

New report from IBM reveals that more than 70% of financial institutions will increase technology investment to retain customers

Hong Kong's financial services sector must leverage cognitive technologies and accelerate digitization to restore customer connection and rebound in post-COVID recovery, says IBM

Hong Kong – October 29, 2020 – IBM today released “Navigating the New Normal”, the first industry-focused report from IBM that examines the business dynamics impacting Hong Kong's banking and financial services landscape today, including the ongoing COVID-19 pandemic, heightened market competition and lucrative yet uncertain prospects of the Greater Bay Area. The report indicates that most financial institutions in Hong Kong are undergoing digital transformation, with 67% stating that customer data will help define their digital strategy and vision and more than 70% planning to increase technology investment to retain customers. However, most financial institutions believe that Hong Kong is not ready for a “pure digital play” approach to fulfill the everyday banking needs.

The report consists of a survey of 35 senior banking executives from 20 traditional banks and virtual banks in Hong Kong, conducted in the third quarter of 2020, which reveals the top three technology investment priorities: innovating in open banking collaboration, digital marketing, and customer experience management. Market volatility and competitive innovation are also key drivers for technology architecture to support agile business.

“In the post-pandemic age, acceleration to end-to-end digitization is a must for financial services. The social and economic consequences of COVID-19 are spurring the development of more technology solutions that will enable a leaner, more agile remote workforce, while financial institutions are growing a new, cost-efficient automated virtual workforce to realize intuitive and intelligent customer-facing service operations,” said Mimi Poon, Director, Banking and Financial Markets, IBM Hong Kong.

“Our new reality will be punctuated by unpredictable relapses of social distancing measures, thus we can expect the banking industry to struggle with preserving the deep level of personal intimacy they once had with their customers. It is therefore critical that banks tighten customer connection across their existing digital customer journey and put humanized engagement back at the center of the product and service delivery experience by becoming cognitive enterprises,” added David Chow, General Manager and Partner, Global Business Services of IBM Hong Kong.

Digital regarded as a catalyst to restore customer connection

By over-focusing on channel migration as a means to meet operational efficiency needs, the banking industry has over the past few years suffered a dip in customer satisfaction together with its ability to cross and upsell customers. More than 70% of respondents said they anticipate to make much greater investments in preserving customer retention, and almost half in strengthening their advocacy model.

Collected customer data largely untapped, emphasis placed on external data sources

The report reveals that 75% of surveyed financial institutions claimed to utilize less than 30% of collected customer data. As a consequence, over 90% stated that they relied on external data sources to deepen customer engagement and up-sell. Shifts in customer spending patterns amid the pandemic have spawned new demands for financial services, making data partnerships imperative to gleaning deeper market insight from external data sources. Yet, 86% of respondents believed that data privacy will be a major challenge to forming data partnerships. IBM advises banks to invest in capability such as Federated Machine Learning Model to overcome the regulation boundary, and co-develop machine learning models to create an AI that can provide insights from a more nuanced and wider perspective of the market.

OpenAPI identified as key priority in digital transformation journey to capture growth opportunities

The development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and the Wealth Management Connect (WMC) scheme offers an attractive proposition for growth through lateral cross-industry partnerships. According to the survey, 81% of respondents identified OpenAPI as the most relevant technology in the next two to three years as a means to capture growth opportunities in the GBA. Given that GBA's market size is approximately 10 times that of Hong Kong, banks should aim to capture the expanded customer base by leveraging digitally enabled collaborations to differentiate and extend their unique brand value beyond standard financial products and services.

Digitally enabled collaboration is critical, but must be tailored

Innovation is inherent to the virtual bank business model, but few possess the adequate resources necessary to enter the market on their own. Penetrating critical masses through large external platform partnerships that are tailored to the bank's unique needs is key to future growth. In fact, 70% of respondents said they believe that tech giants will lead the disruption in the banking industry.

IBM also collected anecdotal evidence from representatives of the 20 financial institutions, which range from large global banks to small to medium-sized virtual banks, to acquire a holistic view of the current banking and financial services landscape. The report can be viewed at: ibm.biz/Bdqth5

As the largest provider of technology solutions to the industry with US\$64 trillion of total bank assets supported by IBM infrastructure, IBM has brought industry and subject matter experts under a single organization called Core Banking & Payments Innovation Unit (IU) within IBM Global Business Services. By combining the multi-functional experience and lessons in architecting systems solutions that 97% of the largest banks rely on, the new IU offers a single destination for banks to create their digital blueprint.

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