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Innovation is a business imperative for banks all over the world. In emerging markets, the pace and promise of innovation are even greater. Banks must do more to keep up, or be left behind. But many banks in these markets are not innovating as fast as they should be to remain competitive.

The “business as usual” approach will not address the challenges faced by banks in emerging markets, particularly as competition from nontraditional market entrants increases. Nor will it satisfy the enhanced expectations of their customers. The pressure is on banks in such regions to completely transform their approach across almost every segment of their value chain.

Sparked by innovation, smart banks are changing the game
Fresh thinking is improving service for bank customers around the world.

- In Indonesia, “floating banks” are capturing new customers by traveling to island populations.
- In Poland, customers can use a smartphone app to request a “mobile ATM” – housed within an electric BMW i3 – to come to them at a specified place and time.
- In Kenya, banks are partnering with mobile network providers to assess credit risks of first-time bank customers.
- Unencumbered by market restrictions, a bank in Brazil has expanded beyond traditional banking to offer customers concierge-type services, such as hotel booking or restaurant reservations.

A modern banking business, driven by speed
Banks are taking different approaches to how they make these shifts. Some are making incremental changes, while others are embracing a more radical realignment away from business as usual.

For some banks, the creative thinking comes from investment in building internal capabilities, while others are collaborating with third parties. We are also seeing examples of cross-industry incubation and technology accelerator labs where ideas can be nurtured and tested in experimental environments.

Routes to developing new ways of banking are novel and diverse but share a common goal: to bring new ideas to fruition quickly. Speed to market is critical in meeting the rapidly evolving needs of customers, defending increasing competitive pressure and managing specific challenges of banking in emerging and rapid-growth markets.
“Even though we have been quite successful over the past 20 years, we must look ahead and understand that there is a new and very strong trend happening in the banking world that is totally different from almost everything that we have seen before.”

– Márcio de Andrade Schettini, Director, Itaú Unibanco

Only innovation can solve the toughest banking challenges in these markets.

To stay ahead of the competition, banks in emerging markets need to swiftly roll out fresh strategies in five priority areas.

1. **Reinventing the customer experience**
   In developing regions of the world, banking customers are often younger, more dissatisfied with existing services, less loyal and more likely to be driven by price and convenience.

2. **Serving the unbanked population**
   Billions of people in the emerging markets have never held a banking account. Financial service providers are realizing the potential of this market with new and novel approaches.

3. **Finding and developing the best talent**
   Banks in rapid-growth markets need entrepreneurial and diverse skills but face increasing competition to attract and retain this talent.

4. **Leveraging agility in an underdeveloped banking ecosystem**
   Free of legacy processes and cultures, new banks are using their agility and tapping into emerging technologies as a springboard to success.

5. **Influencing and innovating in an emerging regulatory environment**
   Banks in developing markets can influence the regulatory landscape before structured supervisory guidance is introduced.

**Innovation**
needs to happen fast enough to maintain a competitive edge in your emerging market.
Reinventing the customer experience

In developing regions of the world, banking customers are often younger, more dissatisfied with existing services, less loyal, and more likely to be driven by price and convenience.

With a population demographic concentrated around millennials, these digitally native, more entrepreneurial customers are also demanding new products and services as their incomes rise and technology advances. The pressure is on banks to deliver what these customers need — or lose them to competitors.

The emerging-markets banking customer

Banks in emerging markets are challenged by an increasingly evolving customer base. Millennials have come of age and account for a rising segment of the bankable population. This group has higher levels of distrust and lower levels of loyalty toward traditional banks than their Generation X predecessors.

According to the EY global consumer banking survey: winning through customer experience, 55% of customers in developing markets have relationships with more than one bank.

Attracting and retaining this new generation of banking customers requires banks to reinvent the customer experience. They must match the agile, entrepreneurial spirit of their young customers with similarly crafted banking practices.

How banks are improving customer service in the developing world

Customizing currencies

A program designed to make improvements to customer experience has led to popular changes at India’s IndusInd Bank. The bank allows customers to nominate the denomination of money withdrawn from ATMs and choose their own account numbers – an option that 20% of new customers are selecting.

Banking on social media

Kotak Mahindra, India’s fourth-largest private sector bank, has launched Jifi, a bank account that integrates social media platforms. Customers can open a Jifi account by signing up via Facebook or email, with account updates received via a direct message to their Twitter handle and loyalty points accrued based on Facebook “likes.”

Mobile money

Poland’s increasingly mobile population inspired mBank to develop mobile banking functionalities based on customers’ requests. Functionalities include access to key information and offers without logging in, discounts based on geolocation, and the ability to make payments by using telephone numbers and Facebook identification.
“We live in a time where there is an inflection point in customer behavior. If we do not get our innovation programs right, we will become irrelevant very quickly.”

— Datuk Abdul Farid Alias, Group President and CEO, Maybank, Malaysia

Business beyond banking
Brazil-based Banco Original’s mobile concierge services for customers include assistance with restaurant reservations, car rentals and travel arrangements. The goal is to become more entrenched in customers’ day-to-day lives, said one executive we spoke to: “The more times we connect, the higher the potential to form a long-term relationship with the customer, which reduces the likelihood that they will switch banks.”

Fintech is changing the role and relevance of banking, everywhere
The rise of fintech – the combination of new business models and technology that is enabling, enhancing and disrupting financial services – has helped drive banking transformation, particularly around the retail customer experience where convenience, transparency and simplicity are now universal expectations.

This marks a fundamental shift for an industry that once focused on selling products rather than serving customers. But while banks can, and should, adopt some best practices from FinTech companies (many are already partnering with them as well), they must ensure that any initiative is aligned with overall strategy, rather than just being a knee-jerk reaction to competition. Banks must ask themselves:

- What’s really driving the change agenda?
- Do customers demand it?
- Are stakeholders expecting it?
- Is it a defensive response to threats or a proactive move to win over customers and generate market opportunities?
- Are these initiatives adding genuine value to the customer, or are they mere gimmicks?

One banking executive told us that for every new initiative under consideration, his team assesses the risk of losing revenues in five years, the impact of that initiative on the business and how prepared internally they are to manage the change.

It’s a useful reminder that banks in emerging markets must make a road map for customer innovation, regardless of whether evolution is radical or incremental – and not get sidetracked by the fintech momentum.
Serving the unbanked population

Around the world, almost two billion people have never held a banking account. Realizing the potential of the unbanked requires novel approaches to meet their specific needs. As income levels rise in many developing economies, bankability and demand for financial services are also increasing.

Over the next decade, it is predicted that:
- 40 million new bank accounts will be opened in China
- 15 million new accounts will be opened in Nigeria

This growth in demand offers a huge first-mover opportunity for banks that can capture new customer relationships at an early stage.

But banks in maturing markets must reinvent their approach to address this new generation of customers. Traditional branches or banking methods simply don’t work in many developing countries. Instead, some banks in these markets are employing inventive methods to meet customer requirements and satisfy expectations from shareholders worried about returns and from governments focused on greater financial inclusion.

Smart service: Three ways banks are getting creative to serve customers

Floating banks in Indonesia
Banks wanting to serve the archipelago nation of Indonesia must take to the water. Bank Rakyat Indonesia (BRI) has launched Indonesia’s first floating bank branch, the Teras BRI Kapal, which visits customers on six islands off the coast of Jakarta and offers all standard banking services.

Cash machines on wheels in Poland
An electric BMW i3 meets customers of Polish bank Idea Bank at a time and place of their choosing to withdraw or deposit cash. Manned by a bank employee, the mobile branch is booked by customers using a mobile app and synchs all transactions to customers’ accounts in minutes.

Banking in your car in Brazil
Banco Bradesco in Brazil is working with Ford Motor Company to equip cars with its banking applications.

Bradesco’s move highlights the opportunity for partnerships. Collaborating with other industries can extend access to a wealth of previously untapped customer bases and overcome some inherent challenges of working with customers in emerging markets.
“We are definitely transforming the way we do things to better differentiate ourselves and serve customers. We may eventually call it innovation, but right now, it is business unusual vs. business as usual.”

— Romesh Sobti, Managing Director and CEO, IndusInd Bank, India

How mobile phone companies are changing banking around the world

In many developing regions, more people have mobile phones than bank accounts. Because of this phenomenon, banks are partnering with mobile network providers to deliver products and services.

**Lending, financing and fundraising**
Mobile money platforms are enabling microfinance, while popular crowdfunding apps have opened up both investment and donation opportunities.

**Advertising where it matters**
Location services and GPS tracking are a boon for advertisers, including banks wishing to promote their brands and services to relevant and targeted communities.

Mobile phones are helping to determine credit risk

Determining the creditworthiness of someone who has never interacted with a financial institution is a major banking challenge. But partnering with mobile network providers allows banks to use customers’ mobile data to gain valuable information, determine behavioral trends and financial status, and guide informed decisions on whether to provide loans to those with no prior credit history.

**Airtime analytics**
One indicator of customers’ financial stability is how often and by how much they “top-up” — replenish — funds in their accounts via their mobile phone. For example, a customer who tops-up one large amount at the same time each month may have a salaried job, while another who tops-up very small amounts on an ad-hoc basis may indicate that he or she has a more informal employment status.

**Mobility metrics**
If customers regularly move from one specific place to another on weekdays as indicated via their phone’s GPS tracker, this could indicate they are commuting to and from work and thus have a stable job. Mobile calls from overseas might indicate jobs that require traveling or, if done on weekends, high disposable incomes that allow for leisure travel.
Banks in rapid-growth markets need professionals with entrepreneurial and diverse skills but face increasing competition to attract and retain such talent.

Outstanding young talent in developing economies is highly sought-after, quick to switch jobs, and more likely to be attracted to opportunities at nimble new fintech and start-ups rather than in the staid banking sector.

A traditional bank must find ways to become an employer of choice and then continue to develop and integrate the talent that is critical to driving much-needed innovation.

Fresh talent is needed across the banking business

Most banks recognize that successfully competing against fintech and other new sector entrants will require a huge leap forward. Banks must be more tech-savvy, more customer-centric, far more open to new ideas – and agile enough to act upon them quickly. Adopting a new mindset requires banks to hire staff with new skills across all segments of the business.

Customer-centric service

Entrepreneurial staff will challenge banks to create new ideas for delivering products and services to customers. Banks have to train and transition staff from transactional to advisory roles and develop interpersonal skills across frontline positions.

Re-powering processes

Internal support staff will execute critical day-to-day operations, balancing creative ideas and technology with important business processes.

Finding, hiring and retaining the staff with the right skills and mindset make up the first battle of the talent war. The second is to nurture a culture that enables this new diversity of thought to thrive without alienating existing internal teams who may feel threatened by the fast pace of entrepreneurial change.

Banks can win the war for talent by committing to cultural change

The same talent needed by banks in emerging markets is in high demand by almost every industry.

Can the banking sector really become the employer of choice for the young entrepreneurs they need?

And if they do attract the right talent, how do they retain it and ensure that those new recruits don’t conform to the norm and lose the creativity they were hired for?

Those banks in emerging markets that are winning the war for talent are doing so by committing to genuine cultural change. They have programs that reinforce diverse, entrepreneurial values, inspire collaborative behavior and drive new ideas. Sometimes these programs involve monetary awards, but more often they center on recognizing and profiling individuals who develop smarter solutions to business problems.

Inspiring our best and brightest banking talent

India’s ICICI Bank’s Trinity initiative promotes innovation and entrepreneurship in the banking and finance sector among up-and-coming engineering and management students. The program rewards an idea at every stage – from ideation, to prototyping, to the facilitation of qualified teams toward entrepreneurship.

ICICI provides support in mentoring and nurturing students as they formulate their ideas, opportunities to interact with industry veterans and financial support for prototype development and facilitation toward commercialization.
“How do you bring new people in and make sure they are not stifled by the banking environment? I think you build it gradually with very good people that can have this connection between technology, entrepreneurs and the business teams.”
— Gustavo Roxo, Head of Technology, BTG Pactual, Brazil

Celebrating creative ideas
Malaysia-based Maybank’s President’s Innovative Ideas Award finds the best ideas across all areas of the bank, raises awareness of this creativity and encourages staff to get involved in the program. The award has led to the development and implementation of several new ideas that have delivered increased value for the bank.

Also in Malaysia, RHB Bank’s Innovative Minds program offers a cash reward to five people whose ideas have been selected out of more than a hundred submissions from across the bank. According to the CEO, Dato’ Kharussaleh Ramli, celebrating and promoting the winners has proven to be a more effective incentive for innovation than the money.

Garanti Bank in Turkey teamed with a major telephone operator to launch a corporate entrepreneurship program. Employees were asked to submit ideas on how the bank could better meet the financial needs of their customers. The team selected the best ideas and used an agile technology development methodology to create and launch new services.

According to Deniz Arik, Innovation Supervisor, Product Development and Innovation Management, “The program has helped us leverage the entrepreneurial spirit within the bank and has taught us a new way to work.”

Codefests are solving business problems
Codefests (also known as a hackathon or a hackfest) is a multi-day event where a large group meets to collaborate on digital projects.

First National Bank (FNB) South Africa hosts annual codefests that are designed to generate working prototypes that solve business problems and leverage fintech.

Explains Peter Alkema, CIO for FNB Business, “At FNB, ‘codefest’ serves as the groupwide platform for innovators to engage and leverage the internal IT assets of our organization. It is a six-day sprint that includes a 24-hour development marathon that attracts computer programmers and those involved in software development. Having 250 developers in a room working together intensely for a week creates a lot of IT momentum, innovative architectures and is an amazing multiplier effect for business value. The collaborative environment we create at a group level is also replicated through business-unit and project-specific codefests that benefit from the same model.”

The common factor behind the success of these initiatives is the recognition by these banks that the best innovation is not created in silos. These banks have built a culture that brings together bankers, technology experts, the operations team and entrepreneurs to design and implement solutions that solve immediate, real problems and deliver the best banking products and services.
Free of legacy processes and cultures, some banks in emerging markets are using their agility as a springboard to success, taking advantage of technology to integrate new features without replacing entire systems and platforms.

With the availability of more open infrastructures and data feeds, these institutions can develop new applications, harnessing the greater flexibility associated with application programming interface (API) technology, and quickly provide product customization and experience to support new and existing customers.

But realizing these benefits is not easy. Many of the most promising markets lack a mature financial services ecosystem. They are challenged by a patchy telecommunications infrastructure, limited IT vendor presence and scarcity of customer data.

These factors make it difficult for banks to effectively reach and engage customers, manage risks and improve operations and highlight the need for different approaches to banking.

Use of new technology

Banks in maturing economies often face internal challenges, as well as macroeconomic limitations. For example, processes around operational risk, anti-money laundering (AML) and know your customer (KYC), the due diligence to verify the identity and integrity of clients, as well as comprehend their risk tolerance, investment knowledge and financial position, are more likely to be underdeveloped. Data governance, standards and infrastructure are often unsophisticated.

Banks in emerging markets that are overcoming these issues successfully aren’t trying to replicate the traditional processes of developed market banks. Instead, creative approaches are solving old banking problems.

The world’s fastest bank loan

Poland’s mBank may have the world’s fastest and most convenient loan in retail banking. Customers request loans online or via their mobile phone and have a response within 30 seconds. The Quick Loan Program uses an existing platform of pre-approved loans and accesses information on customers’ salaries and employment status.

The video ATM

In Kuwait, Boubyan Bank’s interactive video tellers allow it to expand into new locations where full-size branches are not viable. ATM-based technology allows customers to talk to a live remote teller who controls the machine to conduct transactions, such as cash deposits, transfers between accounts and cash or check acceptance without a card.

Choosing the right route to innovation

These initiatives show how astute use of technology can overcome the limitations of underdeveloped financial ecosystems. But investment in technology should always be guided by strategy. This is even more important in resource-constrained markets.

Technology investment that delivers the most value in these environments is focused on developing low-cost ways to reach and engage customers, better evaluate credit risks and improve efficiency and effectiveness of their internal operations.

The question for emerging-markets banks is how best to develop this innovation. Should they invest internally, form collaborative partnerships, acquire, or engage a combination of all three?
“We are not going to bring people into the organization who expect to do things the same way as they have done them before. Whether you are a technical person or a compliance person, you need to think differently or we are not going to hire you.”

— Fernando Teles, Head of Consumer Banking, Banco Original, Brazil

Building creative capabilities internally has its advantages. It allows businesses to develop their own people and processes. For example, Malaysia’s Maybank has created an internal incubation lab to drive and implement new ideas.

Other banks realize they lack the internal capabilities to drive change at the required speed. Collaboration with third parties – fintechs, start-ups and universities – can be quicker, cheaper and more successful.

Building brilliant banking ideas

Incubating innovation
Other banks are acquiring firms, giving them instant access to new technology, teams and the opportunity to move into fast-forward mode to capture a new market or service area. Following its earlier acquisition of US-based online start-up Simple and in line with a focus on expanding its digital banking portfolio offerings, Spanish bank BBVA acquired Finnish banking startup Holvi to further expand its digital business footprint.

Holvi’s online business banking service targets small and medium-size businesses through an online-only platform. Such acquisitions have enabled BBVA to gain an instant portfolio of customers, groom new talent and resources, and keep up with the fast-paced evolution of the banking ecosystem.

These different approaches highlight the importance of being willing to explore various models to build the new technology banks need to overcome ecosystem limitations – and being prepared to regularly monitor progress and change approaches, if needed.

Technology can overcome limited financial system infrastructure in emerging markets.
Influencing and innovating in an emerging regulatory environment

Banks in emerging markets can influence the regulatory landscape before structured supervisory guidance is introduced. But a lack of regulation also presents challenges as barriers to entry are lower, allowing more competition for traditional banks.

And while structured external guidelines are still being developed, the pressure is on banks to develop their own internal frameworks that allow for disciplined but proactive innovation.

Strong, not stifling, banking regulation

In many developing economies, banking regulation is not keeping pace with the sector’s rapid change, particularly in technology. Few countries have introduced consistent rules to specifically address the extraordinary rise of the fintech phenomenon.

This fluid environment presents banks with a rare opportunity. Now is the time to leverage their knowledge and influence to impact the development of regulatory guidelines. This is particularly valuable to incumbents as the threat of disruption from new players increases.

It should also help to ensure that regulators strike the right balance of protecting consumers without stifling innovation.

Fintech businesses such as Alibaba, Tencent, Baidu and LINE are expanding beyond payments to offer customers investments, deposits and insurance. Japan-based messaging provider LINE allows users to add their bank account as a contact to receive balance and transaction messages.
As regulators consider how best to respond to these developments, some are considering various tiers of regulatory requirements. This approach may be appropriate as fintechs often have less regulatory obligations than banks and pose fewer risks within the financial system.

Banks can play a role in these discussions, without drowning out the voices of other players. The arrival of fintechs should be seen not as a threat but an opportunity for disruptive collaborations and an accelerator of progress for the entire financial services sector.

It is in banks' best interests to help guide the development of regulations that maintain appropriate levels of checks and balances while still allowing freedom to experiment with inventive new practices.

No time for wait-and-see

The biggest risk of inconsistent or “gray” regulatory guidelines is that risk-averse banks adopt a “wait-and-see” attitude. Any hesitation in pushing forward with creative new banking approaches will allow new players to gain an edge in developing economies.

Instead of waiting for clarity in the regulatory environment, banks must continue to pursue changes to their business model now. A sturdy internal framework will offer the discipline needed to manage risks while still allowing innovation to thrive.

Regulatory guidelines can be designed to support innovation.
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