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Digital Banking in ASEAN: Increasing Consumer Sophistication and Openness

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Digital Banking in ASEAN: Increasing Consumer Sophistication and Openness

A McKinsey survey of personal-financial-services customers shows ASEAN consumers beginning to increase in sophistication and gravitating toward digital banking, creating opportunities to disrupt the market.

Digital technology has changed the banking industry in developed markets and is now sweeping through emerging markets. Our latest survey of financial-services customers in the Association of Southeast Asian Nations (ASEAN) shows they are increasingly sophisticated and are ready to embrace digital and mobile banking, trends that will affect the industry's regional landscape. While the overall direction seems to favor incumbent institutions, the results of our study also show ample room for attackers.

To help understand the dynamics of the personal-financial sector in ASEAN,[1] McKinsey in 2014 surveyed 4,700 consumers from the bloc's six largest countries using online questionnaires and in-person interviews. The effort was part of a broader survey of 16,000 personal-finance consumers in 13 markets across Asia and builds upon research that began in 1998. Compared with results from 2007 and 2011, the most recent survey shows rapid changes in the banking products and services that consumers want throughout ASEAN, particularly the young and affluent.

We found that regarding the ASEAN countries as a homogeneous market is misguided. Even among the region's six largest countries, the focus of our study, there are significant differences in consumer attitudes and behaviors. Singapore, with its highly developed banking system, is often an outlier. Still, our analysis shows there are some broad regional trends, even as there are country nuances.

An overview of market penetration of banking products found ample room for growth. Among the ASEAN members we surveyed besides Singapore, banking consumers held on average just less than three banking products, roughly in line with the rest of emerging Asia (Exhibit 1). The majority of consumers in these countries owned just one or two banking products. Singapore is the exception, with the average consumer holding 5.7 banking products and a much smaller proportion holding just one or two, mirroring results we see in developed Asia.

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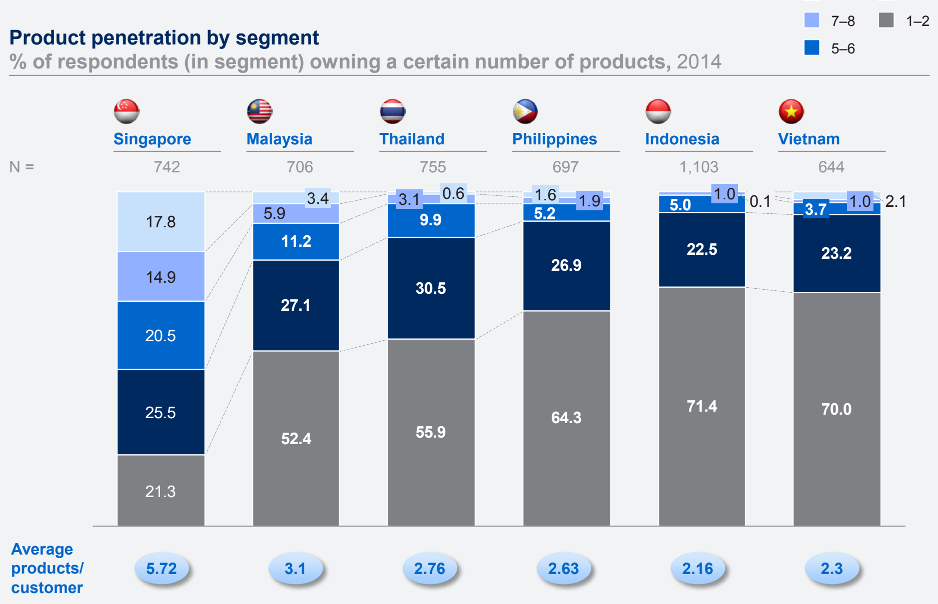
[1] The Association of Southeast Asian Nations (ASEAN) comprises Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Our study focused on the six largest members, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Exhibit 1. Product penetration in most ASEAN markets, except Singapore, is still low indicating significant upside for growth



Product penetration by segment

% of respondents (in segment) owning a certain number of products, 2014

Source: McKinsey Asia Personal Financial Services Survey, 2014

These data, supported by other evidence, suggest strong growth opportunities. For example, the McKinsey Global Institute estimates urbanization in ASEAN countries will rise from 36 to 43 percent by 2030 and the number of households in the consuming class will double from 81 million to 163 million.[2] In addition, the World Bank estimates that 73 to 80 percent of the people in Indonesia, the Philippines, and Vietnam and about 30 percent of those in Malaysia and Thailand have no banking relationships.[3] ASEAN economies are expected to grow by about 4 to 6 percent annually in coming years,[4] and as average wealth rises, demand for more, and increasingly complex, banking products will likely follow, as well as higher average balances. The trend will receive added support as many unbanked households start entering the banking system, given concerted efforts by policy makers.

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2 Southeast Asia at the Crossroads: Three Paths to Prosperity, McKinsey Global Institute, November 2014, mckinsey.com. The McKinsey Global Institute considers the consuming class as households with significant discretionary income.

3 Global Financial Development Report 2014, World Bank, worldbank.org.

4 The Economist Intelligence Unit forecast real GDP growth from 2013 to 2019 as follows: Indonesia, 5.4 percent; Malaysia, 5.4 percent; the Philippines, 6.4 percent; Singapore, 3.6 percent; Thailand, 3.5 percent; and Vietnam, 6.1 percent.

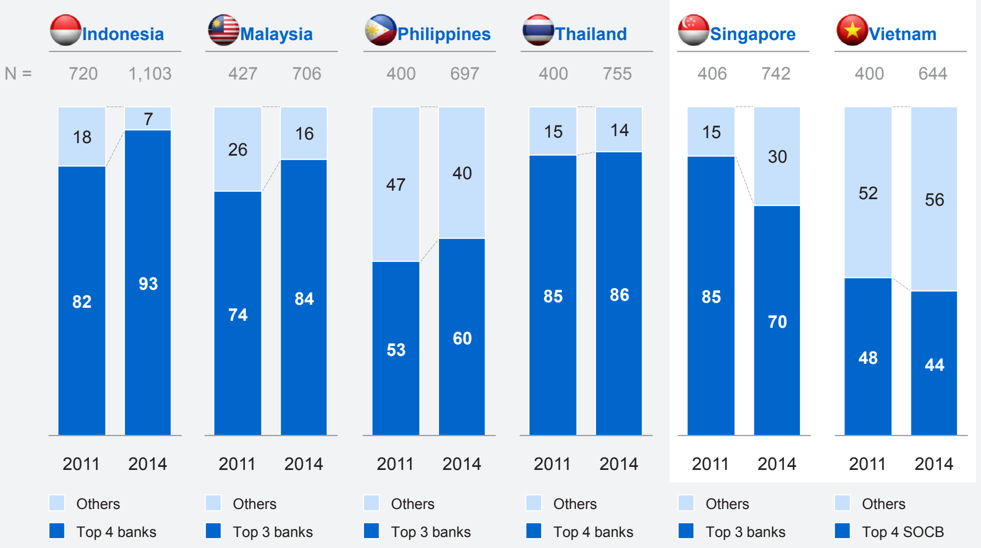
Consolidation trend, but room for attackers

In most instances, incumbents appear poised to capture the bigger portion of these opportunities as consumer relationships in the financial sector in ASEAN countries consolidate. Nevertheless, innovative offerings and a growing sophistication among consumers could leave room for attackers.

In most of the ASEAN countries we surveyed, the top three or four banks solidified their consumer relationships between 2011 and 2014 (Exhibit 2). In these markets, consumers were more likely to name one of the largest banks as their primary bank.[5] For example, 84 percent of the respondents in 2014 cited the top three banks in Malaysia compared with 74 percent in 2011.

Exhibit 2. There has been a trend of consolidation of primary banking relationships across ASEAN, except in Singapore and Vietnam

Share of primary banking relationships
% of respondents using bank as primary bank



The exceptions were Singapore and Vietnam. In Singapore, the share of primary relationships held by the largest incumbents shrank by 15 percentage points from 2011 to 2014. Meanwhile, international banks in Singapore have seen an increase in market share despite restrictions to their branch networks.

In Vietnam, state-owned banks dominate the financial system, but these incumbents are gradually losing customer relationships to the newer joint-stock commercial banks, which are attracting customers with products and services that better meet their needs and by providing higher-quality customer service.

Although ASEAN consumers are gravitating toward the largest incumbents, the survey results also suggest opportunities for attackers as the region's customers become more

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[5] Most financial-services consumers in the Association of Southeast Asian Nations consider the bank that handles their transaction or payroll accounts as their primary bank. In Indonesia, however, consumers generally consider the bank holding their investment accounts as their primary bank.

sophisticated. For example, we found that, on average, 30 percent of respondents held mortgages, compared with 14 percent in 2011. In addition, foreign-currency time deposits were held by 7 percent of the respondents in 2014, from 2 percent in 2011. Attackers focusing on more complex products such as foreign currency could use them to expand their market share. Such products may play to their competitive advantage.

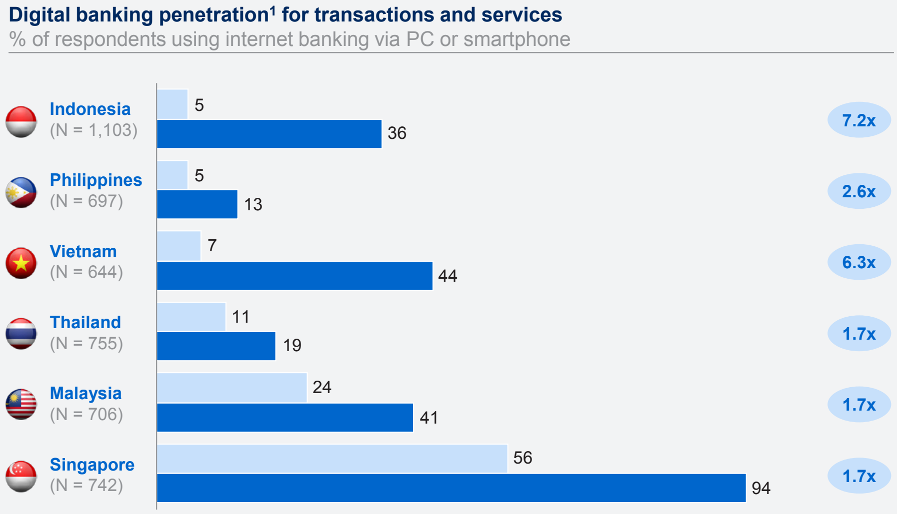
Significant shift to digital

For incumbents and attackers alike, digital banking will be a critical growth factor. Already, the ASEAN banks that have recently gained market share are also the ones that have invested heavily in digital capabilities. Three trends underscore the urgency of embracing digital: rapid adoption, multichannel consumer decision journeys, and openness to purely digital banks.

Rapid adoption

Across ASEAN, consumer use of computers, tablets, and smartphones to access bank services increased dramatically between 2011 and 2014 (Exhibit 3). Singapore is at the vanguard, with 94 percent of our 2014 survey respondents accessing their accounts over the Internet. Penetration in Indonesia, Malaysia, and Vietnam reached about 40 percent. In the Philippines and Thailand, penetration was below 20 percent, although significantly ahead of 2011 levels. On average, we found that the proportion of people using digital banking through personal computers or smartphones doubled from 2011 to 2014, with Indonesia and Vietnam showing about sevenfold growth.

Exhibit 3. There has been rapid growth of digital-banking penetration across Southeast Asia



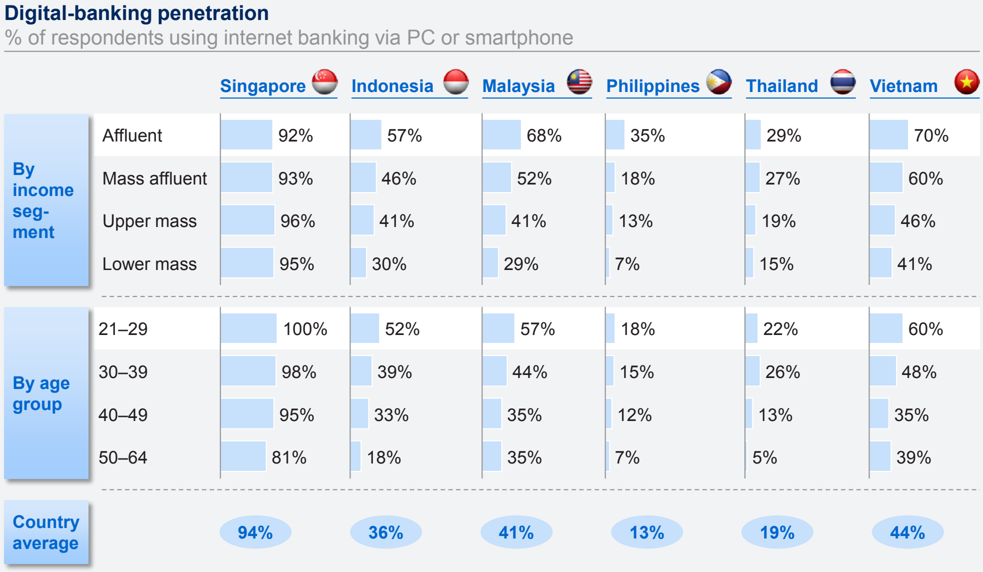
Digital banking penetration[1] for transactions and services
% of respondents using internet banking via PC or smartphone

[1] Digital banking penetration refers to respondents who say yes to either using Internet banking via PC or via smartphone.

Unlike those in most of developed Asia, consumers in ASEAN countries use mobile banking as the primary way to access digital services. (In developed Asia, consumers tended to start on computers and then migrate to mobile devices.) In Indonesia, for example, 33 percent of respondents in 2014 use mobile devices for banking–up from 4 percent in 2011. Growing penetration of smartphones in the region should support further development of mobile banking.[6]

Affluent and younger consumer segments have led the adoption of digital banking services in the ASEAN markets we surveyed, with the exception of Singapore, where use of digital banking is nearly universal (Exhibit 4). In countries like the Philippines and Thailand, for example, affluent customers are approximately twice as likely to use digital banking as the national average. At the same time, customers in their 20s in most of ASEAN are at least 50 percent more likely to use digital banking than those in their 40s. The pattern is similar to that seen in developed Asian countries.

Exhibit 4. Across Southeast Asia, digital-banking penetration is higher in the affluent and younger consumer segments



Digital-banking penetration

% of respondents using internet banking via PC or smartphone

		Singapore	Indonesia	Malaysia	Philippines	Thailand	Vietnam
By income segment	Affluent	92%	57%	68%	35%	29%	70%
	Mass affluent	93%	46%	52%	18%	27%	60%
	Upper mass	96%	41%	41%	13%	19%	46%
	Lower mass	95%	30%	29%	7%	15%	41%
By age group	21–29	100%	52%	57%	18%	22%	60%
	30–39	98%	39%	44%	15%	26%	48%
	40–49	95%	33%	35%	12%	13%	35%
	50–64	81%	18%	35%	7%	5%	39%
Country average		94%	36%	41%	13%	19%	44%

The survey responses indicate that many consumers tried digital banking out of curiosity and because of recommendations from bankers, friends, and relatives. The growth of digital banking points to a diminishing reliance among consumers on branch networks, but physical bank offices are unlikely to disappear. (See sidebar, "Branches down, but not out.")

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[6] In Southeast Asia, mobile-phone penetration in Singapore is 157 percent; Malaysia, 140 percent; Thailand, 137 percent; Vietnam, 134 percent; Indonesia, 123 percent; and the Philippines, 109 percent. Smartphone penetration ranges from 15 to 25 percent in Indonesia and the Philippines to more than 80 percent in Malaysia and Singapore, according to Nielsen (2014).

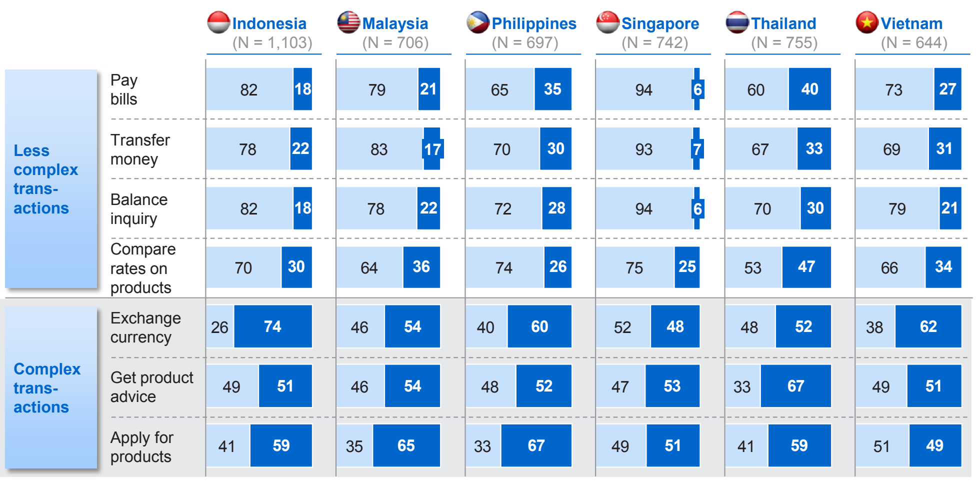
Branches down, but not out

Across the markets in the Association of Southeast Asian Nations (ASEAN) that we surveyed, consumers have become less reliant on bank branches for routine transactions such as bill payments, simple transfers, and balance inquiries, even as they interact with their banks more often. Outside Singapore, consumers in the region averaged five or six transactions a month, 50 to 100 percent more than in 2011. But this growth has come primarily through ATMs and digital channels. In some markets, migration of simple transactions to digital channels also cut down the number of branch visits. As consumers continue to discover the convenience of self-service and digital channels, branches will become less important.

Exhibit. Simpler transactions have migrated to digital channels, but branches remain relevant for more complex activities

▨ ATM/IB[1]/smartphones
■ Branches/call centers

Customers intend to perform the following banking activities via different channels[2]
% preference for each channel to perform activities



		Indonesia (N = 1,103)		Malaysia (N = 706)		Philippines (N = 697)		Singapore (N = 742)		Thailand (N = 755)		Vietnam (N = 644)	
Less complex trans-actions	Pay bills	82	18	79	21	65	35	94	6	60	40	73	27
	Transfer money	78	22	83	17	70	30	93	7	67	33	69	31
	Balance inquiry	82	18	78	22	72	28	94	6	70	30	79	21
	Compare rates on products	70	30	64	36	74	26	75	25	53	47	66	34
Complex trans-actions	Exchange currency	26	74	46	54	40	60	52	48	48	52	38	62
	Get product advice	49	51	46	54	48	52	47	53	33	67	49	51
	Apply for products	41	59	35	65	33	67	49	51	41	59	51	49

- Apart from Thailand, ASEAN[3] consumers are shifting less complex transactions over to self-service channels
- Branches are still the dominant channel for complex transactions across the region

[1] Internet banking | [2] Question asked was likelihood of performing the following activities via different channels in the next 12 months
[3] Association of Southeast Asian Nations
Source: McKinsey Asia Personal Financial Services Survey, 2014

However, for the most complex transactions such as mortgages and investment products or ones requiring a physical exchange, such as currency transactions, branches will likely remain important in the near term. Even in Singapore, where 94 percent of customers conduct routine transactions outside of branches, more than half of our respondents said they would still visits branches for financial advice and to apply for products (exhibit). Overall, 36 percent of the financial-services consumers we surveyed in ASEAN visit a branch at least once a month.

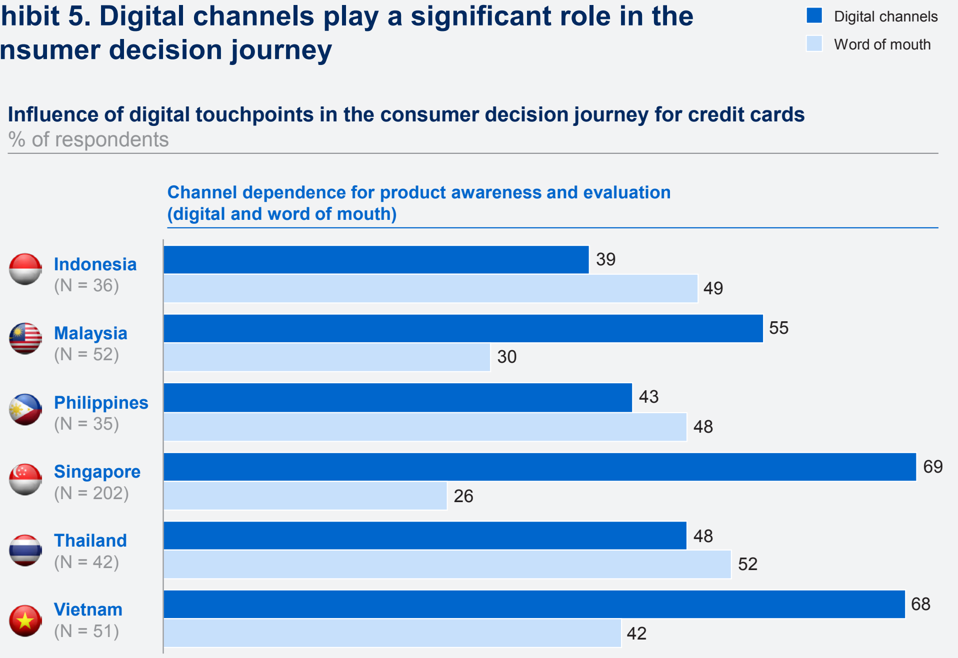
Know-your-customer rules and other anti-money laundering efforts also support the continued need for bank branches. These regulations often require in-person meetings between bankers and customers, particularly when a new account is opened.

Multichannel consumer decision journeys

A second aspect propelling the growth of digital banking in ASEAN is the increased use of multiple channels by consumers to research banking options. Consumers often investigate products and offers online, even when they complete the transactions in person.

Credit-card decisions illustrate the usual process. In the ASEAN countries we surveyed, about half of our respondents said digital channels introduced them to credit-card offers and aided in evaluating the offers compared with 40 percent who said they were influenced by word–of–mouth recommendations (Exhibit 5). One in four respondents said they changed their minds about the credit-card offer or the bank under consideration based on online research.

Exhibit 5. Digital channels play a significant role in the consumer decision journey



Source: McKinsey Asia Personal Financial Services Survey, 2014

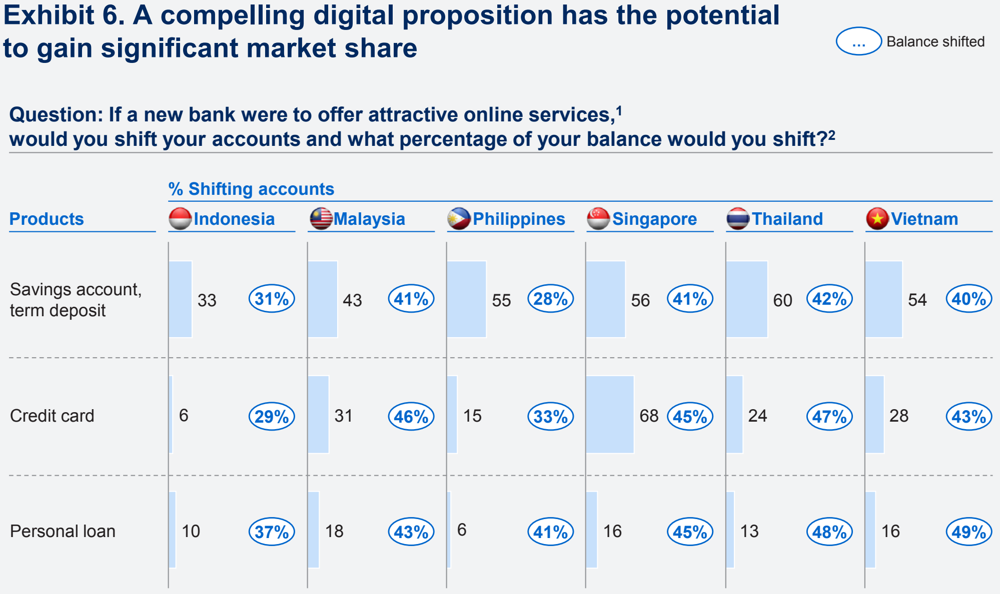
Again, Singapore leads ASEAN in its use of online channels, resembling more closely developed Asian markets. Respondents in Singapore were more than twice as likely to be influenced by online research in their decision-making process.

Openness to compelling digital-only offers

A final factor underlying the growth potential of digital banking in ASEAN is a growing acceptance of a compelling digital-only offer for financial products and services. In most ASEAN countries we surveyed, 40 to 50 percent of the respondents said they would consider opening an account with a bank without a physical network (Exhibit 6). In Singapore, about 80 percent of the respondents said they were open to trying a pure digital offer.

ASEAN's relatively thin branch network could encourage the development of pure digital plays. Across the six countries surveyed, there is on average 8.7 bank branches for each

Exhibit 6. A compelling digital proposition has the potential to gain significant market share



Question: If a new bank were to offer attractive online services,[1] would you shift your accounts and what percentage of your balance would you shift?[2]

	% Shifting accounts					
Products	**Indonesia**	**Malaysia**	**Philippines**	**Singapore**	**Thailand**	**Vietnam**
Savings account, term deposit	33 31%	43 41%	55 28%	56 41%	60 42%	54 40%
Credit card	6 29%	31 46%	15 33%	68 45%	24 47%	28 43%
Personal loan	10 37%	18 43%	6 41%	16 45%	13 48%	16 49%

1 Includes ability to apply for banking products online, create personalized services online, and have a dedicated remote advisor.
2 For those customers willing to open an account in other banks only (question not asked to customers not willing to change banks).

Source: McKinsey Asia Personal Financial Services Survey, 2014

100,000 adults, a ratio comparable to the rest of emerging Asia. However, developed Asia has more than 23 bank branches for every 100,000 adults, almost three times the saturation. The gap represents an opportunity for banks that can reach underserved consumers digitally, especially in countries like Indonesia, the Philippines, and Vietnam where personal financial services markets are just developing.

Responding to the consumer trends

The growing importance of digital banking throughout ASEAN opens opportunities for incumbents and attackers alike. Along with improving customer service generally, digital banking is a promising platform for increased product and services sales.

Incumbents can solidify their strong positions in this changing environment by taking advantage of technology–especially the use of advanced analytics–to promote stronger customer relations and greater engagement. Attackers can take advantage of cost savings achieved by bypassing expensive branch networks and focus on their digital capabilities–fulfillment platforms and innovative products and services, for example–to gain market share.

But the growth of digital banking in ASEAN also faces obstacles. In all surveyed countries, except Singapore, respondents were five to seven times more likely to have purchased general products or services online than banking products or services. While the gap reveals significant growth potential, our survey also identified sources of resistance to online banking.

ASEAN respondents who had not tried digital banking cited security concerns, inexperience with the Internet, and a preference for traditional channels as the main reasons for their hesitancy. Those who have conducted some online banking, but had not made a purchase, also cited security concerns as the primary factor, followed by a desire for in-person advice.

About half our respondents said they would be willing to switch to a bank that could address these concerns and offer online features that meet their needs, which in Indonesia and Vietnam centered on mobile payment systems, for instance, and in the Philippines and Singapore, on account access. To overcome this inertia, banks must find ways to increase the online value offered to consumers at critical stages of purchasing decisions, for example, by making transactions less complicated. Some banks have simplified their online credit-card application processes, offering straightforward navigation, pre-qualification within a minute, and online applications with auto-complete options. Others offer smartphone apps that aid in home buying and mortgage calculations.

Beyond consumer concerns around security, the regulatory environment in ASEAN, particularly know-your-customer rules and other anti-money laundering programs that compel face-to-face meetings, implies that it may take some time before pure digital offerings will be widely available in the region. Some jurisdictions are exploring ways to meet anti-money laundering goals and support digital banking. In Germany, banks can satisfy know-your-customer requirements using Skype or other video-conferencing tools. In Australia, due diligence for new accounts and other transactions is satisfied not only using registered mail to the account holder's home address but also in person at a branch.

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Throughout most of ASEAN, retail banking is a nascent market with considerable room for growth. Incumbents and attackers have an opportunity to reach out to those without any banking relationship and others with relatively small portfolios of banking products. Our 2014 survey shows that the region's personal financial services consumers are becoming more sophisticated and are ready to take advantage of digital banking, especially the young and affluent. Financial institutions that can cater to their needs will seize a significant share of this growing market.

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