

Banks gearing up for the digital wave

MD FAZLUR RAHMAN

Banks are no longer a place where depositors just go to stash their money and borrowers go to borrow funds during the usual banking hour and pick products from a set of offers.

Rather, technology is transforming the retail banking landscape very fast, changing the way people and companies connect with their banks and demand services and products from anywhere, anytime.

Customers, used to convenience and personalisation from retail and e-commerce, now seek the same multi-channel ease of use from their banks.

Banks are also responding by embracing technology to meet customers' demand in an increasingly competitive market.

"Technological adoption in Bangladesh's financial industry is gathering pace," said Naser Ezaz Bijoy, chief executive officer of Standard Chartered Bangladesh, the pioneer in the field.

Almost all the major banks in Bangladesh now offer online or mobile app-based banking solutions.

Customers too are taking to the digital platform like a duck to water.



banks must address two emerging imperatives: personalisation and continuous delivery, BCG said.

The rise of financial technologies -- fintech, for short -- has forced banks to accelerate their adoption of digital technology, said Caggemini, a global leader in consulting, technology services and digital transformation, in a report last year.

Fintechs are bringing a new wave of technologies that help combine digital with data analytics to set new industry standards.

Encumbered by archaic legacy systems and unable to swiftly digitise and innovate, many traditional retail banks are at a disadvantage when it comes to catering to loud-and-clear customer demands for better experience.

In Bangladesh, mobile financial services have given a major boost to retail banking services.

Technological convergence is increasingly making possible a digital lifestyle, enabled by digital services and multi-channel payment systems, Bijoy said.

"From buying and consumption, processing payments, managing individual finances and growing their wealth for the future, clients will more and more turn to the convenience of digital solutions," he added.

With digital transformation the importance of security would be magnified, said Bari of Al-Arafah Islami Bank, while calling for a policy guideline from the government to safeguard customers from cyber crimes and digital fraud.

Investments in block-chain, cloud infrastructure, bionic workforce, big data and artificial intelligence are critical but not enough, according to Bijoy.

"Bankers will need to change the mindset and should be willing to invest in emerging technologies, which will enable banks to offer hyper-personalisation to offer tailor-made solutions based on individual preferences and behaviour," he added.

Speaking about the future, Rahman said the country's banking sector will see wholesale digital transformation in five to 10 years' time.

The 4G and 5G connectivity, the young population that likes to do many things online, the countrywide mobile network, and the government-run union digital centres would all help the banking sector a lot.

"If an electronic Know Your Customer (e-kyc) is put in place, a lot of problems will go and the banking sector will take a giant leap forward," he added.

Globally, the financial services industry has moved beyond viewing technology as primarily a means to cut costs, according to a 2018 survey of Accenture and Oxford Economics on North America, the Asia-Pacific, and Europe.

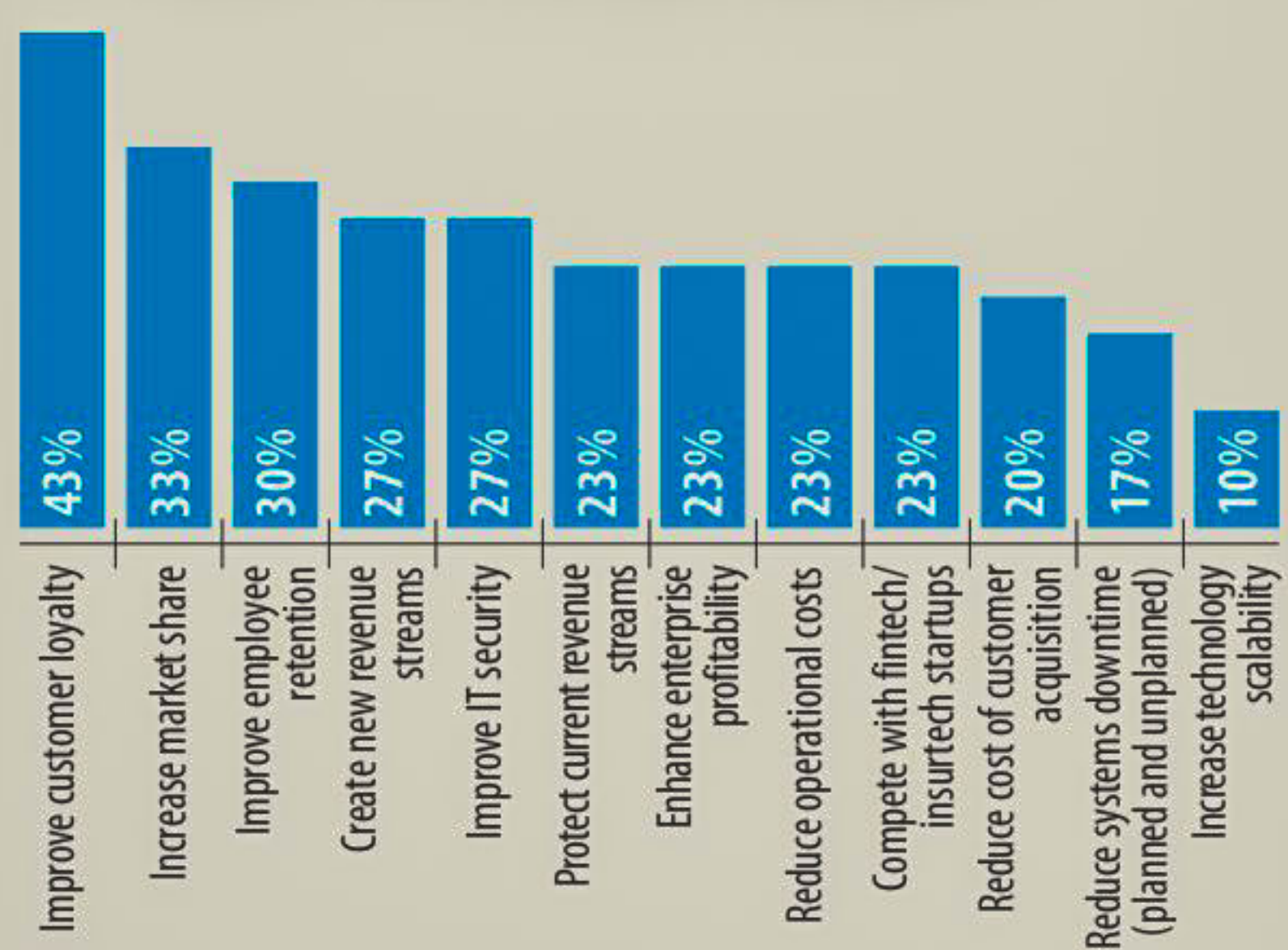
In 2018, Standard Chartered Bangladesh saw an increase of 36 percent in retail online transactions and a 27 percent increase in active internet banking users.

Digital transformation is taking place on many fronts in the country's banking sector, said Syed Mahbubur Rahman, chairman of the Association of Banks, Bangladesh, a platform of private banks' chief executives.

Almost all banks' cards are now EMV-compliant. The number of ATMs (automated teller machines) and PoS (points of sales) machines has gone up, while some banks have introduced cash recycling machines.

Internet banking is growing, with many banks now posts such as head of digital banking -- a position that was not there even a few years ago, according to Rahman, also the managing director of Dhaka Bank.

RETAIL BANKS EXPECT TECHNOLOGY TO BOOST CUSTOMER LOYALTY



SOURCE: 2018 SURVEY OF ACCENTURE AND OXFORD ECONOMICS

"Digital transformation offers immense huge economic benefit to banks," he added. Globally, the financial services

industry has moved beyond viewing technology as primarily a means to cut costs, according to a 2018 survey of Accenture and Oxford Economics on

North America, the Asia-Pacific, and Europe.

Survey data suggests retail bank executives expect technology to accelerate their company's growth.

Among the key findings: 43 percent of retail bank executives expect their technology investments to improve customer loyalty, which is critical in an industry that's all about asset-gathering.

A third of the banks think technology will boost their market share and more than a quarter (27 percent) expects it to create new revenue streams.

Two-thirds of the survey respondents say that within five years consumers will do most of their saving, investing, and borrowing online.

Digital transformation is paying off as well.

"Economic benefits are increasing for traditional retail banks that have implemented the most effective digital strategies," said the Global Retail Banking 2018 report of the Boston Consulting Group (BCG).

Across six major geographic regions -- North America, the Asia-Pacific, Western Europe, Latin America, Eastern Europe, and the Middle East/Africa -- most institutions are about midway into their digital transformations.

To make further progress in this area,

Fintech may boost financial inclusion: BB

STAR BUSINESS REPORT

Financial technology, popularly known as fintech, may facilitate financial inclusion in Bangladesh by offering new platforms for savings and borrowings such as agent banking, according to the central bank.

"This activity may help to mitigate liquidity and credit risks and eventually improve financial stability," Bangladesh Bank said in its Financial Stability Assessment Report for July-September quarter of 2018.

Fintech paves the way for payment system development which can contribute to develop a more integrated, efficient and less frictional financial system, the banking regulator said.

"Fostering well-regulated fintech solutions in cross-border foreign exchange transactions would enhance remittance inflow through legal channels, which has favourable implication for financial stability."

The fintech ecosystem of Bangladesh has demonstrated gradual evolution in the last couple of years, mainly based on payment and clearing systems whereas other areas of fintech are yet to be developed.

At present, most fintech activities in the country are led by banks with support from broad-based national payment systems.

The systems include Bangladesh Automated Cheque Processing Systems (BACPS), the Bangladesh Electronic Funds Transfer Network (BEFTN), the Real Time Gross Settlement (RTGS) and the National Payment Switch Bangladesh (NPSB).

These platforms allow banks to operate internet and mobile banking and automated teller machine (ATM) services.

Agent banking is the latest addition in fintech by which banks are authorised to perform financial intermediation.

There also exist some companies

that act as payment service provider and payment service operator for e-commerce.

In 2017-18, the total amount of transaction through all the systems accounted for 180 percent of GDP, of which the BACPS and the RTGS processed the major share of the payments. The BEFTN, the NPSB and the MFS collectively facilitated 12.7 percent of the total electronic payments.

"This smaller percentage of share is also essential as these platforms processed large amount of retail payments. Moreover, the confidence of the users on payment system largely depends on these platforms especially on MFS."

"Fintech works through various channels to influence financial stability. Some of them work favourably while others may have dampening effect," the report said.

The BB said payment mechanisms may be exposed to cyber security and operational risks. Money supply might be influenced due to increase in veloc-

ity of money resulting from high usage of fintech such as ATMs and point of sales (POS) machines.

Extensive use of fintech such as credit cards for purchasing foreign goods and services might cause leakage of foreign currency from the country.

Besides, easily available fintech solutions might incite transactions beyond legal boundary like hundi, the report said.

"However, from the current perspective of Bangladesh, likely vulnerability of fintech on financial stability may transmit largely through payment system mechanism."

Although fintech application is not yet widely used in Bangladesh, a number of measures, including guidelines, acts and rules, have been issued by various authorities where the central bank of the country plays a significant role, according to the report.

Apart from the payment system, which might be susceptible to cyber security and other operational risks, the

systemic risk from other channels of fintech is still considerably low.

Other than some isolated domestic frauds and forgery, the possibility of systemic risk from payment system does not appear to be a major issue as the domestic regulation is quite comprehensive and monitoring is reasonably tight, the report said.

However, as sporadic events of domestic frauds and forgery may undermine the public confidence on financial system, it is imperative for financial and payment service providers to take prompt remedial measures against the incidences as well as to avoid their recurrence, according to the BB.

"Furthermore, cross border financial transactions need to be dealt with due diligence because of increasing cyber threat, complexity of transactions and involvement of multiple cross border jurisdictions."

The report also says data security should be taken care of properly.

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