprise'.

Here, we define a 'cognitive enterprise' as an organisation that can translate pure customer focus into its day-to-day operations efficiently and effectively, by connecting front to back and breaking down potential silos that may exist between service functions.

Successful Cognitive Enterprises keep customer-centricity at the core as they evolve and migrate products and services into fully digital end-to-end processes.

Our study reveals that high-performing financial institutions are finding success moving towards the data-ready and cognitive-enabled model by making investments across eight enterprise-wide capabilities (see Figure 2). They are doing this to a greater degree than less mature organisations.

**Figure 2: IBM’s Eight Enterprise-wide Strategic Imperatives Organised by Front, Middle and Back Office Capabilities**



High-performing banks are able to understand what customers and employees need and value. Through this insight, they envision an intended experience that best meets their corporate objectives and deliver a target outcome across their digital channels including their ecosystem in an orderly, profitable manner.

If an organisation’s goal is to automate and humanise all of their customer-facing interfaces, they should consider investing in AI assistant technologies that would enable developers and business users to build robust conversational solutions.

## ii. Responding to Short-term Immediate Challenges

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In this section, we consider those Cognitive Enterprise imperatives which will have a major influence in assisting banks respond to crisis situations arisen from COVID-19 and immediate strategies critical to survive short term challenges. For each imperative we identify the underlying key issues, explain their importance and explore how these issues can be resolved.

# Personalisation as a Catalyst to Restore Customer Connection

From the series of private executive interviews we've held with seasoned industry experts in the local banking landscape, both Hong Kong and the world has experienced some of the most significant paradigm shifts all within the past decade. The first wave of digital disruption they experienced was centred around 'channel migration', and was primarily a post-recession cost-saving protocol to address operational efficiency concerns widely advocated by CFOs and CTOs at financial institutions.

However, in an attempt to harness the power of technology to compensate and scale down manpower, banks learned over time that they compromised on customer service satisfaction and overlooked the opportunity to fully maximise the lifetime business value for every individual. By over-focusing on channel migration as a means to meet operational efficiency needs, the banking industry as a whole suffered a dip in customer satisfaction together with its ability to cross and up-sell customers.



**71%**

of our surveyed banking executives anticipate to make much greater investments in preserving customer retention, and almost half in strengthening their advocacy model

Since the founding of financial institutions, the relationship between people and banks have remained transactional. Banks would offer a multitude of financial services including savings, deposits, insurance, investments and loans to fulfil a customer's personal and business banking needs, for the privilege to be entrusted with their money.

The primary dynamic between the bank and customer has not changed, and today we see the market place over-saturated with commoditised and cookie-cutter banking packaged offerings with little differentiation.

As a consequence of industry-wide standardisation, people are today less loyal to banks than ever before.

To create a competitive advantage, banks need to recognise that at the core of customer expectations, the task is clear: people want their bank to ‘know me’, ‘recognise me’, ‘reward me’ and ‘make it easy for me’.

Banks of the future that will lead, succeed and emerge above the competition will be those that can harness ‘personalisation’ as a means to arrive at ever-more competitive services, including the aggregation of deposit rates and loan interest rates that are unique, tailored and targeted according to individual profiles.

An increased focus around customer ‘know me’ will also mean that, moving forward, banks need to understand the importance of crafting distinctive user experiences into channel engagement.

Successful banks of the future will be those with the natural competency to register each individual’s preferred communication language and style, as well as their most receptive ways of receiving marketing communications.



The core of customer expectations, the task is clear: people want their bank to ‘know me’, ‘recognise me’, ‘reward me’ and ‘make it easy for me’



# Driving Contextual Product & Service Innovation

The rise of virtual banks and technology disruptors has increased the need for traditional banks to fully embrace innovation. The advent of COVID-19 has underscored the need for innovation not only in customer-facing digital interfaces, but instead the focus should be broad and entail an all-encompassing scope to ensure seamless services when both branch and back-end operations are significantly disrupted.

Virtual banks are able to quickly launch new products and outpace traditional banks because they are new to the market and have the benefit of being able to start from scratch, unencumbered by complex and outdated legacy systems, products and services.



70%

of the respondents of the IBM survey believe that tech giants will lead the disruption in the banking industry

70% of the respondents of the IBM survey indicated that technology giants (e.g. Tencent, Google, Alibaba) will lead the disruption in the banking industry. This is also underscored by the HKMA granting 8 new virtual banking licenses in 2019 in order to help promote financial innovation, enhance customer experience and facilitate financial inclusion.

Traditional banking products have not fundamentally changed for the past 30 years, but there has been significant innovation in channels and service to the bank customer. Banks have found new ways to tailor their product offerings to customers. From an innovation point of view, one of the major challenges encountered by the more traditional commercial banking players is the ease and pace at which their core competitors can adopt, adapt and speedily launch a similar version of the product.

Regardless of industry, driving innovation is often a tedious and costly process. The challenge lies in being able to allocate the right talent, and have the right processes supported by an encouraging corporate culture to steer continuous innovation.

Innovation has therefore become a challenging subject and it is observed that majority of Hong Kong banks still prefer to follow the market, or be an early enough adopter instead of taking the first-mover position.

The key prediction here is that future innovation will lean and rely heavily on deep customer insights to arrive at product and service personalisation. The traditional one-dimensional concept of innovation as simply expanding the number and range of offerings is no longer acceptable.

Regardless of size, banks in pursuit of sustainable innovation need to bring new perspectives into the boardroom and inspire an open-mindedness to think and see innovation differently.

The majority of the interviewed banking executives agreed that ‘personalisation’ today is still achieved through low-tech methods and mainly through face-to-face meetings with relationship managers. In day to day operations, relationship managers at retail banks need to go through a slow and manual process to tailor personalised offerings for individual clients.

This not only is time-consuming and inefficient, but as the ‘gut instinct’ is still heavily relied upon there is also a heightened risk of human error.

Consequentially, the business implication resulting from this manual process to ‘personalisation’ is the challenge of scalability, and on top of that the inevitable prioritising of a small segment of high-yielding HNW customers at the expense of others.

The pioneering banks of the future will be the few with the know-how to fully utilise pervasive technologies to help them speedily aggregate contextual data (based on location, time, lifestyle preferences, etc), along with the cognitive infrastructure to disseminate actionable insight into everyday business operations.

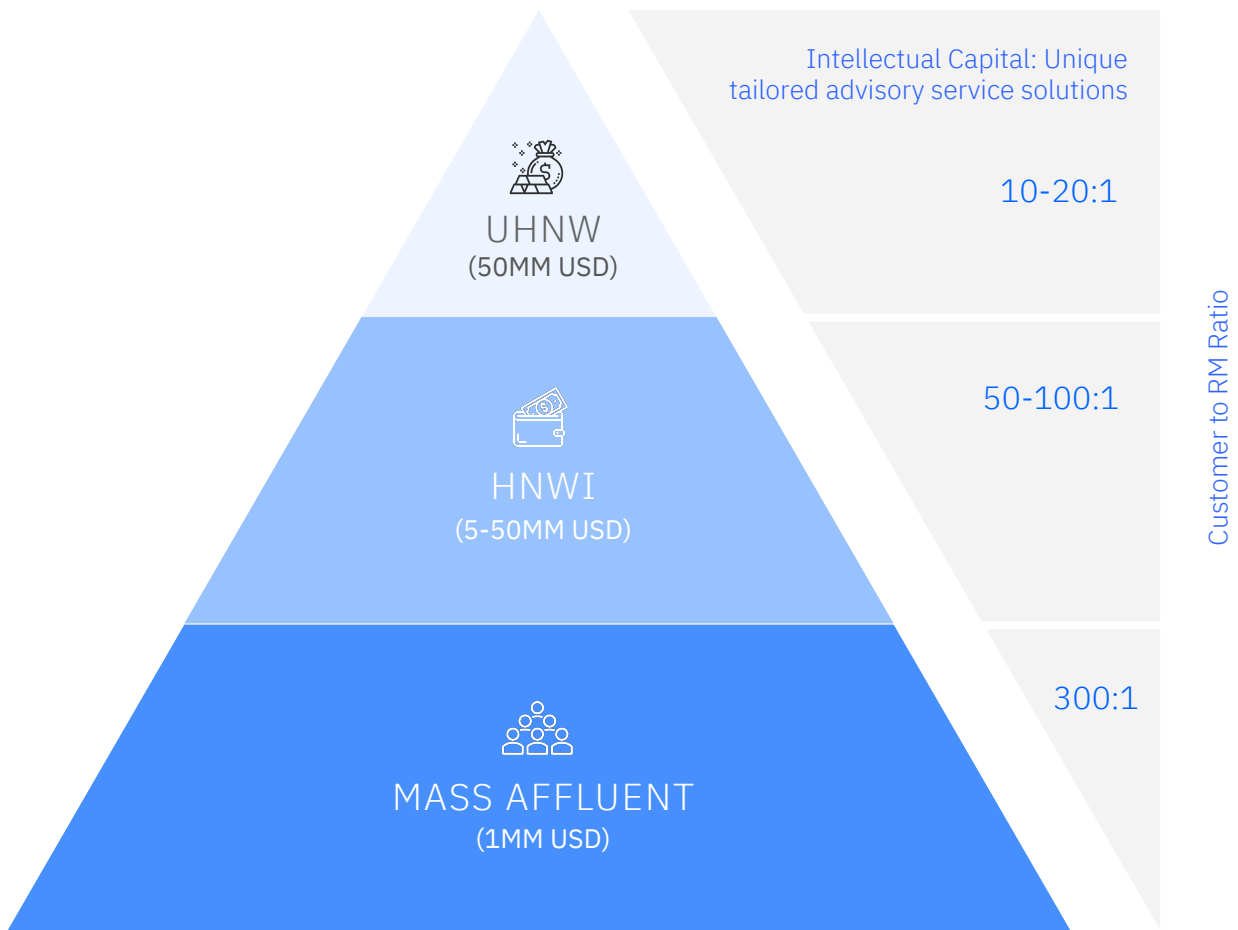
Banks need to rely on a 360-degree view of the customer, including transactions and spending behaviour to drive new product innovation. Without access to a 360-degree customer view - due to data residing in siloed systems, for example - hinders a bank from rewarding individual customers based on their unique relationship with them, by for example offering more competitive interests or lending rates.

In our view, delivering personalisation at speed and at scale will be the future approach to sustaining the innovation of tomorrow.



The majority of the interviewed banking executives agreed that ‘personalisation’ today is still achieved through a low-tech methods - mainly through face-to-face meetings with relationship managers

**Figure 3: A Comparison of Relationship and Intellectual vs. Technological Capital Delivered by Banks**



*\*For reference only, and ratios may vary between financial service institutions*

The Customer to Relationship Manager ratio profiles vary between different banks but in all cases the ratio profile is always skewed in favour of the highest profit-generating customers.

In Hong Kong’s “new normal” world it is expected that the workload of Relationship Managers (RM) may expand significantly to accommodate the potential growth of new customers from the GBA - given that The Bay Area’s market size is approximately 10 times that of Hong Kong.

Given the twin objectives of improving customer service but also controlling staff costs, there will be a RM productivity shortfall unless technology can be deployed effectively and efficiently to both increase RM volume caseload productivity through expanded digital automation of existing manual processes and also improve the quality of the data to help generate innovative actionable insights.

# The New Age of Hyper-Targeting & Moment-Marketing

With rising customer demands and expectations, we anticipate the simple ‘one-size fits all’ approach to product and service bundling to slowly diminish, and be replaced by flexible services that allow customers the flexibility to cherry-pick what they want, and specifically when they want it, in an ‘a la carte’ model.

Although still at its infancy, this trend will become the new mainstream and the industry rule of thumb as more players make it easier to do so.

Recognising the growing dangers around eroding customer loyalty and the rise of the multi-bank customer, the implication for banks is clear. Banks must fight their way back into customer’s hearts and minds as the preferred bank of choice – in other words, their primary bank. Recent years has seen banks show renewed interest in leveraging digital to deepen customer understanding, make highly customised product-to-person suggestions and among the more important strategic shifts – restore user experience at the core of the customer value proposition.

Whereas in the past, organisations approached customer personas in an all-encompassing, broad and holistic way to capture the affluent masses and reduce cost per new user acquisition, our key executive interviews and market observation tells us that financial institutions today are utilising cognitive technology and automation to achieve scalable hyper-targeting and contextual moment-marketing on a micro, if not almost granular level.

Instead of taking generic customer persona blueprints as a guiding reference to drive and inform a bank’s total portfolio of product and service marketing, certain established players today are experimenting with more advanced approaches by building attitudinal, behavioural and usage persona subsets specific to the concerned product or service.

It is only by gaining a deeper and more precise comprehension of who the end-user of the particular product or service is can frontline relationship managers find greater success in selling, converting and retaining banking customers.

# Harnessing Data Analytics to Empower Employees and Expand Operations

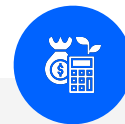
Today, financial institutions are facing an unprecedented convergence of technological, social and regulatory forces. As artificial intelligence (AI), automation, Internet of Things (IoT), blockchain and 5G become pervasive, their combined impact will reshape standard customer-facing business architectures into powerful hyper-personalisation engines with the ability to process and churn real-time actionable insights at scale and speed.

Especially at times of crisis, organisations that are ready to embrace new pervasive technologies into everyday business operations will hold the first-mover advantage by their ability to:



i.

On-board customers to integrated yet flexible business platforms



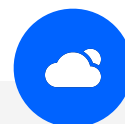
ii.

Speedily reflect added internal structural cost saving protocols to existing infrastructures



iii.

Maintain the competency to leverage AI and chatbot technology to react immediately to customer needs



iv.

Achieve all the above through the cloud as a way to achieve maximum operational resiliency

Required business outcomes don't disappear in unprecedented times. To maintain a healthy inflow of prospect customers while supporting frontline staff to continuously convert leads into sales, the new workforce requires effective virtual assistance and digital engagement, regardless of circumstances and location. Ultimately, regardless of what the technology maybe the desired solution needs to support the bank's sales channels to prioritise and aim more accurately through the provision of actionable insight.

Especially in Retail Banking, a common challenge encountered by relationship managers today – as several of our interviewed banking executives also agree – is the problem of there being a disproportionate amount of time spent on reviewing and re-learning a certain customer’s account portfolio which may have been better invested in more regular customer engagement to deepen premium client relationships.

Through harnessing real-time customer data analytics, banks can seamlessly increase the success rate of each sell-through occasion by directing and pre-empting their front-line client-facing salesforce with the most profitable yet relevant target customer to pitch to, knowledge of when they would be most receptive to the product marketing message, and provide access to the individual’s behavioural data to understand how they would prefer to be approached and communicated with.



OVER  
**80%**

of our surveyed banking executive respondents seek to make deeper investments in technology solutions to improve their lead generation model in the next 2-3 years

Although AI can deepen insights into what makes us human, it also has the capability to improve and humanise the experience too. Tone analysers, for example, can read emails and mobile texts to determine the emotional sentiment of the writer – whether they are angry, frustrated or thrilled. Sentiment analysis assessed alongside demographic statistics can also be exercised together to improve prediction accuracy for consumer preferences.

The next transformation of banks extends well beyond engineered efficiencies, and the greatest change can be expected around advancing interactions with customers. Instead of relegating AI to the automation of basic tasks and self-service, leading organisations will be deploying AI to shape and influence decisions, help client-facing sales managers interpret customer wants and interact with them in ways that build trust.

Full end-to-end digitisation shall not replace people-based service from a bank’s business value chain. Rather, the observed overall sentiment from our interviewed banking executive suggests that the greatest value desire and anticipated from a deeper and more comprehensive use of AI and data technology would be the ability to better enable and activate frontline staff by opening their access to the ‘relevant target, relevant time and relevant place’ and equip them with such knowledge at the disposal of their fingertips.

# iii. Rebounding for Long-term Sustainable Growth

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In this section, we consider those Cognitive Enterprise imperatives which will have a major influence in assisting banks to rebound from COVID-19 and provide a basis for sustainable growth in the longer term. For each imperative we identify the underlying key issues and explain their importance and explore how these issues can be resolved.



# Building Adaptive Digital Architectures to Better Cater for the Data-enabled Client

A bank's business digital architecture drives and supports its everyday business operations and has four key inter-dependent constituents: data, systems, processes and people. The business platform should provide continuous insight-driven business knowledge to the bank's 'market platform' where contextual product and service innovation can facilitate personal yet scalable customer engagements and channel experiences.

However, the above ideal cannot be achieved without a challenge. 75% of our interviewees thought that their bank does not effectively utilise collected data, and on average they estimated their internal data utilisation rate to be around 20% to 30%. The interviewees identified the following two main causes:

- **Data System Redundancy:** Data are often stored in different systems (such as ERP, FMP, and CRM systems.). Without a unified integrated data platform, significant effort and much time is needed for a bank to analyse data across many internal systems.
- **Data Silos:** Data are often siloed by internal departments due to either inter-department conflicts or lack of internal communication; there is always valuable data sealed off behind the departmental barriers.

In our experience, most mature banks experience these practical challenges to some degree or another. This is a major hindrance for banks seeking to develop a more data-driven business operation, because a large part of the potential customer insight may be invisible or 'lost'.

## Over 70% of IBM's Surveyed Banks Utilise Less than 30% of their Collected Customer Data

**If banks are not using fully utilizing their internal data, what can be done to unlock the existing legacy data and improve the situation in the medium and long term?**

Let us consider a scenario where basic customer reference tags such as names and addresses are not consistent across all internal legacy systems.

As a consequence, an aggregated data view for a particular customer could not be easily met without considerable effort and time expended to organise and match different customer identifiers.

The technical challenge is often further aggravated if those legacy systems are not 'real-time' systems. The final outcome may not give business users a complete, accurate and timely view of reality.

In this example, the first remedial step would be to aggregate and normalise customer data onto a single integrated data platform, such as a modern Customer Data Platform (CDP).

The basic concept is that once back-end data are retrieved by the CDP, the data will next be cleansed and reorganised into structured data, ready for further analytical purposes.

The CDP could then be used as a single integrated source of the truth, and it may then be ready for conversion into real-time actionable insights for business users through use of CDP analytical tools.

The architecture of the data platform will differ from bank to bank, and it will require customised design that caters to different existing systems and client requirements. By building a customer data platform, banks can achieve a higher data utilisation rate for its internal data.

Data is the new currency in the cognitive age of banking. Ultimately, without the right customer data to begin with, precise personalisation cannot be achieved.

In order to succeed, financial institutions must seek ways to put data to work, drive the convergence of siloed data environments to reduce costs, while unleashing the potential of new ecosystem partnerships to better benefit customer, operational, and compliance decisions.

Banks in Hong Kong must think beyond the realms of data-driven product personalisations, and invest in re-designing the customer engagement model. Through infusing cognitive technology enablers within the core business platform, banks may customise each and every interaction according to the unique customer across their digital experience journey.

The future 'data-driven bank' will be based on the 'data-enabled client'. Here, the data-enabled client may be defined as an individual who are self-directed to take advantage of digital solutions and motivated via available relevant data supplied predominantly by the bank empowering them to making well informed decisions in regards to their financial life and actions.

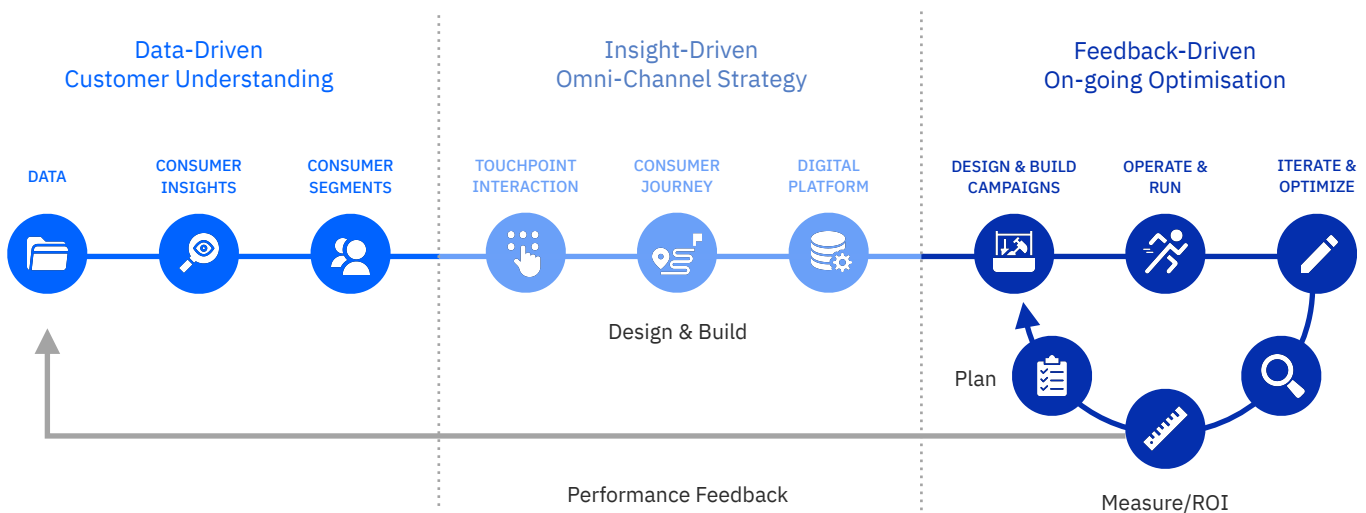


Through infusing cognitive technology enablers within the core business platform, banks may customise each and every interaction according to the unique customer across their digital experience journey

In order to better cater for the ‘data-enabled client’ of the future, banks must build highly adaptive omni-channel customer engagements that feature rapid closed feedback loops to support continuous and automated optimisation (see Figure 4).

The customer-facing business architecture must be designed to deepen customer relationships on a personal and individual level while catering for the flexibility of exploring innovative methods to facilitate and monetise relationships based on the data-enabled client.

Figure 4: IBM Marketing Services Cognitive Customer Lifecycle



### IBM Case Study

A European bank deployed an IBM “Smart Agent” function to its site in five days, allowing customers to learn about measures the bank is taking during the pandemic through a chatbot or live agents. More than 250 employees, most working from home, were enabled to interact with distant customers.

Business platforms that are data-ready from the outside-in and cognitively enabled from the inside-out will possess the advantage and ability to scale with ease so that both human and machine can learn continuously.

It involves integrating AI into existing technology infrastructures to support customers, employees, and partners do what they need, but in less time.

In an ideal cognitive and connected world, front and back-end digitisation will leverage Open API to support partnerships enabling banks to bring technology players into the ecosystem to work around the boundaries of old legacy platforms.

# Powering the Continuous Optimisation of Business Platforms

Data is the essential fuel for the business platform engine's ongoing learning and proper functioning. Inaccurate, inconsistent or incomplete data will inevitably result in poor business information and the bank's customer experience will suffer as a consequence – no matter what the quality of the systems, processes or people constituents.

Optimisation of the business platform using digital tools or by digital may be employed as a means to satisfy a wide variety of objectives such as:

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Making the business platform more process cost-efficient (e.g. developing streamlined flexible automated processes)

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Providing 'better' actionable insights, ultimately resulting in better business decisions and improve overall customer acquisition and retention

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Strengthened risk control resulting in more effective risk management and reduced risk management costs

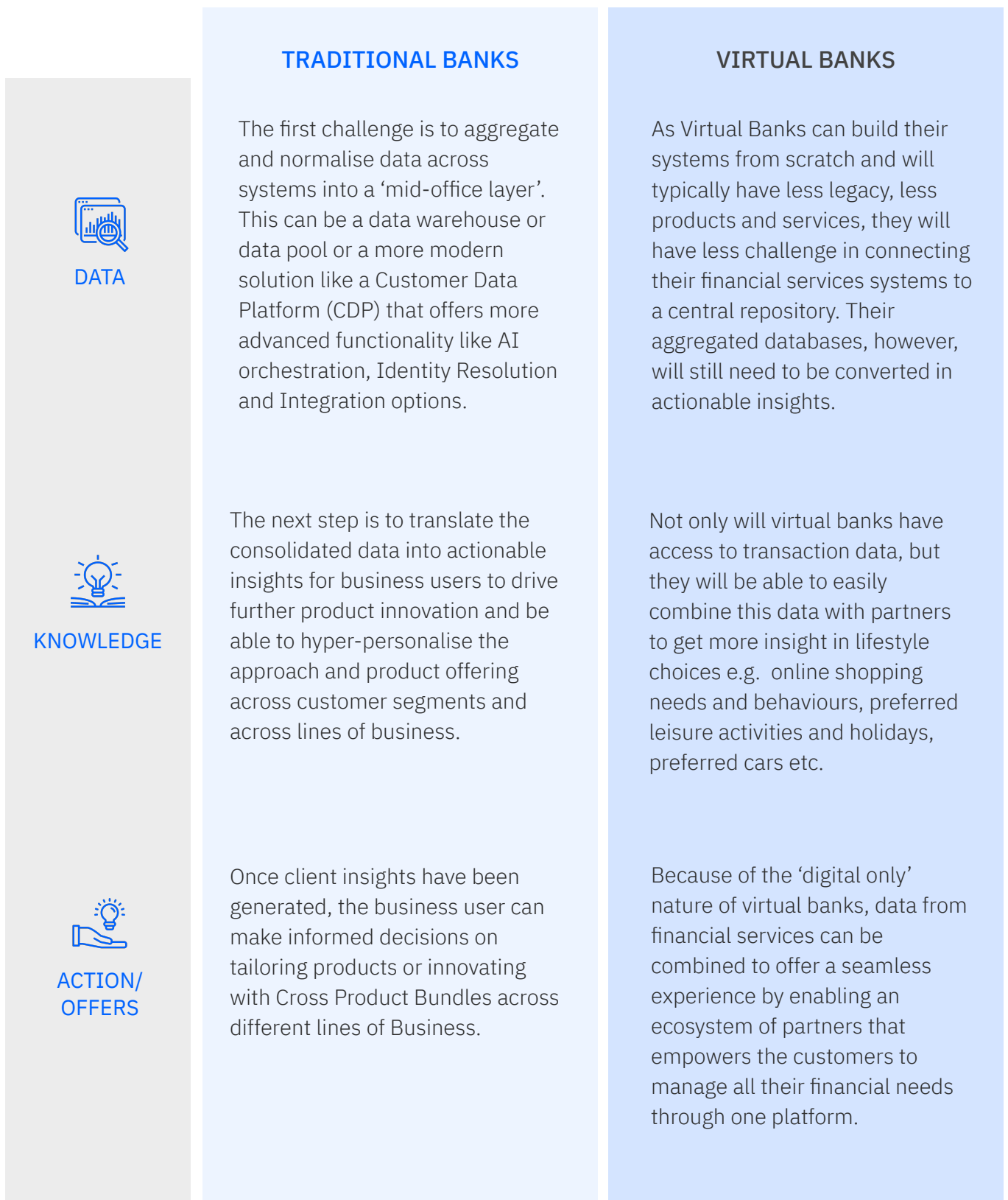
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More effective channel management

Once the bank has set up a reliable data platform, there is potential to turn these data into actionable insights, through advanced processing capabilities. The key challenge is how to sustain ongoing continuous improvement in optimisation.

Typically, traditional larger banks and virtual banks are dealing with different technical landscapes, and therefore their solution propositions will be slightly different.

Figure 5: Comparison of ‘Data to Knowledge to Action’ value chain for traditional and virtual banks



# Leveraging Insight to Arrive at Responsive Business Decisions and Optimise Operations

In addition to driving ongoing business operations of the bank, the business platform has an important function in facilitating data insights to drive responsive business decisions. The major challenge in this case is how to identify genuine innovative actionable data insights within the vast ocean of available data.

It may at first appear that banks are in a perfect position to collect and leverage customer data and indeed many established banks have a large collection of historical customer data - waiting to be exploited.

According to a survey conducted in China by IBM Institute for Business Value<sup>1</sup>, over 68% of respondents said that they were more willing to share their own data with banks. This represented the highest positive response compared to any other industry institutions (48% for insurance companies, 37% for medical care services, and 36% for government organisations).

Therefore, banks hold a unique advantage in collecting customer data.



OVER  
**68%**

of respondents said that they were more willing to share their own data with banks

Almost all of the interviewed bank executives stated that their banks were exploring how they could make better business decisions by leveraging their existing data and external data from third-party organisations.

The key to success for this imperative is centred around defining appropriate and relevant KPIs, being able to track KPI performance in real-time and use feedback loops to facilitate continuous improvement.

<sup>1</sup> IBM Institute for Business Value. "Banking on the Platform Economy". November 2019



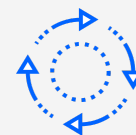
Designing and tracking relevant KPIs with a real-time closed feedback loop is critical to sustain continuous improvement by supporting and driving business platform optimisation.

In order to fully benefit from closed feedback loops, banks must set up data analytics tools to allow their employees access to different business insights.

To take a relatively simple example of new customer on-boarding process workflows, a bank may wish to measure and track the average lead time taken to set up a new customer accounts and the associated staff cost per new customer, in one single view.

Once the bank has tracked the KPI results over a sufficient period of time to set a reliable foundation basis, it may then explore developing and testing potential improvements and innovation solutions through the implementation of a controlled pilot.

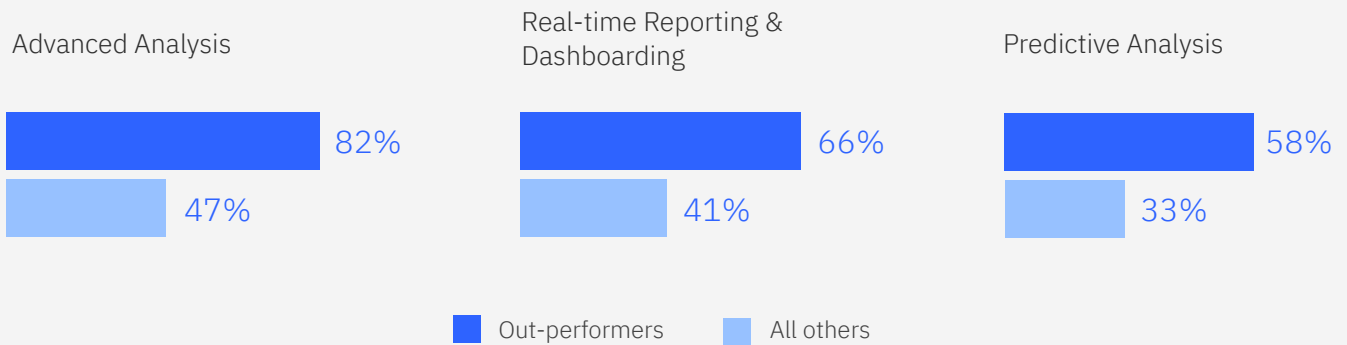
The rapid feedback loops will allow the bank to experiment with changes to the pilot project and monitor the resulting impacts on the KPIs in real-time. The rapid and continuous 'trial and error' feedback loops will allow the bank to build improved processes more rapidly and often with less errors than with more traditional development approaches.



The rapid and continuous 'trial and error' feedback loops allows the bank to build improved processes more rapidly and often with less errors

According to one study conducted by IBV in 2018 of the Banking and Financial Management Industry<sup>2</sup> the “out-performers” which represents the top 33% in terms of financial performance of the surveyed sample displayed a strong correlation with organisations that invested and integrated advanced analysis, real-time reporting and dash-boarding, and predictive analytics into their everyday business operations (See Figure 6 below).

**Figure 6: Analytics or Artificial Intelligence Systems Used Extensively at the Organisation**



- Advanced Analysis:** A collection of techniques which include those such as data or text mining, machine learning, pattern matching, forecasting, visualisation, semantic analysis, sentiment analysis, network, and cluster analysis, multivariate statistics, graph analysis, simulation, complex event processing, neural networks.
- Real-time reporting & Dash-boarding:** A dashboard that contains visualisations, AI-generated reports that automatically update with the most current data available. These data visualisations offer a combination of historical data and real-time information that is useful for identifying emerging trends and monitoring efficiency, usually contain data that is time sensitive.
- Predictive Analysis:** It describes the use of data, statistical algorithms, and machine learning techniques to identify the likelihood of future outcomes based on historical data. The goal is to go beyond knowing what has happened to provide the best assessment of what will happen in the future.

It should be noted that there is not one single tool that can best fit all organisations. Banks need to choose what tools and techniques best suit their own business needs and the internal data available for analysis.

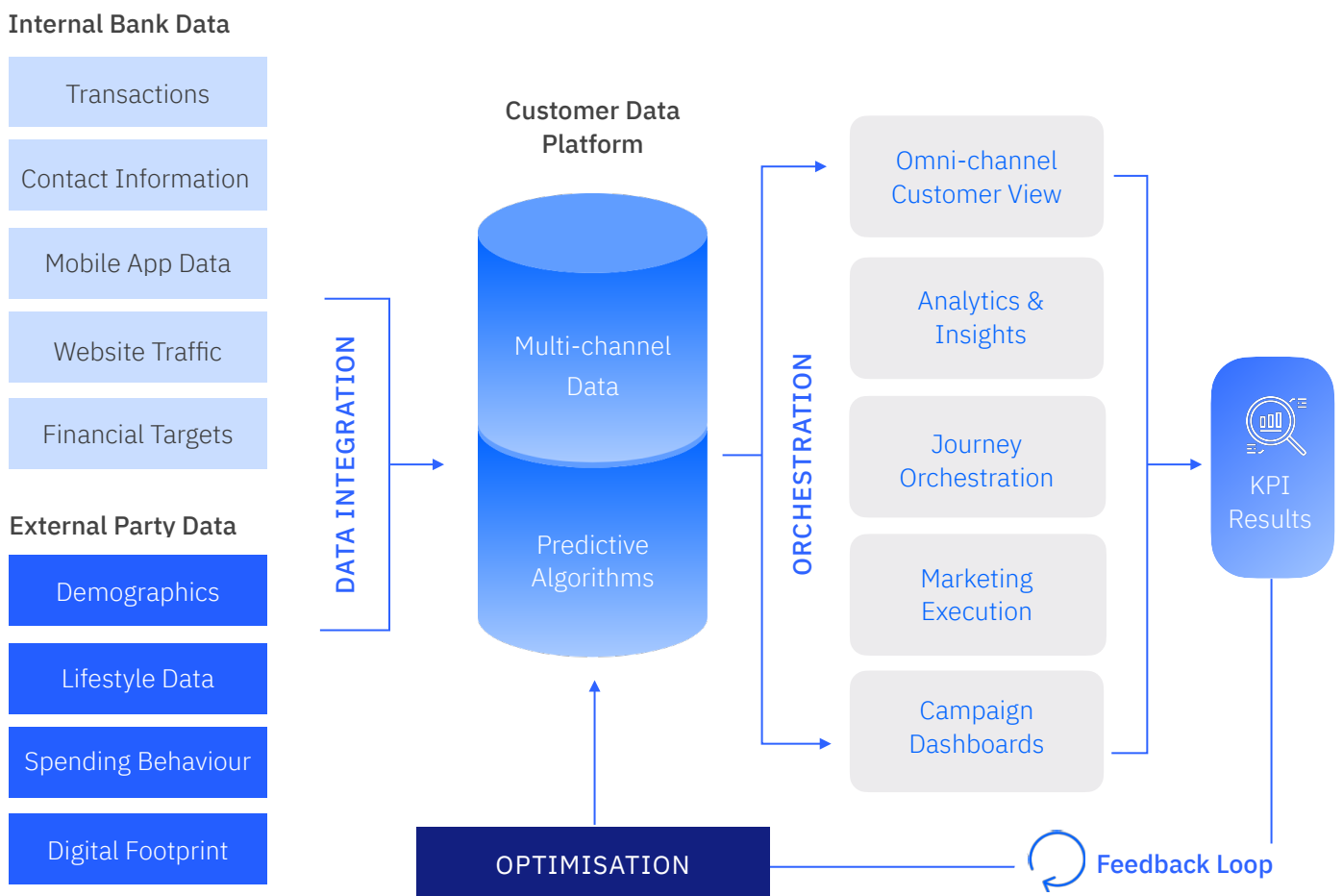
<sup>2</sup> IBM Institute for Business Value. “Drowning in Data: The Banking Conundrum.” September 2019

# Building Integrated Data Partner and Alliance Ecosystems to Survive and Thrive in the “New Normal” World

In a bank’s quest to deliver contextual product and service innovation for its existing and potential future customers, the bank’s internally captured data may not be sufficient in scope to enable innovative actionable insights. For example, the bank may need externally sourced data such as customers’ online shopping behaviours, holiday preferences, family structure, demographics and/or lifestyle choices to build a customer profile that has the best chance of enabling actionable insights. Typically such data would need to be purchased or obtained via data partnerships with third parties – potentially across different industry sectors other than banking (e.g. telecom companies, retail organisations, travel companies).

The following figure illustrates how internal and external data can be integrated onto a Customer Data Platform, thereby making the integrated data available for data analytics, insight creation and facilitating KPI driven optimisation through closed feedback loops.

**Figure 7:** Integrating Internal and External Data onto a Customer Data Platform



During our interviews with senior Hong Kong bank's executives, over 90% stated they needed to obtain external data sources. Common reasons given for utilising external data sources include:

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Deepening customer relationships and understanding changing lifestyle needs

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Enabling more up-sell and cross-sell at the right time and context

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Getting the right information for the customer at the right time and context

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Identifying potential frauds and other risks, thereby facilitating better risk management

Gaining access to valuable external sources can be achieved by creating or participating in an ecosystem, working together to combine information, expertise, and assets. An ecosystem creates and divides value among members so that the whole is greater than the sum of the individual parts, thereby amplifying its economic value<sup>3</sup>.

To start a partnership in Hong Kong, banks would first need to identify their position within the ecosystem, to find their potential partner in the market. In the case of virtual banks, most have limited first hand data within their data pools and have to rely heavily on external sources to scale their data model. But their relatively small scale allows greater flexibility and agility which allows them a wider spectrum of potential partners, which can be used as a competitive advantage.

Virtual banks can best leverage their agility and take a more 'conglomerate approach' to expand their data pool (e.g. social media, telecom companies, even travel agencies) and obtain insight from lateral industries.

Furthermore, virtual banks should leverage their modern technology architecture and agile organisational structure and size to develop unique digital products and customise banking solutions with their partners.

Virtual banks also have the capability to embed themselves into a partner's business process, obtaining new distribution channels in exchange for services, and thereby further grow their business.

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<sup>3</sup> IBM Institute for Business Value. "The New Age of Ecosystems: Redefining Partnering in an Ecosystem Environment." July 2014

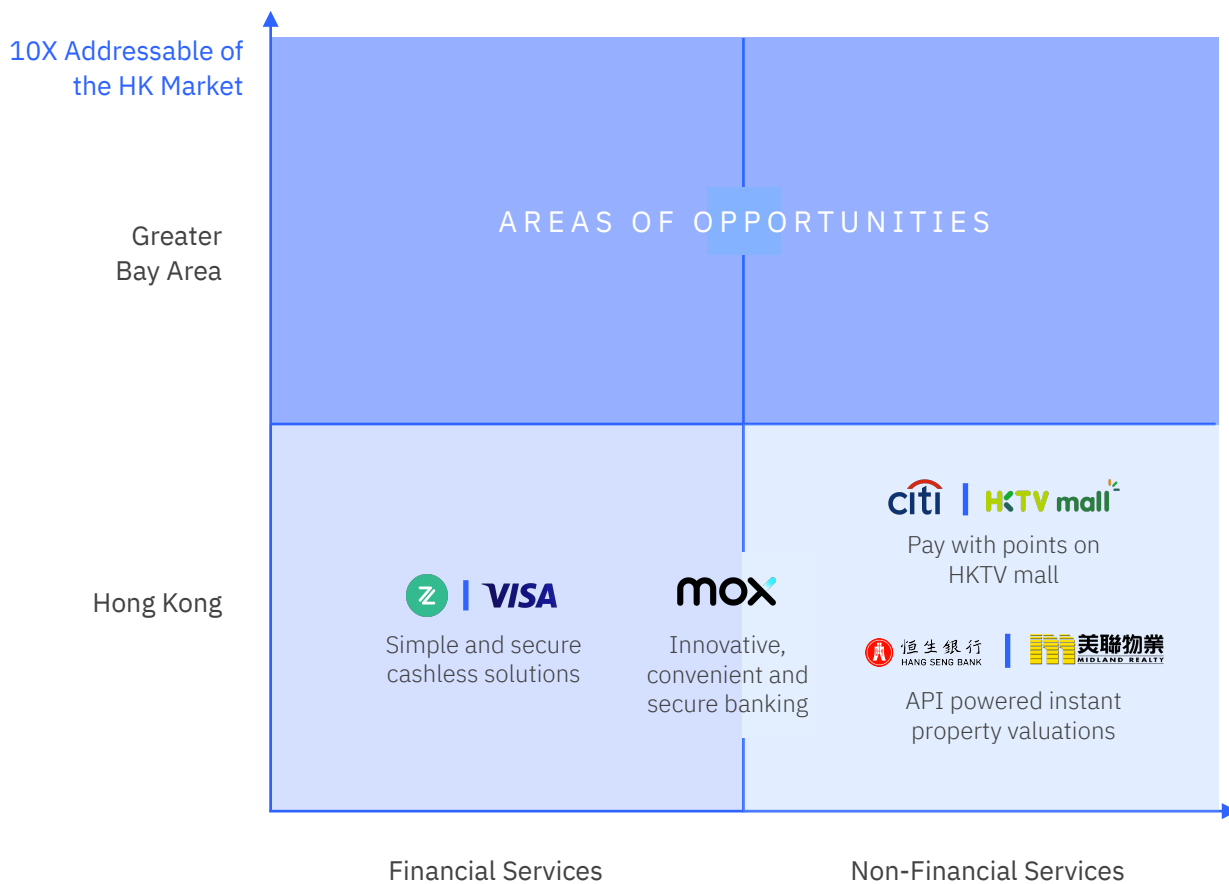
The more established traditional banks in Hong Kong typically possess a larger volume of historical financial data and customer profiles, as well as strong connections with established foreign partners.

Traditional banks should be able to leverage their influence and economic power and build up internal inter-organisational data-analytic capabilities such as a customer insight bank, which will attract other companies to join them as a partner.

Leaders of the industry can provide their banking knowledge as a service to other organisations, in exchange for industry insight, data and ownership of the platform. This will allow the leaders of the industry to expand in all directions and establish their own ecosystems.

The small scale of the Hong Kong market puts a significant limitation on achieving ambitious growth thorough cultivation of local partnerships and ecosystems. Meanwhile the Greater Bay Area initiative development offers an attractive proposition for growth through ‘platform ecosystems’.

**Figure 8: Cross-industry Matrix Illustrating Existing Local Partnerships and Ecosystems Pursued by IBM’s Surveyed Hong Kong Banks**



In view of this, leaders of the industry are already taking action.

According to a white paper published by IBM Institute of Business Value<sup>4</sup>, banks are seen to be rapidly evolving beyond traditional organisational structures and are actively defining new, inclusive, and flexible ecosystem framework that extends beyond financial capabilities.

These “platforms” have a shared common goal, which is to create value beyond banking by providing the necessary business functions and technical capabilities to support customers and become their financial partners in their respective journeys.

### Data Privacy Challenges

There are many challenges that banks need to overcome when forming a data partnership. One of the biggest concerns is data privacy. Among the interviewees that have shared the challenges that they are facing in forming data partnership, 86% believe that data privacy will be a major challenge.

If banks are to leverage the synergy of the data partnership model, they will need to overcome the inherent privacy challenges while still being able to draw insight from the combined data pool of the partnership.

An emerging technology, called the Federated Machine Learning Model potentially offers a solution to overcome this challenge. In essence, the FML model can be trained with insight from every client that is involved in the ecosystem, without the need of sharing customers’ private information. This eliminates the risk of violating the data privacy regulations and laws and therefore banks can protect their customer privacy while benefiting from gaining a more responsive and accurate market insight within the ecosystem.

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<sup>4</sup> IBM Institute for Business Value. “Banking on the Platform Economy”. November 2019

## iv. Conclusion

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In this final section, we firstly take a look at the exciting prospects for longer term business growth offered by the GBA initiative, before summarising and offering an overview of our main conclusions.



# Looking into the Future, Finding New Growth in the Greater Bay Area

In our previous section we noted that Hong Kong's small market size limits the potential for substantial growth. However the GBA initiative, a concept first introduced in 2016 as part of China's 13th Five-Year Plan, provides a major opportunity for Hong Kong banks to enable growth from this through 'platform ecosystems'.

According to the GBA development blueprint<sup>5</sup> it is expected that by 2035 the GBA will become a highly collaborative, innovation driven ecosystem. Many existing financial institutions will be competing for their share of the market within GBA, and many of them will be providing similar services as banks in Hong Kong.

If Hong Kong banks want to seize this opportunity in GBA, then they must provide more than just digitalised product and services. Banks will need to distinguish themselves by extending and developing their unique value beyond just the banking service.

According to a business journal published by Gallup<sup>6</sup> only 8% of Chinese banking customers consider their primary bank "the best" compared with other banks, and nearly half feel that their primary banks are not particularly different to any other banks. Chinese banks exhibit the lowest performance on the customer engagement level. They are finding it increasingly difficult to identify what is the most important needs of their customers, which is necessary to help customers progress toward their financial goals and decisions.

**In the “new normal” future banking world, banks not only need to provide digitalised banking services, but are also expected to be a trusted financial partner to advise their customers on the best financial and investment opportunities and to aid them on every step of the journey.**

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<sup>5</sup> Greater Bay Area. "Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area. February 2019. <https://www.bayarea.gov.hk/tc/outline/plan.html>

<sup>6</sup> Gallup. "Chinese Customers Aren't Getting What They Want from Banks." November 2016. <https://news.gallup.com/businessjournal/198242/chinese-customers-aren-getting-banks.aspx>

## Wealth Management Connect

The Wealth Management Connect (WMC) scheme, launched in June 2020 is a two-way cross-boundary scheme dedicated to better satisfy the increasing demand for both cross-boundary wealth management and investment services by GBA residents.



In our view, it is paramount for Hong Kong banks to start to prepare themselves now, so that they can attract, retain and grow the new inflow from GBA investors in the future.

The following are two reference business case scenarios that illustrates how Hong Kong banks can leverage digitally enabled partnerships to differentiate and distinguish themselves in the GBA by extending their value beyond just providing financial services.



Wealth Management  
(B2C)

Business Scenario:  
Cross-border Mortgage Platform



SME Services  
(B2B)

Business Scenario:  
GBA Professional SME Services Portal

## Personal Wealth Management (B2C)

### Business Scenario: Cross-border Mortgage Platform

Recent years has seen renewed interest in Hong Kong property purchases among HNWI Mainland Chinese investors, as a wealth management strategy to diversify their assets portfolio.

The current mode of operation typically begins with the Mainland investor contacting his local Mainland Chinese bank to seek help to facilitate a successful Hong Kong mortgage application process for a property purchase. Due to current legal constraints, the local Mainland Chinese bank will engage with a reputable Hong Kong banks in order to provide the client with a broad range of competitive and attractive Hong Kong based mortgage products and associated services.

Assuming that the Chinese investor meets the regulatory requirements for a mainland citizen to purchase property in Hong Kong, the next step in the cross-border mortgage application involves a relatively slow, manually based process involving a series of sequential steps, including:

- Submitting original and/or notarised documents to Hong Kong bank by courier to prove the applicant's identity, current residential address, and income level to check his credit worthiness and his eligibility to purchase Hong Kong property
- Identifying a suitable Hong Kong property that satisfies the investor's requirement for the right price, using a Hong Kong realty agent jointly recommended by both the Hong Kong and Mainland Chinese bank
- Commissioning an independent property valuation as a condition for mortgage application
- Completing a mortgage loan application for the property and getting an initial "agreement in principle" from the Hong Kong bank to proceed further
- Commissioning a property survey by a Hong Kong qualified surveyor to confirm that the property is in acceptable physical condition
- Completing the purchase deal with the seller, upon successful completion of mortgage application
- Arranging for property insurance and paying initial premiums.

All of the above steps need to be successfully completed before the Hong Kong bank can agree the drawdown request and release the mortgage loan. Once this is done, the legal purchase can be completed, including effecting a transfer of title deeds through a Hong Kong solicitor.

These sequential linear steps of the application process may take several months to complete. From the customer point of view, the overall process is slow, complex and relatively risky because there are several potential points of failure along the sequential chain of events.

From the Hong Kong bank's perspective, the existing cross-border mortgage application process is labour-intensive and results in a relatively high cost per customer acquisition. The high initial internal cost investment limits the cost competitiveness and attractiveness of Hong Kong mortgage products to potential Mainland Chinese customers.

If Hong Kong banks are to capture a greater share of Chinese property investors' wallet through mortgage products, they need to resolve the above challenge by scaling up and speeding up its cross-border mortgage application process through the following:



Develop additional **business alliances** with other local banks in other GBA cities



Establish, manage and/or host a **“Cross-Border Mortgages Platform”**, connecting online in real-time with the other banks and other relevant third party professionals including “approved” solicitors, notaries, surveyors and realty agents



Digitalise the **mortgage application process** from beginning to end, providing online real-time integration between all relevant participating parties via the Cross-border Mortgage Platform

In the above digitally-enabled scenario resolution, the existing cross-border barriers to entry will be lowered, thereby helping to facilitate a simple and smooth customer experience, generating increased revenues for the Hong Kong bank and its business partners, while also reducing process unit cost per customer.

Ultimately, a highly streamlined digitised mortgage application process that can be completed anytime, anywhere and in days rather than months provides an improved overall experience to cross-border HNWI customers.

**It's a win-win for all parties involved.**

## SME Services (B2B)

### Business Scenario: GBA Professional Services Portal for SMEs

According to a recent joint research paper by Department of Commerce of Guangdong Province and Hong Kong Trade Development Council Research<sup>7</sup> “many businesses in the GBA are looking for suitable professional service providers to help devise more effective plans and ensure sustainable growth...at the end of 2018, mainland investors had directly set up companies in 188 - or over 80% of – countries or regions around the world”.

The typical key challenges faced by GBA SMEs are that “mainland SMEs lack the resources to understand the laws and regulations of overseas markets, and are also unfamiliar with the financing channels and related requirements for their overseas operation.”

The HKTDC surveys cited in this report showed that for GBA companies who intending “going out” to overseas markets they were actively looking for a range of professional services, including:

- Marketing activities and strategies (49%)
- Product development and design (31%)
- Financial services including banking, financing and project valuation (30%)
- Legal, accounting and other professional/ due diligence services (30%)
- Business consulting services to help understand overseas investment environments (30%)
- Intellectual property services including trademark and patent services (22%)

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Many businesses in the GBA are looking for suitable professional service providers to help devise more effective plans and ensure sustainable growth

<sup>7</sup> HKTDC Research. “GBA Enterprises Tackle Challenges by Leveraging International Services.” May 2020. <https://research.hktdc.com/en/article/NDMwNTE2NDkw>

Interestingly, these surveys also clearly indicated that many mainland SMEs (50%) considered Hong Kong to be the most important services platform outside the mainland for “going out” to international markets. Therefore there is strong evidence to suggest that a GBA Professional Services Portal hosted by, for example, a reputable Hong Kong bank with a trusted international brand could facilitate the professional services demand and create a demand for the bank’s financial services and products from GBA SMEs.



**50%**

Of mainland SMEs considered Hong Kong to be the most important services platform outside the mainland for “going out” to international markets

There is every reason to expect that there would be a significant demand for such a Professional Services Portal for Hong Kong SMEs seeking to expand into the GBA. According to the Hong Kong Productivity Council<sup>8</sup>, Hong Kong’s 340,000 SMEs, challenged by the global economic downturn, are now quickly re-adjusting their market strategy and tapping directly into China to sustain business growth.

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<sup>8</sup> HKTDC Research. “GBA Enterprises Tackle Challenges by Leveraging International Services.” May 2020. <https://research.hktdc.com/en/article/NDMwNTE2NDkw>

In this second scenario example, we explore a hypothetical scenario illustrating how a SME Services Portal hosted by a Hong Kong bank could offer attractive value-add professional services to both Hong Kong SMEs seeking to establish business operations across the border, and to mainland SMEs seeking to “go out” into the international markets via Hong Kong.

This could provide an opportunity for the Hong Kong bank to provide a curated portal to add value to their existing SME customer services beyond standard SME business banking services typically offering account opening, cash management, loans, insurance and trade services.

The GBA Professional Services Portal could offer some of the following benefits for member SMEs:

- Provide a one-stop information ‘marketplace’ for a wide spectrum of cross-border matters relevant to ‘northbound’ SMEs, and international trade matters for ‘southbound’ SMEs
- Offer highly tailored information searches to match the specific requirements of SMEs, including industry type, target international market(s) for northbound SMEs, target GBA provinces and cities for southbound SMEs
- Connect SME users with certified professional service providers in both Hong Kong and Mainland jurisdictions - including legal specialists, accountants, technology consultants, HR consultants, tax advisors, marketing consultants, IT infrastructure platform providers, and industry specialist organisations
- Manage the business risk and reduce the hassle for SME’s venturing into ‘unknown territory’ by providing curated relevant information on both the GBA and international markets for SMEs and providing a safe environment for SMEs to interact with reputable professional service organisations

In our interviews with bank executives in Hong Kong, with regard to challenges faced when tapping into the GBA market, over 90% of our interviewees stated that the main challenges are:



Maintaining compliance with regulation while also being prepared to adapt to changes because:

- There are many differences in regulation between the two markets
- There are uncertainties within the GBA development framework in terms of regulation



Adjusting the banks products and services to fit the GBA customers' expectations and preferences because:

- China's banking services are comparatively far more digitalized than most other countries in the world
- Chinese banking customers are accustomed to the convenience that end-to-end digitalisation provides to them

Proximity mobile payment is the most ubiquitous example of China's ultra-convenient and highly specialised products and services (e.g. Wechat Pay, Alipay).

According to a study from eMarketer<sup>9</sup> in 2018, 79.4% of mobile users in China use at least one proximity mobile payment app - compared to the next highest in APAC : South Korea at 32.8%. Through the innovative use of mobile technology, Chinese citizens have, in effect, skipped the adoption of credit cards and moved directly to widespread use of proximity mobile payment services.

It is evident that there is a noticeable gap between what Hong Kong banks are providing and what the GBA market requires. Hong Kong banks must move now to identify the differences, and then develop products and services that are aligned with GBA customers' expectations and preferences.

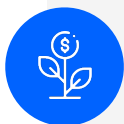
**Therefore, the first enterprise-wide strategic imperative Hong Kong banks must prepare to succeed in entering the GBA is to drive towards achieving end-to-end digitisation as soon as practicable.**

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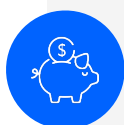
<sup>9</sup> Jing Daily. "Mobile Payments in China Are Growing So Fast, Predictions Can't Keep Up". November 2018. [jingdaily.com/mobile-payment-in-china-predictions](http://jingdaily.com/mobile-payment-in-china-predictions)



The next step is to identify who the customers are in GBA, their demand for Hong Kong banks' offerings and how technology can help satisfy that demand. At the current stage of the WMC scheme, we believe that there are two types of customer that all banks will need to consider:



Chinese investors who are interested in Hong Kong financial management and investment products – as an international trading hub, Hong Kong banks can differentiate themselves with global investment options as well as giving more choices, thereby diversifying their risk



HNWI or SMEs that will leverage Hong Kong as a new channel to store and transfer wealth

**Hong Kong banks must start investing now in their IT infrastructure in order to sell these investment products to the GBA market**, specifically enabling:

- Digital selling channel for investment products that create highly personalised customer experiences
- Better Know Your Customer (KYC) and Know Your Products (KYP) capabilities in the digital channel to safeguard the selling process and procedures
- Risk assessment mechanisms that fulfil the compliance standards of GBA and Hong Kong
- Education to GBA investors on the understanding of investment products in Hong Kong that may not be available in China

According to a paper published by IBM Institute for Business Value<sup>10</sup> HNWI and SMEs in China are showing a growing interest towards more personalised financial managements services, simplified application procedures for loans and other banking services, and omni-channel services. In order to support these wants, **the banks must set up their IT infrastructure to enhance RM capability for:**

- RM services that appeal to GBA customers' highly digitised preferences
- RM to provide services to handle a potential 10 X volume increase in lead-find and lead-conversion work
- Systems to support more agile and flexible offerings
- Automated applications that are convenient and have significantly shortened application times

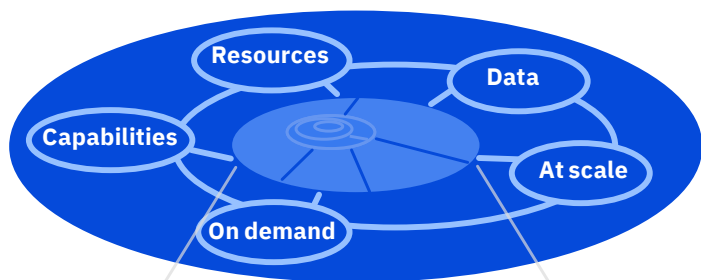
<sup>10</sup> IBM Institute for Business Value. "Banking on the Platform Economy". November 2019.

# Creating Value Beyond Banking in Platform Centric Ecosystems

**Figure 9: “Ecosystem Platforms” –**  
Market Platform, Business Process Platform, Technology Platform

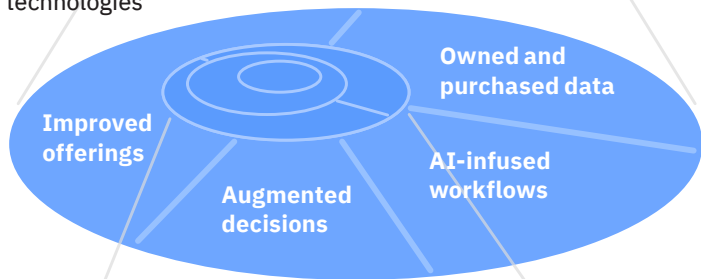
**Market platform**

Enabling trusted exchanges between multiple parties on a global scale and leading standards to sustain trust and security



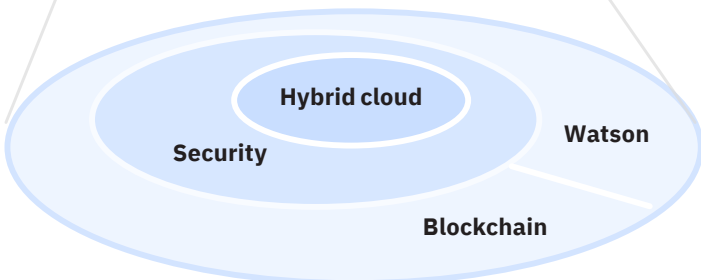
**Business process platform**

Enabling users to optimize value across all business and functional components and to reconfigure workflows with latest technologies



**Technology platform**

Enabling users to access more secure, resilient infrastructure to win in the agile, scale-driven as-a-service economy



In a platform-centric ecosystem, there will be considerable jostling for position and ascendancy, and therefore banks need to first identify their role and the platform on which to reside, depending on the platform ecosystem framework and the banks’ relative strengths and weaknesses.

The three types of platforms are Market Platform, Business Process Platform, and Technology Platform. In order to facilitate our analysis, we have categorised different banks into three broad types based on their business nature and customer size: Virtual Banks (VB), Small- and Medium-Sized Banks and Large Banks.

We have leveraged the insights generated from our interviews to outline the best opportunities that each type of bank may pursue within the platform ecosystem.

Source: IBM Institute for Business Value analysis.

## Opportunity for Virtual Banks

Innovation is already inbuilt to the VB business model.  
Future growth lies through forming business partnerships and alliances.

Virtual Banks do not have any legacy baggage and therefore they should be the financial institutions equipped with the most modern IT infrastructure that provides the flexibility needed for the innovation of banking products.

However, it is noteworthy that interviewees from Virtual Banks stated that most do not have adequate offerings or resources to enter the market on their own. Virtual Banks can leverage business partners to co-create a competitive advantage in the GBA market including Hong Kong for future international growth.

Collaborations outside financial services, stretching across industry boundaries can potentially expand the scope of their customer services further to create key differentiations and provide extended brand value beyond banking.

An illustrative example would be the ZA Bank strategic partnership with Visa<sup>11</sup> formed in January 2020. ZA Bank's primary business appeal to its young customer base (70% born after the 1980s) is based on high yields, no fees, no minimum deposit, convenient deposit and withdrawal of money, and account opening within 5 minutes. The partnership with Visa has the potential to leverage Visa's global network and their expertise in non-cash payments.

Visa's open interoperable network model means that, for example, consumers would not have to download different apps or learn new payment methods if travelling to other countries. Furthermore, the involvement of Visa should help to ensure that innovation will happen at a global level as the network evolves.



Virtual Banks can leverage business partners to co-create a competitive advantage in the GBA market including Hong Kong for future international growth

<sup>11</sup> Hong Kong Monetary Authority. "Statistics of Payment Cards Issued in Hong Kong for First Quarter 2020". <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2020/20200619e6a1.pdf>

## Opportunity for Small- and Medium-Sized Traditional Banks

Leverage established business networks in China to create one stop shops to facilitate partnerships between Hong Kong SMEs and Mainland partners.



Small- and Medium-Sized Banks could leverage their provincial connections to establish a few strong highly local strategic partnerships in key GBA clusters

Small and Medium Size Banks in Hong Kong, many of which already possess a strong presence in China, can readily leverage their established business networks in the China Mainland to gain a strong foothold in the GBA market. However, as many of them do not currently have their offerings readily available and accessible across their channels and ecosystem, it is observed that the majority have not been able to benefit from the potential incremental value that could have been acquired through their natural advantage.

Rather than further investing resources widely in new product and service development, Small- and Medium-Sized Banks could leverage their connections to establish a few strong highly local strategic partnerships in key GBA clusters according to their unique GBA presence and operational footprint.

These digitally enabled collaborations may achieve greater market penetration by focusing on building deep industry-specific credentials and expertise, hosting an exclusive networking platform for Hong Kong SMEs, and connecting them to buyers, suppliers, and investors in the GBA.

## Opportunity for Large Traditional Banks

Capitalise on the credibility and trust associated with ‘international big brands’ to steer and accelerate the exposure of cross-industry innovations on the global stage.

The Large Traditional Banks in Hong Kong have the considerable competitive advantage of long-standing international connections and reputations alongside world-renowned and trusted brands to help attract high-value customers from GBA and even penetrate further into the rest of China.

These established global players have the resources to invest in digitally enabled collaborations based on a more diversified approach, building platforms with multiple unique strengths.

As with other types of banks, their vision should encompass expansion to non-financial services, possibly in collaboration with start-ups, in order to speed up and scale up high potential innovations.

Having said that, Large Banks do not have to be constrained by focusing a specific non-financial industry. They possess the technological expertise and financial resources to develop agile innovation platforms in GBA in order to cultivate digital collaborations across multiple industry areas.

Standard Chartered Bank in Hong Kong provides an interesting example of a Large Bank forming a virtual bank venture with cross-industry partners and alliances. MOX Bank is a joint venture designed to leverage the strengths of the various business partners, namely Standard Chartered (banking), PCCW (Lifestyle), HKT (Telecoms), and Trip.com (Travel). Furthermore, MOX Bank has entered into a technology collaboration with a major Australian FinTech, Assembly Payments, which provides MOX with a brand new core banking platform which is fully enabled for Cloud.



These established global players have the resources to invest in digitally-enabled collaborations based on a more diversified approach, building platforms with multiple unique strengths

# Navigating the New Normal - Digitally-Enabled Collaboration Will Be Our “North Star”

The increasing digital disruption to the banking industry in recent years and the devastating economic impact of the COVID-19 pandemic has caused many banks to pause and think hard about their future customer engagement models.

Meanwhile the Hong Kong banking industry faces a unique situation regarding the GBA initiative. While there a number of challenges to overcome, including cross-border regulatory alignment, the GBA initiative undoubtedly represents a significant opportunity for Hong Kong banks to enter to a new market place which is ten times the size of Hong Kong’s own addressable market.

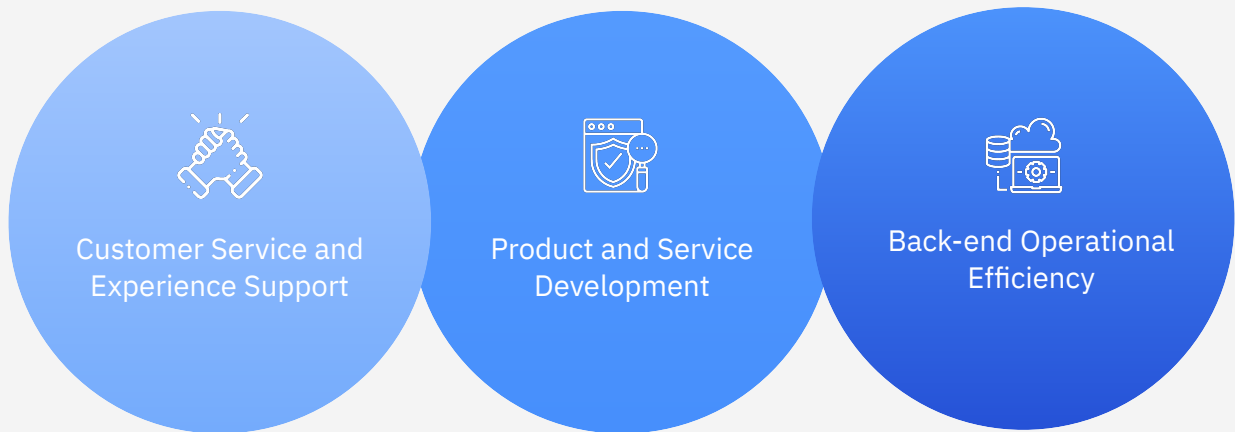
The combination of the worldwide digital disruption in the banking industry, the fallout from the global pandemic and the localised GBA initiative presents a unique ‘new normal’ scenario for banks in Hong Kong. Significant changes have already begun to occur in Hong Kong with the licensing of eight new virtual banks by HKMA in 2019.

Further substantial changes are expected on the horizon as soon as the GBA initiative gets fully into gear. From this point onward there is no option of returning to ‘business as usual’. All Hong Kong banks should reset their compass and prepare for the journey ahead.

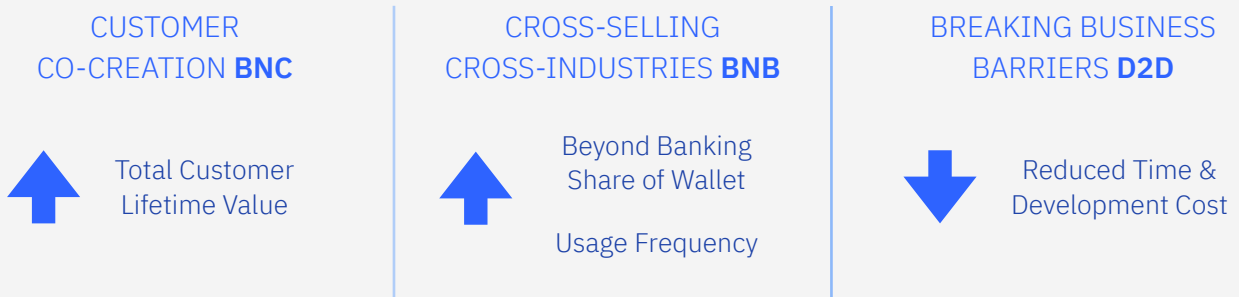
**How can Hong Kong banks respond to the current challenges and rebound into the ‘new normal’ world and be best prepared to take full advantage of the GBA opportunities when they arise?**

Our interviews with senior executives in Hong Kong banks have identified ‘8 Essentials’ that we believe are critical to the banks’ navigation through the current stormy waters and the onward journey into the ‘new normal’ world.

These 8 Cognitive Essentials outline a blueprint of strategic imperatives to enable Hong Kong banks to deliver innovative customer services and experiences, to develop winning products and services and to support the continual improvement of business operations efficiency.



“ **DIGITALLY ENABLED COLLABORATION** ”



**We believe that ‘Digitally Enabled Collaboration’ is the ‘North Star’ to guide Hong Kong banks on the forward journey, making use of customer co-creation, cross-industry and cross-border external collaboration, and internal collaboration across departmental silos.**

## Customer Service Experience And Support

Banking customers are increasingly expecting convenient, highly personalised financial services experiences to enrich their everyday lives. This is particularly the case in Mainland China, where the convenience and functionality of services such as AliPay have transformed customer experience to such an extent that, as of June 2020, AliPay has more than 1.3 billion annual active users and processed \$17 trillion worth of transactions in Mainland China over the course of the year.

It is anticipated that the GBA initiative offers promising potential for new customer acquisitions for Hong Kong banks, provided they can match and improve upon the high levels of customer service experience that the Chinese market is already accustomed to.

If successful in this endeavour, then the resulting rise in customer volumes may significantly boost the banks' total revenue generation.



If customer experience can be continuously enhanced, enabled by a collaborative co-creative relationship with customers, then improved customer retention rates and increased total customer lifetime value will follow

Continuously enhancing customer experience requires not only an ongoing process of in-depth analysis of changing customer behaviour data, but also the existence of digital feedback loops with customers.

Simple examples of this customer relationship exist today where customers visiting website service portals give their consent for the use of cookies to track their individual online behaviour, explicitly in order to improve the customer experience.

Therefore the innovative ideas needed to continually upgrade customer experience can be driven by, in essence, digitally-enabled collaboration with customers.



## Product Service Development

The most successful hyper-personalised retail banking products and services, particularly in Mainland China, are those which become ingrained into customers' everyday lifestyles.

Such innovations require a much deeper and granular understanding of customers' lifestyle transactions and patterns of behaviour.

This necessitates the use of advanced data analysis of both bank and non-bank real-time data to understand the relationships between customers' individual lifestyle habits and their financial needs.

It will facilitate the development of a wider range of popular services and products which engage with customers on a high-frequency basis and help cross-selling of services and products outside traditional industry boundaries and across the border with Mainland China.

Typically, reliable and relevant customer lifestyle data are sourced from outside of the banking industry. Given the need to continuously track the non-bank data, the development and deployment of innovative personalised customer products and services is therefore becoming increasingly reliant upon banks building creative collaborations with the right business partners in other industries.

A recent illustrative example of such a collaboration is MOX Bank in Hong Kong, which is a joint venture collaboration between a leading bank, a telecommunications company, an entertainment services provider and a travel company.



This necessitates the use of advanced data analysis of both bank and non-bank real-time data to understand the relationships between customers' individual lifestyle habits and their financial needs

## Back-End Operational Efficiency



Increased digitalisation will enable faster processing of larger customer transaction volumes, thereby improving operational efficiency and reducing unit costs

Increased end-to-end digitalisation of banking operations not only offers customers faster and more convenient banking services but also gives the banks the capability to rapidly upscale and speed up its back-end operations.

This is particularly crucial for banks entering the GBA market where rapid growth is possible. It is anticipated that banking personnel resources cannot expand on the same scale as the GBA-led market expansion, and so the input shortfall must be picked up by technology. In other words, the market expansion needs to be digitally enabled.

Increased digitalisation will enable faster processing of larger customer transaction volumes, thereby improving operational efficiency and reducing costs.

However, for many of the larger traditional banks, achieving better digitally-enabled operational efficiency is constrained by the existence of organisational silos between service lines, often reinforced by legacy technology silos and bank culture. Breaking down these internal barriers may not be simple to achieve quickly but action needs to be taken to tackle the silo challenge.

For example, cross-departmental Design Thinking project teams can help generate stronger focus on customer-centricity rather than existing silo-centric focuses on service lines, products and channels.

This collaborative approach can be useful in creating innovative ideas for customer services improvements, particularly when also collaborating directly with customer groups.

## Time for Action

Digitally enabled collaborative business solutions take time to plan, develop, test and implement. Banks in Hong Kong should start thinking right now about how they wish to participate the ‘new normal’ world and plan their business collaboration strategies accordingly.

Banks who cling to existing business models run the risk of being left behind.

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