



**CFA SINGAPORE INSIGHTS**

By **Pranay Gupta**

# Banking at critical juncture with dawn of fintech

Open banking will impact financial institutions just as open-skies impacted airlines

**F**LYING across the world for pleasure or business has become so common today that it's almost like taking a bus. There are seamless connections for passengers and baggage from almost anywhere to anywhere, it's an efficient and affordable means of travel and were it not for the painful security and immigration protocols, it may almost be a leisure activity in itself. Moreover, it has spurred a number of side industries like airport retailing and catering, in-flight advertising and entertainment content.

This was a result of the open-skies agreements which were signed by countries and regions, allowing free movement of airlines across the world. Prior to that, each country was busy supporting their national carrier, many of which were inefficient, supported unjustifiably high air ticket costs and provided little consumer choice for any given route. With open-skies came increased competition that led to inefficient airlines going out of business or getting sold, consumer ticket prices falling and greater efficiency and choice for the consumer, all leading to a surge in demand for air travel.

The financial services industry stands at the same juncture today. Just as with national flag carriers, every country has their national banks which they want to become global champions, but many of them are inefficient and provide sub-standard services at a high cost, and it is very cumbersome for a client to choose different institutions for different services, or transition or connect existing services. Open banking will change all that.

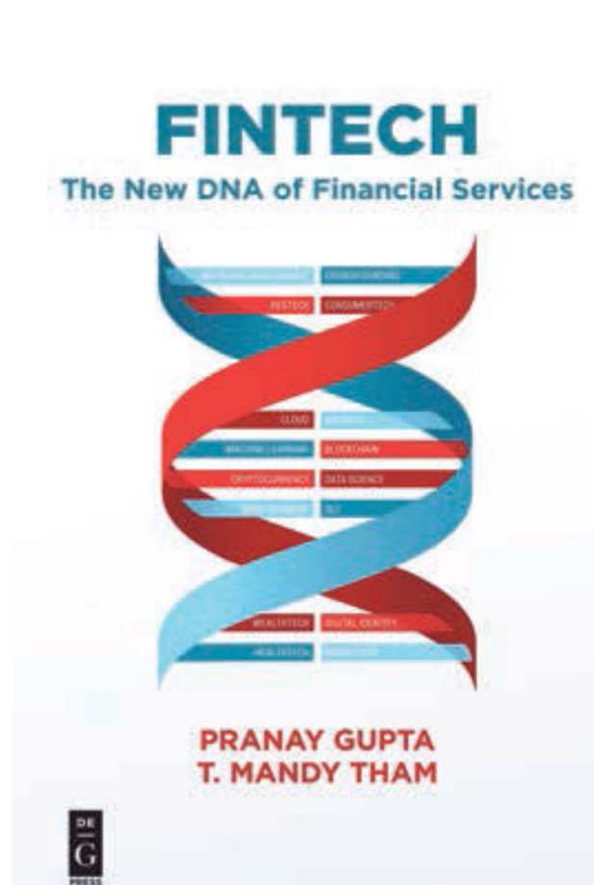
Open banking is the adoption of common standards and protocols between all players in the financial services ecosystem, which makes data, algorithms, transactions, business processes and functionalities available to all players. This not only includes other banks, but also fintech firms, technology and e-commerce platforms, payment processors, telcos and even retailers.

The European Payment Services Directive (known as PSD2), to which all banks in Europe must comply with by late 2019, removes the banks' monopoly on information relating to customer accounts, and allows any firm to provide financial services to customers.

Dharmesh Mistry, chief digital officer at Temenos (a global software provider for banking and finance), who authored the chapter on open banking in my new book *Fintech: the new DNA of Financial Services*, believes that Asean presents a clear market opportunity as it moves towards a PSD2 like legislative structure.

Apart from the fact that the increased services will appeal to millennials who comprise over half of Asean's 630 million people, it is a chance to reach the 264 million unbanked adults in Asean.

Governments will not pass up that opportunity. The MOU signed last month between Singapore and Indonesia to facilitate information sharing on emer-



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ging fintech trends and promote joint innovation projects signifies this trend already.

The only question is: which banks will proactively position themselves for this change and which will not be able to?

OCBC became the first bank in South East Asia to launch an open API (Application Programming Interface) platform which enables open banking services. In the Philippines, Union Bank has done the same, and in Japan, Mitsubishi UFJ Financial Group and Mizuho have committed to this structure. Even in the US, where open banking regulation is not imminent, banks like JP Morgan, Wells Fargo and Citi have recently launched open API platforms.

Having mastered digital retail, Amazon and Alibaba are extending into financial services for both consumers and merchants, and Samsung and Apple have leveraged their handsets to enter the payments race.

Clearly, any bank which stands still in the face of

this impending change will be relegated to the same category as PanAm or Continental – airlines that don't exist today!

But most banks cannot make this shift on their own. The provision of innovative services and customer experiences in financial services is more difficult than it sounds. Macy's and Sears discovered that in their battle with Amazon.

Partnership and collaboration with third party providers is perhaps the most viable means of improving the banking experience for the end customer by providing him or her with a personalised solution to their specific needs.

And this is relevant not just for traditional deposits and loans, but for insurance, investment, retirement, mortgages, credit and the gamut of financial services that are present today, and those that will become available in the future with the proliferation of fintech startups across the world.

Gone are the days where financial institutions could earn supernormal profits by providing a bog standard service to all customers and charge them excessively for it. To survive in the digital age, banks will need to be efficient, low cost, and most importantly provide customised services to meet the needs of every individual customer.

Today's customer is increasingly more inclined towards saving time, rather than find the best deal, but the service itself must also be personally valuable and relevant to the customer in order to encourage loyalty. What customers demand today is a Bank of Life, which meets their customised needs as they progress and grow in life- from baby planning to retirement to the rest of their life.

There are approximately 30,000 financial institutions in the world today. How many do you think will be alive in 10 years' time? Most of us are oblivious to the scale of restructuring that could happen in financial services with the dawn of fintech.

If the airline industry is any guide, in the last decade alone 257 airlines went bankrupt or closed down. In the financial services industry, the numbers could easily be ten times that in the next decade.

As Darwin once famously said – "Let each man hope and believe what he can. It is not the strongest of the species that survives, not the most intelligent that survives. It is the one that is the most adaptable to change."

☛ **This article is adapted from a new book co-authored by Pranay Gupta, CFA. Titled "Fintech: the new DNA of Financial Services", the book will be launched officially on Nov 12 at the 2018 Singapore Fintech Festival.**

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