



How should Asia-Pacific banks push the frontiers of transformation?

July 2023



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Asia-Pacific banks need to get better at being more agile, responsive and resilient to compete in an ever-changing financial ecosystem.

However, transformation doesn't mean a band-aid approach of cobbling together disparate systems and applications on aging IT, but actually fortifying infrastructures to provide the truly tailored experiences and integrated service consumers require.

Doing so necessitates investing and innovating continually to reimagine all processes and reduce friction.



Andrew Gilder
Asia-Pacific
Banking and Capital Markets Leader





Transform or bust

Banks in the future will look very different from those today. Getting there involves a continuous series of transformations to future-proof themselves for the new economy. Yet, many are struggling with this change agenda.

To understand the current thinking around transformation, appetites to evolve approaches to transformation, and how institutions can increase their chances of success, EY teams interviewed banking transformation executives at global banks and canvassed the opinions of its own internal transformation experts.

Findings showcase that despite a more uncertain operating environment, vanguard banks are not pressing the pause button on their transformation programs. Instead, evolving challenges are nudging them to rethink their strategies and pivot to focus on specific opportunities.

Discussions with banking transformation leaders highlight six recommendations centering around the need to:

1. **Redefine transformation**, with a focus on fundamentally improving customer and employee experiences.
2. **Inspire and lead from the top**, so that executive management determines and communicates the bank's transformation vision and strategy.
3. **Rethink transformation ideation and investment evaluation**, ensuring that the impact of initiatives on customer and employee experience is considered alongside financial performance.

4. Reposition for agility at scale, focusing on core technology, culture, team structure and governance as enablers for rapid change.
5. Reorchestrate talent and invest in people, paying particular attention to diversity and the value proposition for current and future employees.
6. Re-evaluate tracking and performance monitoring, making use of multiple financial and non-financial metrics.

Asia-Pacific banks are pushing the frontiers of transformation

Like respondents from their global counterparts, most incumbents in Asia-Pacific (APAC) are looking beyond maximizing cost takeout or meeting regulatory directives to transform their businesses.

The APAC-specific findings reveal that:

- Banking executives expect transformation initiatives to strengthen revenues, expand customer bases, and drive deeper digitalization.
- As much as 90% intend to invest more into transformation within the next three years, with 40% factoring over 15% more funding.
- One in three expects very high adoption of digital channels among their customers in the next three years, and are refining their distribution outreach accordingly.
- Automation is the most effective method to drive cost transformation for 40% of all respondents.

Understanding transformation today

Current approaches to transformation at APAC banks

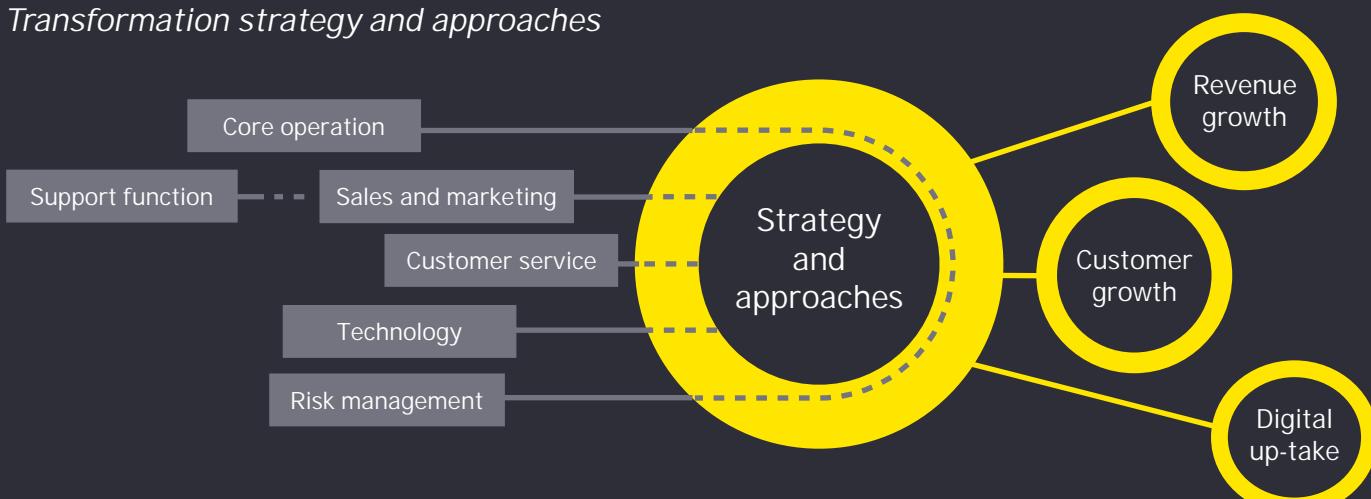
What does transformation mean to banking executives?

The continuing volatile macroeconomic environment, coupled with multiple change drivers (ranging from rising customer expectations to intensifying competition and product commoditization) is spurring an urgency for APAC banks to transform.

Consequently, 'transformation' is a term volleyed around rather liberally within the sector, with nearly every financial institution boldly declaring that it is 'transforming.' But transformation is an immense undertaking – and what does it even truly entail?

While every bank's transformation journey is unique, executives we spoke to agree that the way forward starts with a strong strategic purpose and vision, a customer-focused strategy, a flexible growth model, and sophisticated digital-centric technologies.

Transformation strategy and approaches



Why are banks transforming?

APAC banks envision that their transformation programs will deliver on revenue and customer growth, drive deeper digitalization, and raise customer loyalty and satisfaction (as measured by the net promoter score growth), while concurrently helping to manage cost.

Expected outcomes in the next three years from focusing on transformation

Percentage of respondents



How are they driving transformation?

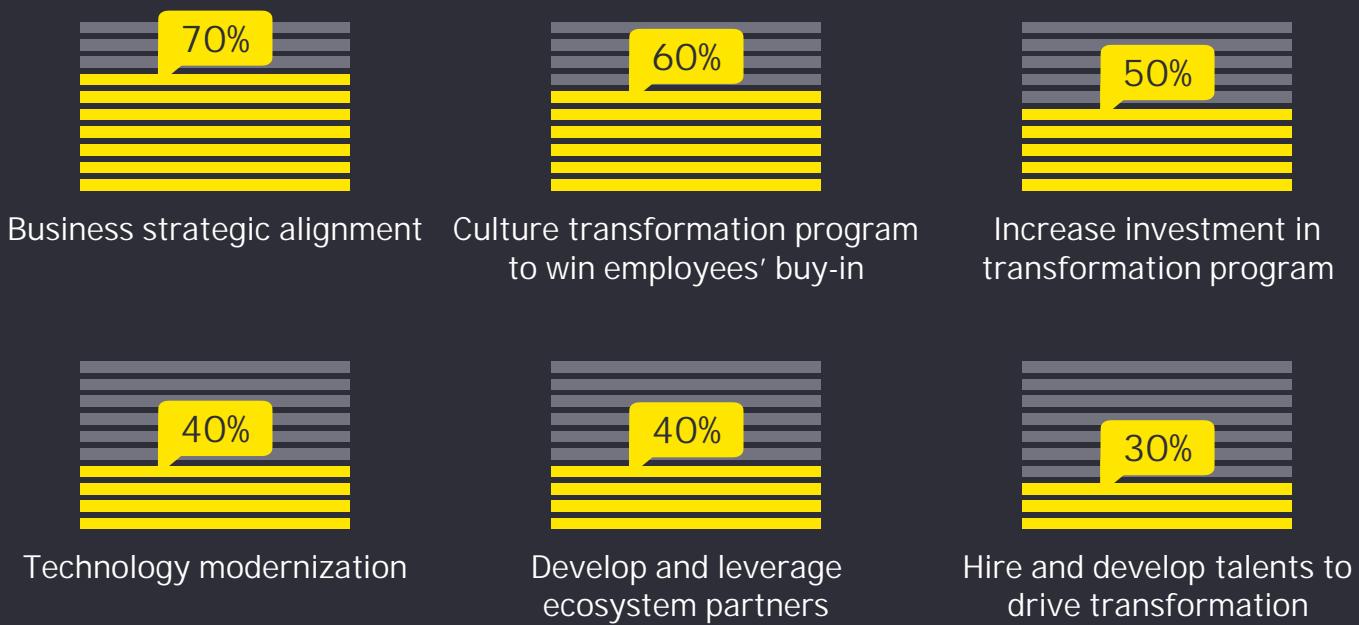
Achieving (and more critically, sustaining) the above is no easy task, and for which individual transformation initiatives would not suffice. Instead, it is only with a continuous program of adaptation can they seek to transform to drive revenue expansion and elevate customer experiences.

However, their 'transformation strategy' cannot merely be an upgrade in terminology from their 'IT strategy,' without a complete workover and genuine transformational impact. The core idea is not to utilize new technology to replicate existing products, services or solutions in a digital form, but ideally, to enhance these offerings to support superior customer engagements and engender new sources of income.

Herein, we queried APAC banks on steps undertaken to ensure that their transformation creates significant opportunities:

Initiatives undertaken to drive transformation

Percentage of respondents ranking the initiative as their top three



Respondents highlight the need for an engaged leadership to ensure business strategies align with their transformation agenda (70% of respondents); and that these executives define, communicate and incentivize the culture and associated behaviors needed to support this vision (60%). One in two also mentions ensuring adequate budgets to finance change-management programs that can strategically differentiate them from their competitors.

Such effective transformation requires them to depart from their traditional operating models and legacy infrastructures, and implement a longer-term view on resource investments. This also calls for them to leverage new tools and applications, appropriate talent and new ways of working, and ecosystem connectivity to ensure success.



Achieving better transformation outcomes

Of the six global transformational themes that we highlighted earlier, three of these appear most distinct in our APAC conversations:

1

Rethink transformation ideation and investment

Define and execute a bold vision.

2

Redefine transformation

Place customers at the heart of this change.

3

Reposition for agility at scale

Revamp team structure and technology.

We elaborate on them in the pages to follow.

1

Rethink transformation ideation and investment

Define and execute a bold vision.

Investing to activate transformation

The process of transformation is never-ending, particularly now as a challenging environment fuels the need for a strategic reset. Incumbents need to reinvent themselves to keep up with competition, reduce cost-to-serve and deliver enhanced financial experiences. Leaders are therefore radically rethinking their transformation strategy and making bold, incremental investments to boost their transformation agenda.

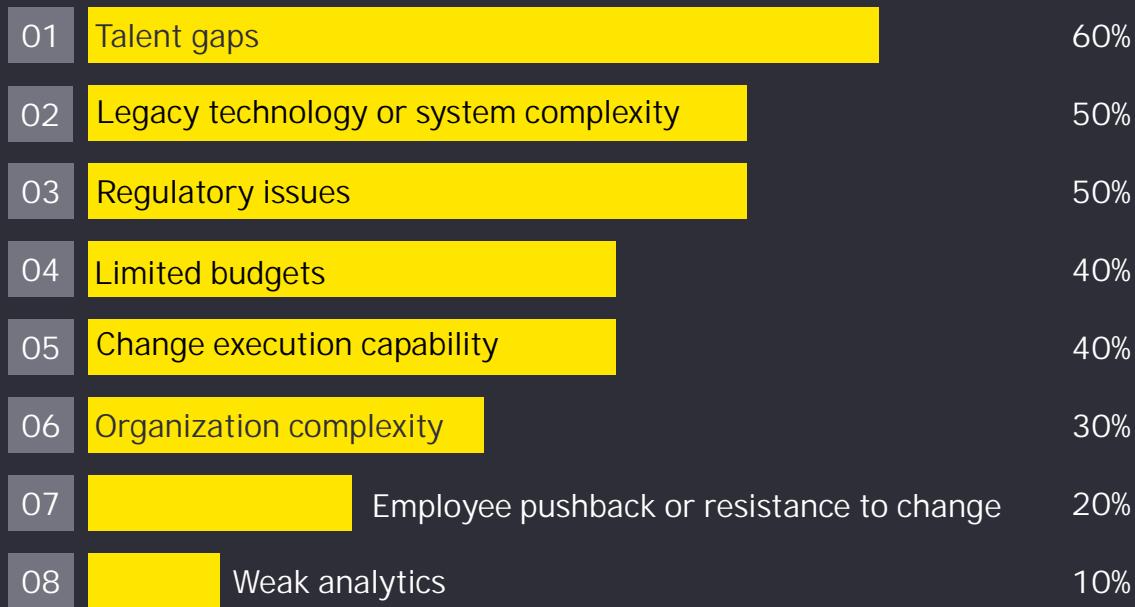
- Nine in 10 respondents expect to increase investment in future transformation programs within the next three years.
- Half of these will raise investments moderately by 5%-15%, while 40% are factoring in a more substantial rise of over 15%.

Reskill staff for transformation

Placing humans at the center, whether that be employees or customers, is instrumental to transformational success. While client-centricity must perpetually take center stage, on-ground conversations in APAC reveal that the lack of right-fit talent is the primary hurdle in delivering on their transformation vision. This necessity to refresh their talent proposition and map out specific skills to support successful transformation ranks ahead of addressing aging, convoluted legacy infrastructures, regulatory mandates, and budgetary challenges.

Challenges in achieving transformation outcomes

Percentage of respondents ranking as a top three challenge



Skill scarcity is a common challenge among APAC banks, with many citing inadequate access to digital experts or difficulties in getting their existing staff to reskill and transition toward a more transformational, digital-first culture. In demand include individuals with technical and business expertise (e.g., agile development, user experience design, data science, and digital marketing analytics), as well as those with softer skills, such as communication and empathy.

Beyond needing to equip existing employees with appropriate skills and transition them toward a transformational mindset, leading incumbents are fostering a corporate culture that embraces constant experimentation and learning. They are further supplementing any outstanding shortfalls with an optimal mix of recruitment and external technical specialists and consultants.

Refresh legacies

There's an urgency to move away from legacies to reduce complexities and enhance efficiencies, innovate faster yet ensure regulatory compliance. Fortunately, legacy simplification is made easier with the adoption of open banking APIs and cloud-first approaches to create a connected network with other financial institutions, software suppliers and FinTech communities.

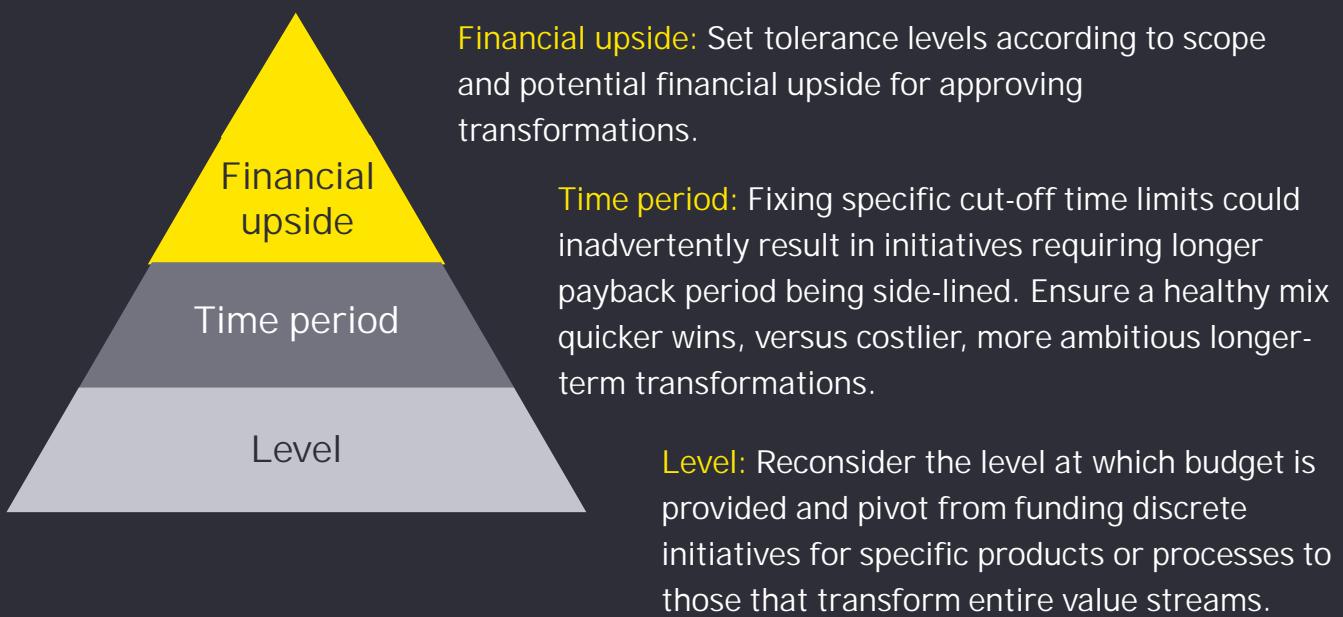
As banks invest to pursue their transformation agenda, emerging tech, such as artificial intelligence (AI), advanced automation tools like robotics process automation (RPA), and rich data and analytics have also found good traction with APAC banks. And of course, there's the novel tech – Generative AI – that has created waves globally and in APAC, with early adopters already exploring these large language modeling techniques to deliver on a new set of FS use cases.

Re-evaluate metrics for success

Despite the aforementioned intent by 90% of APAC respondents to channel more investments into transformation, funding remains insufficient, with 40% highlighting budgetary issues as one of the top key challenges.

Here, perhaps APAC banks need to rethink how they prioritize their investments for transformation. For instance, given the competing agendas vying for budget and limited resources, initiatives with more tangible, near-term returns on investments appear to take precedence over programs with longer time horizons. However, such short-termism for benchmarking transformation successes (and justifying spending) could lead to an underinvestment in genuinely game-changing programs that possibly take more time to impact the bottom line.

How banks should evaluate their transformation programs





Banks must also look beyond their hard numbers and consider new measures for economic success. While quantitative, financial metrics for assessing the performance of transformation initiatives are crucial, they should be evaluated in combination with qualitative assessments. These include anecdotal perspectives from customers or employees involved in the transformation to provide nuances and context that are often missed in the financials.

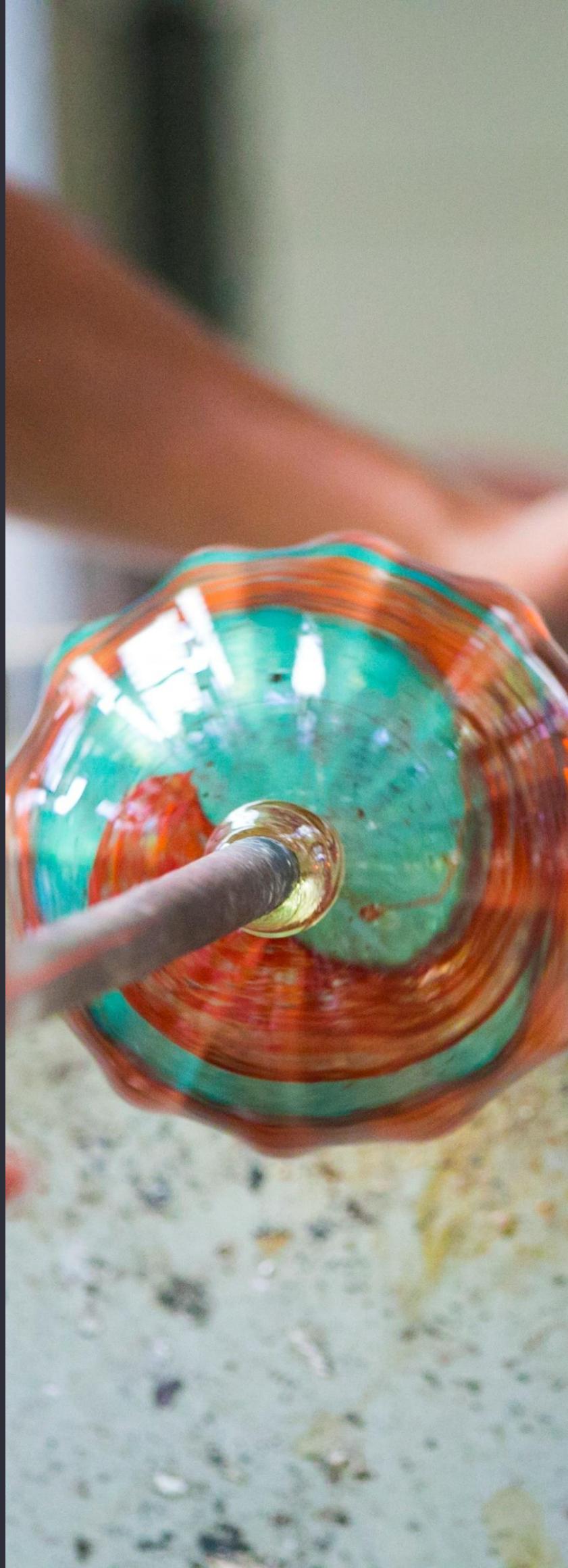
This helps ensure that transformation isn't just a cost item, but a means to innovate quicker, faster, penetrate new markets and drive customer experiences.

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There is a dedicated innovation team within our transformation group that explores major emerging trends within the banking industry and around the world.

Instead of relegating these to side-of-desk activities, senior executives will then devote specific time to brainstorm these trends, better understand their implications, and how they could be factored into our transformation strategy.

Chief Transformation Officer
from a leading Asia-Pacific bank





Key questions for banks:

1. Are we consulting across the businesses and paying attention to external megatrends when formulating transformation plans?
2. How should we define, measure and report on transformation initiatives?
3. Would our most innovative (perhaps more risky) transformation programs get approved with our current evaluation criteria?
4. Are we using the correct balance of financial, customer, operational and employee KPIs when measuring success?
5. Transformative innovation isn't once and done. How can we create a culture of continuous transformation?



Redefine transformation

Put customers at the heart of this change.

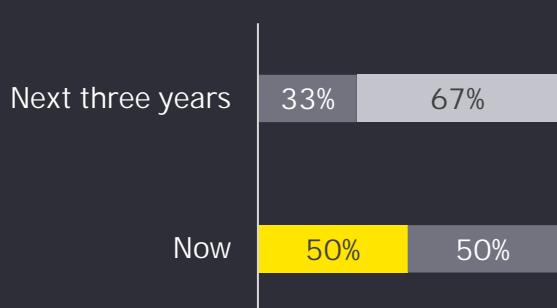
Continued elevation in customers' expectations

Customer experience (CX) is a defining competitive differentiator in any industry, let alone in any bank. Institutions that are relentlessly client-centric, define a purpose and develop offerings aligned with that mission, and invest strategically in CX are best positioned to overcome customers' perception of a 'sea of sameness' among their banks and offer the most differentiated value propositions.

Customers are increasingly digitally driven

Expectation of customers' adoption rate of major digital platforms

Percentage of respondents



■ Medium: 41-60% ■ High: 61-80%
■ Very high: 81-100%

Disruptive forces (such as the COVID-19 pandemic and technological advancements) are nudging customers from an offline to online environment. They are increasingly empowered to seek (and expect) financial services (FS) that are not only intelligent, trusted, and highly personalized, but also digitally embedded and ubiquitous.

Banks we spoke with thus anticipate that customers will embrace omnichannel and self-service platforms faster in the future.

Banks are tweaking distribution strategies in response

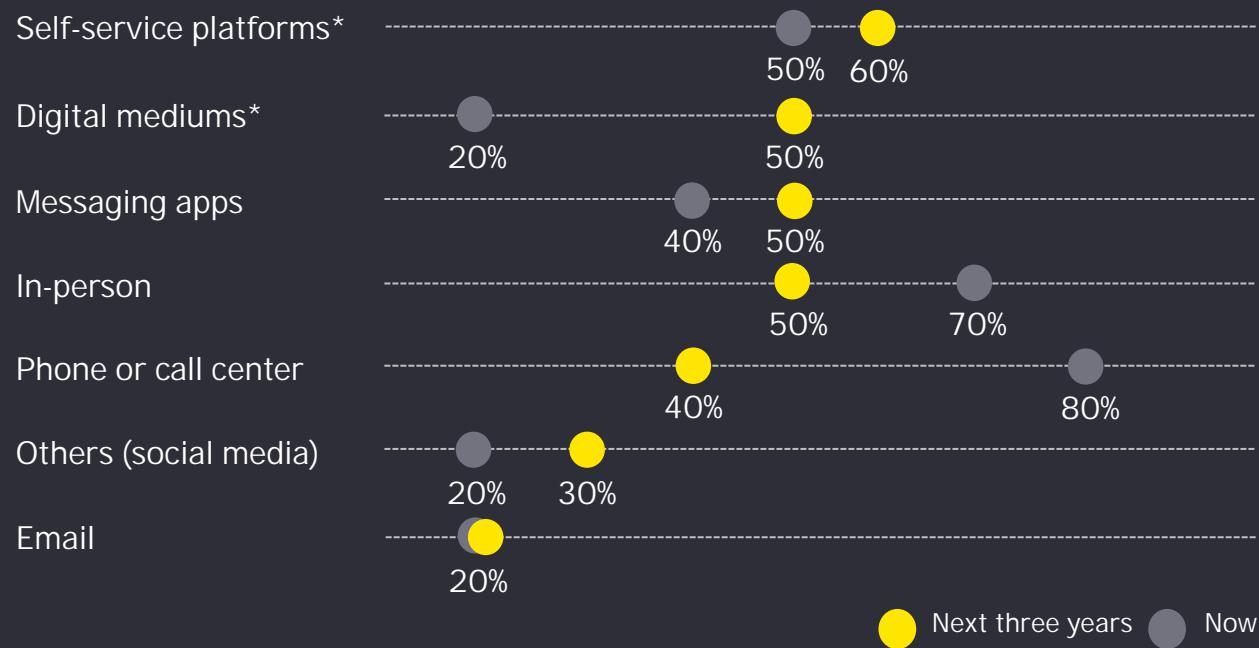
With even the less tech-savvy customers in emerging APAC countries leapfrogging their comfort levels to embrace digital interactions, respondent banks are increasing their investments to digitalize most, if not all their channel touchpoints and enhance their in-app walkthroughs.

Such transformations would help to integrate their financial offerings into non-financial platforms and apps as a bigger digital bundle of services. This emerging embedded finance concept could potentially revolutionize the way customers interact with, and consume FS via everyday activities.

As APAC banks digitalize distribution channels to support more seamless access to FS via consumers' everyday activities, they intend to increase emphasis on self-serve and digital platforms, while conversely reduce contact channels (in-person and by phone):

Preferred channels to engage with customers currently and in the future

Percentage of respondents' top three preferred channels



*Note: Self-service platforms would cover digital banking apps and websites, while digital mediums refer to the use of upgraded or elevated digital platforms (for instance, virtual reality pods and the application of Generative AI to level up their banking conversational chatbots).

Calling out some observations around expected channel changes:

- **Self-service platforms** – preferred by 60% in three years vs. 50% now: Customer engagement journeys are being redesigned to be more cost-effective, time-efficient, seamless self-servicing. For instance, websites and mobile banking apps can provide intuitive workflows to update customer information, initiate payments and dispute transactions, while in-app or website conversational chatbots handle more complex inquiries.
- **Digital mediums** – preferred by 50% in three years vs. 20% now: Newer touchpoints include the metaverse and Generative AI (GenAI), both novel, but fast emerging delivery channels. Banks are starting to explore the metaverse by establishing virtual branches and 'financial towns' on platforms like The Sandbox and Decentraland. Having their brand in the metaverse enables them to virtualize familiar financial interactions (e.g., withdrawing cash from an ATM, branch placement) and bring these to life in a more vivid and emotive way.

Progressive banks are also exploring GenAI that leverages techniques like large language models to accelerate digital deliveries, enhance efficiencies and enrich CX.

- **In-person** – preferred by 50% in three years vs. 70% now: Branches are expensive real estate that banks continue to right-size to reduce unutilized capacity as more customers migrate to digital channels, hence the decline in medium-term channel emphasis.

However, in-person interactions are still necessary, especially for more complex banking transactions, so most incumbents are reinventing the branch experience to uplift CX and ensure efficiencies and relevance. These include enhancing tech capabilities to offer a digital-based experience in a physical branch (i.e., a 'phygital' experience) such as by incorporating interactive digital screens, biometric technologies to authenticate customers, and hand-held technologies for roaming branch staff to aid customer conversations.

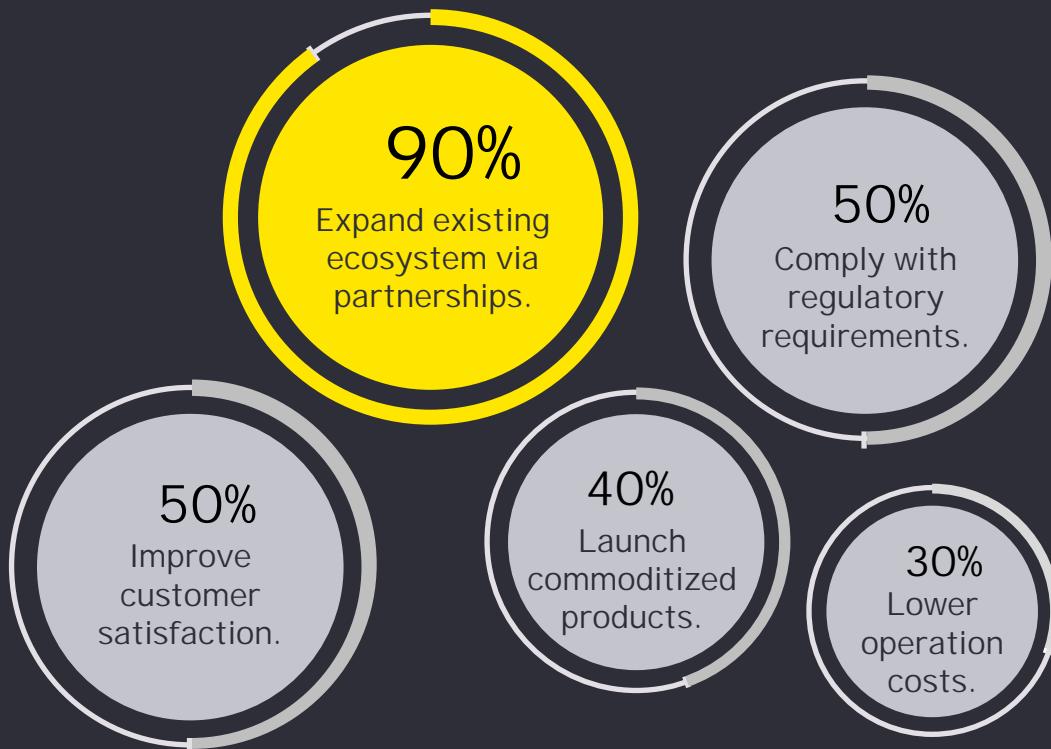
Amplify business value through ecosystem partnerships

Meanwhile, retail banking customers are now more educated, sophisticated and tech savvy, while business clients are increasingly expecting a similar experience for their corporate banking relationships as for their personal financial interactions.

With both segments expecting their FS providers to leverage broader ecosystems to offer services and solutions that cater to their entire life cycle, 90% of APAC banks say that they are leveraging open banking to collaborate with a wide community of developers and adopt best-of-breed solutions:

Impact of open banking to future businesses

Percentage of respondents



Beyond legacy refreshes, opening up their API developer portals and gateways to expose data to external parties further allows APAC banks to launch specialized tools and solutions (40%) and enhance customer satisfaction (50%), and comply with government mandates (50%).

They can also better operate within an agile environment with streamlined organizational structure to accelerate planning, decision-making, product and process development, and go-to-market speed while lowering operational costs.

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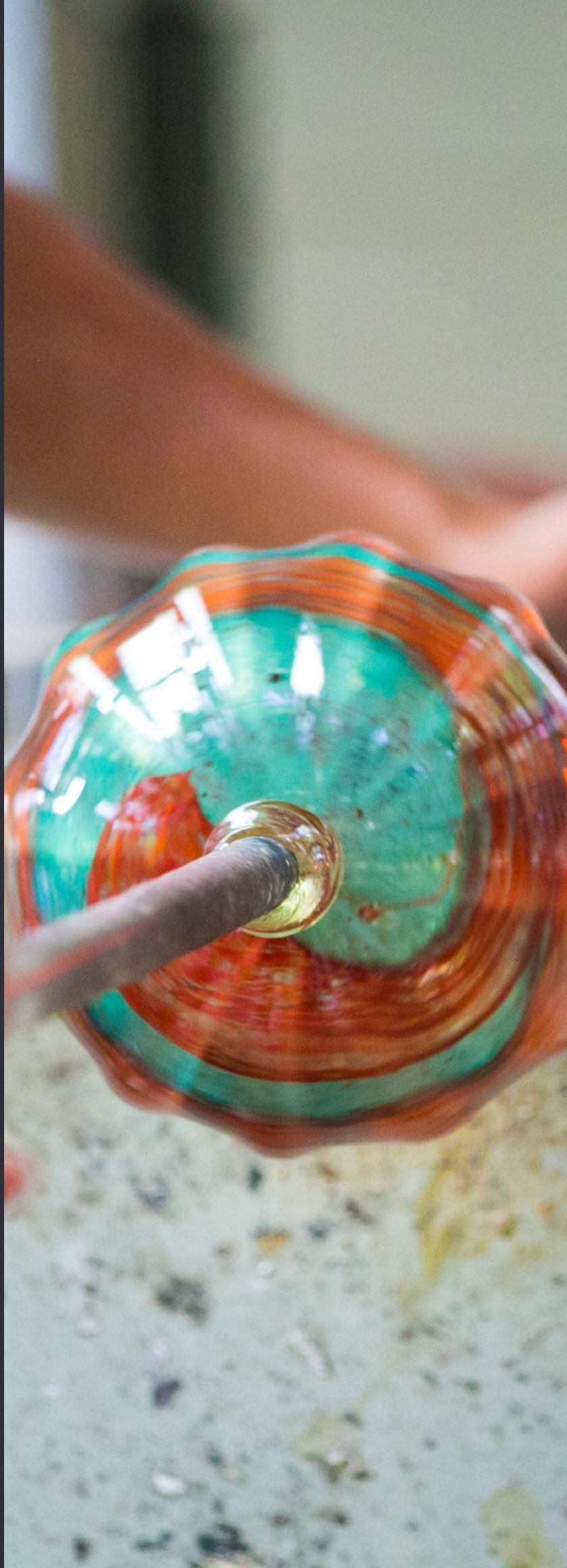
Transformation programs are often inwardly focused and primarily driven by an imperative to cut costs or meet a regulatory directive.

While this is vital, there's also the need for banks to transform customer experiences, particularly as customer-savvy entrants proliferate, and customers' expectations continue to grow exponentially faster than their ability to deliver.

Banks must move with agility, yet adopt a customer-first approach that places customers at the heart of their transformation agenda.



Chris Barford
Partner/Principal
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Key questions for banks:

1. Customers want FS that are 'embedded into the moment' – what are steps we can take to provide holistic solutions to address clients' financial needs however, wherever, whenever they require these?
2. With digital playing an increasingly dominant role in delivering seamless experiences, how do we humanize digital banking?
3. What open banking partnerships are necessary to develop and scale an integrated ecosystem for clients?

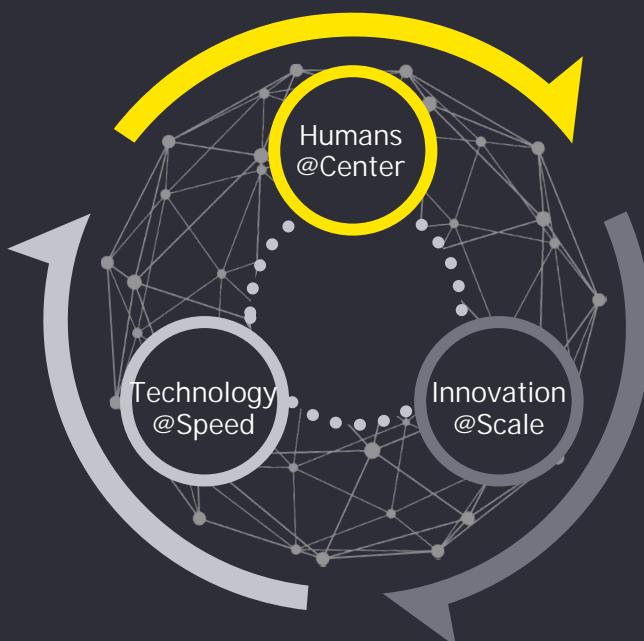


Reposition for agility at scale

Revamp team structure and technology.

Analysis of annual reports indicates that incumbents typically dedicate 15-20% of operating expenses to technology, with these percentages creeping upward yearly. However, it is untenable to allocate so much merely to 'keep the lights on,' hence the urgency for banks to transform to achieve high levels of digital maturity and deeper agility.

Transformation cycle

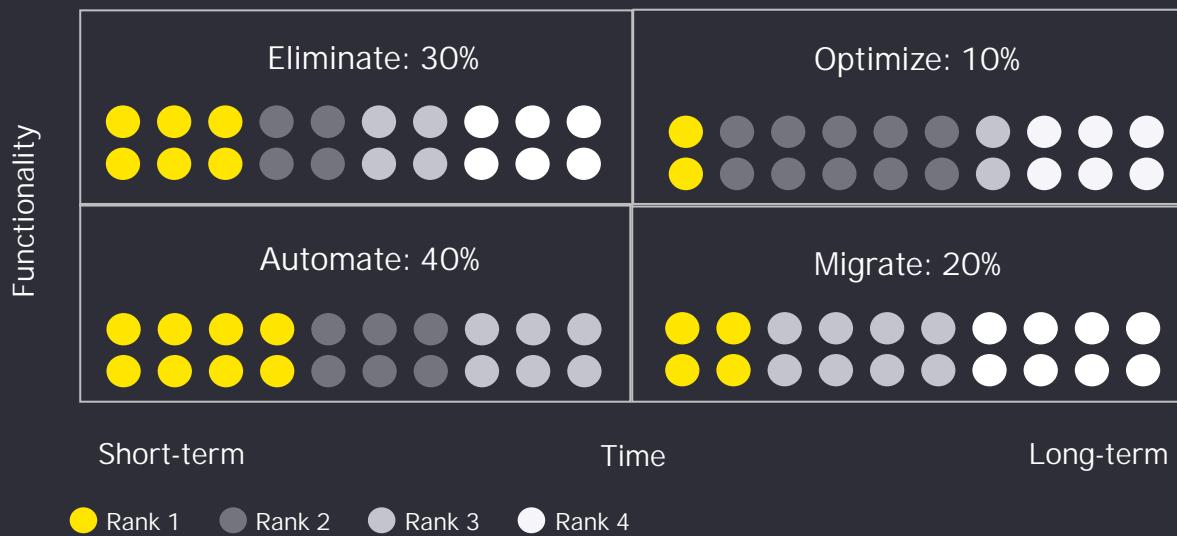


To reimagine a brighter future and seize opportunities to deliver profitable growth, banks are transforming their workforce and operations and placing humans at the center of their organization, leveraging new technologies to support them, and enabling innovation at speed and scale.

Here, banks often follow the eliminate, optimize, automate and migrate (EOAM) model to drive business-centric cost transformation. At 40%, most respondents are prioritizing process automation to improve the speed, quality and cost of the processes; while seeking to eliminate redundant steps and optimize resources through implementing structural and organizational changes.

Effectiveness of transformation methods to deliver cost reduction

Percentage of average of respondents ranking these as their top transformation method



Note on EOAM:

Eliminate: Eliminate unnecessary steps, handoffs, controls in the processes (e.g., four-eye, manual reviews and review of authority limits).

Optimize: Optimize resources through implementing structural and organization change to reduce 'trapped cost' (e.g., redesign intake of new applications via paperless digital submissions).

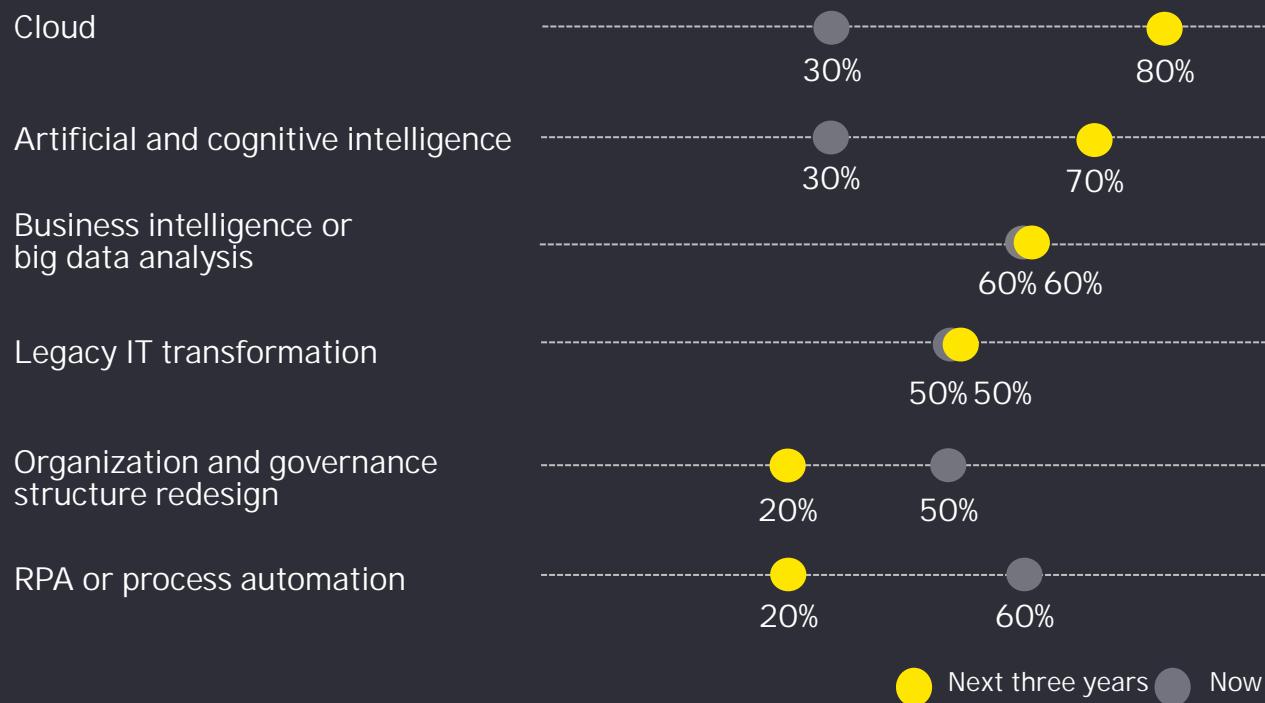
Automate: Automate processes to improve speed, quality or cost of the processes. (e.g., AI or RPA on claims processing).

Migrate: Migrate process to deliver the most value in execution by making the right choice between in-house, outsource, offshore captive, centers of excellence, managed services, etc.

Automation, in particular, is being applied within customer service and data management to improve productivity, cost efficiency and provide better experiences to win and retain customers. Such technologies to enhance personalization engines, chatbots, and virtual assistants provide faster, more accurate, and personalized support while enabling orchestration across multiple channels.

Top areas of digital technology banks have currently and will invest in the future

Percentage of respondents' top three areas of technologies



To craft appropriate digital expertise to power the banks of tomorrow, APAC respondents are ramping up their cloud and AI budgets, while also placing continued emphasis on big data analysis. While these involve upfront spend, subsequent cost savings from modernizations and reduction in business-as-usual maintenance could be invested to fund continuous transformation strategies.

- **Cloud – will be invested by 80% in three years vs. 30% now:** With cloud and open banking APIs, APAC banks can migrate major processes and IT architectures onto the cloud and more seamlessly engage third-party providers. Through APIs and using organizational structures (such as low or no-code development platforms, DevOps, modular technology architecture and microservices), they are also innovating with more agility, flexibility and scalability, and enjoying quicker time to market.

This enables them to empower business users to propagate new ideas, drive application development to solve specific needs, and craft enhanced experiences that can engage customers in more dynamic, relevant ways.

- Artificial and cognitive intelligence – will be invested by 70% in three years vs. 30% now: AI implementations (such as smart automation and rapid process designing, advanced analytics, machine learning and cognitive computing) are being observed across both the front-to-back office and sub-segmental lines. Among the various applications include those to reimagine document workflows, tackle payments fraud, and enhance accuracies in cash flow forecasting.

For instance, corporate lending is onerous and time-intensive, traditionally taking up to three months for an underwriting decision which is unacceptable in today's environment where speed is paramount. APAC banks are thus applying AI to harness the power of data to generate insights on clients' need, conduct sophisticated modeling to underwrite and approve credit, and offer rapid client onboarding through seamless processes.

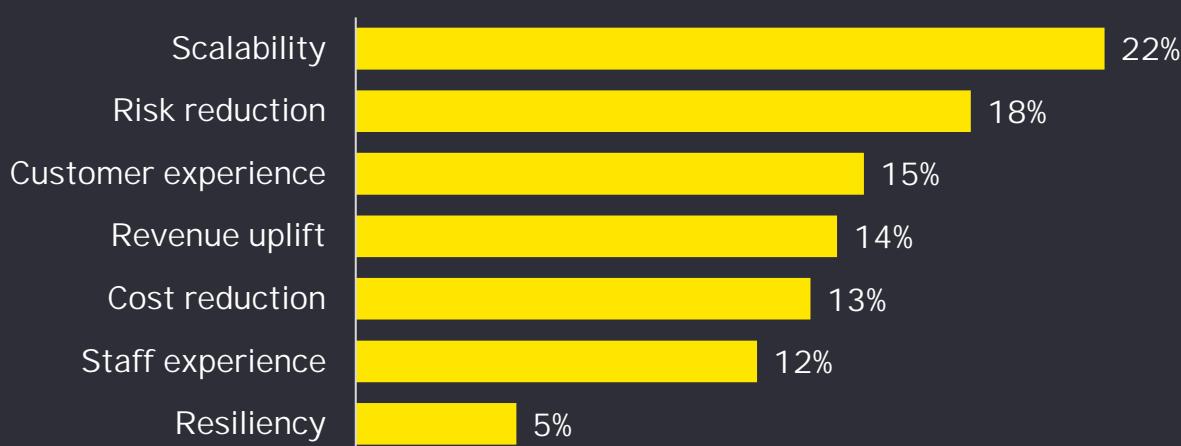
On the trade services front, they are also combining AI systems with RPA software tools to optimize activities, such as submission and checking of trade documentations, reporting, post-trade entry and settlement, and account position reconciliation.

Tapping an offshoring model

To meet evolving demands and expectations, APAC banks are increasingly depending not only on third-party outsourcing partners, but also on offshoring models to deliver more services with greater expertise, and typically at lower expenses.

Expected benefits from offshoring within the next three years

% average of responses





Unlike outsourcing to external parties that might sometimes result in misaligned interests between the banks and vendors and the latters' lack of in-house knowledge of critical business operations – offshoring to the banks' captive offshore units provides many of the same advantages as outsourcing but with potentially reduced risks.

Among the benefits cited by the banks we spoke with include scalability from having a broader talent pool to tap into, and that can be interchanged for optimal proficiency.

Interlinked to this is the staff experience and skills, with better availability of skilled human resources and mature training infrastructure in regions for specific types of tasks. For instance, banks in more mature APAC markets are offshoring their call centers for customer support to India and the Philippines as these provide easy access to English-speaking, college-educated youth. Costs are evidently another chief motivation behind offshoring to countries with lower wages.



Key questions for banks:

1. As tech approaches get bigger, bolder, and more innovative, which emerging applications should we focus more resources on?
2. Does our culture and governance allow any such underperforming transformations to be aborted without delay?
3. How can we obtain the optimal mix of skills in the right onshore and offshore locations to develop and retain talent in a cost-efficient manner?
4. Is offshoring or outsourcing suitable models for our bank, and which functions should be managed in each of these?



Case studies

EY teams' design principles of Eliminate, Optimize, Automate and Migrate (EOAM), coupled with customer insights (around how they consume the service or product and what they value) can help design highly efficient, client-centric and value-generating transformations.

Case 1: Process excellence program

EY teams were engaged by a global bank to design the applicable target operating model for their customer change requests that could be applied across all regions. A broad range of solutions were delivered using the EOAM principles to for completing the customer requests:

Eliminate

Reviewed policies and procedures for manual checks and identified unnecessary and duplicative ones, saving seven minutes per request.

Optimize

Automated 55% of key processes, resulting in 60% reduction of processing time. Reduced human errors and improved customer experience via RPA and Smart Form design.

Automate

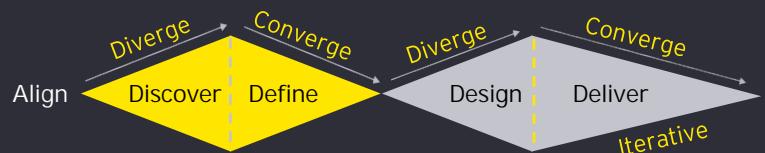
Automated processing tasks updates and integration of these with the core banking systems. Streamline basic client queries and communications with software tools or bots.

Migrate

Implemented the migration of processes in activities to regional or global teams through deploying RPA tools.

Case 2: Customer journeys redesign

EY teams assisted a leading ASEAN bank to map out its customer payment journeys across various products and create an omnichannel experience. Design thinking tools and approaches were introduced:



Four enriched personas with empathy maps.

As-is and to-be user journeys across five platforms with playback report.

Future state service design blueprints.

Bank-wide payment journeys derived from a combination of prioritized solutions.



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Further reading

- [If transformation needs to be bold, do banks have the right tools for success?](#)
Banking transformation leaders across the globe uncover six recommendations for overhauling organizational change.
- [Five ways to commit to customer centricity in banking transformation](#)
With so many underperforming banking transformations, a laser focus on the customer could be the key to success.
- [Three ways to unleash the power of people in banking transformation](#)
Banks need to adopt a fail-fast culture, actively engage employees and diversify employee backgrounds and skillsets.
- [Why planning and monitoring are essential in banking transformation](#)
Growing complexity in the scope and delivery of transformation requires a fresh, lifecycle approach to assessing proposals and tracking progress.
- [Podcast: How banking leaders are reimagining transformation programs](#)
In this special episode, moderated by FT Longitude, Yianna Papanikolaou, CTO at Westpac Group, and Andrew Gilder, EY Asia-Pacific BCM Leader, discuss banking transformation.

For more in our banking transformation series, visit [Transformation strategies for banking leaders](#)

See also:

- [How do you harness the power of people to double transformation success?](#)
EY teams and the University of Oxford explore the emotional cost of failed transformations and what it takes to get them right.
- [Six ways CFOs can increase the likelihood of transformation success](#)
Transformation during uncertain times is critical. Success is more likely if CFOs can focus on six specific yet complex human factors.

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