



BANKING ON DIGITAL

Local banks are bolstering their digital transformation process to meet the rising demand among customers.

HONG NHUNG Reports

The adoption of digital banking in emerging markets in the Asia-Pacific region, especially Vietnam, has caught up with that seen in developed markets, McKinsey's Personal Financial Services 2021 survey on the digital banking behavior of some 20,000 urban bank customers in 15 Asia-Pacific markets, including Vietnam, found. The proportion of Vietnamese customers using digital banking tools at least once a month doubled between 2017 and 2021, from 41 per cent to 82 per cent.

As customer use of digital banking is accelerating around the country, digital transformation has been the backbone of most local banks' long-term strategies to increase their target customer base, improve the customer experience, and optimize

their end-to-end business operations, according to Mr. Le Xuan Dong, Head of FiinResearch at consultants FiinGroup. “The transformation process has also significantly changed the mindsets of bank leaders and senior management on digital banking strategies, digital business models and culture, product innovation, customer experience, and acquisition, helping them sharpen and maintain their competitive edge in the long term,” he said.

CHANGING LANDSCAPE

Banks and fintech innovators in Vietnam have launched an impressive array of digital tools in recent years, ranging from mobile payment solutions to banking and wealth management platforms and e-commerce ecosystems, according to Mr. Bruce Delteil, Managing Partner at McKinsey & Co. Vietnam. Some of these digital propositions have scaled rapidly, he added, making Vietnam one of Asia-Pacific’s fastest-growing markets for digital banking. McKinsey’s new survey also revealed that the penetration rate of fintech and e-wallets in Vietnam increased from 16 per cent in 2017 to 56 per cent in 2021. Such trends show the rising consumer interest in digital banking.

The survey also determined that 71 per cent of Vietnamese bank customers are open to purchasing banking products and services through digital channels, but only 23 per cent have actually completed a purchase of a bank product online or through its mobile app. “We found that a large majority of customers in Vietnam, approximately 70 per cent, are also multi-channel users across digital, bank branches, and ATMs,” he said. “Vietnamese internet banking customers cite security, speed of service, and remote advisory capabilities as the top 3 areas of improvement they would like to see.”

With increasing interest among Vietnamese customers in using digital banking services, Mr. Dong observed that local banks have actively developed their own digital infrastructure and solutions, covering the automation of their business operations, data collection and analytics, development of omni-channel distribution networks, and comprehensive applications. They have also established strong partnerships with various stakeholders, for example fintechs providing intermediate payment services like e-wallets and payment gateways, telcos, retailers, and e-commerce platforms, among others, to enlarge the target customer base, cross-sell basic banking services, and improve the customer experience. The active participation of leading banks such as Vietcombank, Techcombank, VPBank, ACB, and MBBank in digital transformation has helped improve their transaction banking platforms, main-

taining strong low-cost current account savings account (CASA) sources, healthy net interest margins (NIM), and significant improvements to operational efficiency in term of cost to income ratios (CIR).

For instance, transactions on MBBank’s digital channel account for 94 per cent of the total, in which the number on the MBBank App has increased 2.6-fold year-on-year (210 million transactions) and transaction value 2.2-fold. As of the end of the third quarter, the bank boasted nearly 8 million users of its app while around 60,000 businesses were using its BIZ MBBank app. The number of users has increased 120 per cent compared to the end of 2020, accounting for 75 per cent of individual customers. “These figures are testament to the bank’s outstanding and convenient ecosystem, which allows MBBank to move ahead in the digital transformation ‘marathon’ in Vietnam,” said Mr. Vu Thanh Trung, Head of the Digital Banking Division at MBBank.

DIGITALIZATION PRIORITIES

The negative impact of Covid-19 in terms of social distancing and business continuity has been an important catalyst accelerating the digital transformation journey in Vietnam’s banking sector. In line with the government’s “National digital transformation to 2025, orientation to 2030” program, which gives priority to digitalization, fintech innovation, non-cash payment methods, and financial services, local banks enjoy huge opportunities for continued digital transformation in the years to come.

In order to seize the opportunities and ensure the success of their digital transformation efforts, local banks need to address certain key priorities, according to Mr. Dong. “Digital banking transformation involves the integration of data, advanced analytics, and digital technology into all areas of a financial institution, changing the way work is done, how priorities are set, and how services are delivered,” he said. “Beyond just a technological upgrade, digital transformation requires a cultural change that challenges legacy processes, encourages innovation, and rethinks all aspects of risk and reward.”

Partnerships also need to be accelerated with key stakeholders in various ecosystems to quickly expand the customer base and enhance the customer experience in a digital environment. Frequent customer education campaigns are also necessary, he added, to help them understand the advantages of using digital banking services compared to traditional practices and thus encourage them to change.

Based on an analysis of Vietnamese consumer trends, Mr. Delteil identified at



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least three strategies for Vietnamese banks to consider during digitalization. First, they should re-think multi-channel strategies to cater to different consumer preferences and needs. Eighty-two per cent of Vietnamese consumers use digital banking at least once a month, with digital banking driving around 68 per cent of consumers’ interactions with their banks, but mostly for simple activities. This presents opportunities to leverage data and analytics to better understand this segment and offer them personalized digital services beyond those simple activities. Moreover, 56 per cent of consumers are already using other digital solutions from fintechs or e-wallets. After banks, consumers trust e-wallets for their payments.

Secondly, local banks need to re-imagine digital sales channels. “Vietnamese consumers have a high level of openness to digital sales, and report a willingness to purchase digitally, even for complex products such as mortgages, investments, and insurance,” he explained. “However, the mismatch between intent versus actual purchase still exists. Digital education, awareness, marketing, and incentives can make the difference in encouraging consumers to adopt digital channels.”

And thirdly, banks should re-train their frontline staff and enhance the digital experience to retain and attract consumers. ▶



PHOTOS: VIET TUAN

▶ Insufficient help and support from staff at branches are cited by 40-50 per cent of Vietnamese consumers surveyed as one of the top reasons for switching banks in the past 12 months. Half of respondents cite poor digital functionality as another reason. Where gaps exist, banks need to enhance training in digital products and standardize service quality among their employees, as well as bring in digital teams that are able to design products and platforms with impressive and differentiated functionalities.

BRIDGING THE GAPS

This year, MBBank aims to again be in the top 5 commercial banks in terms of operational quality and efficiency, leading in digital transformation with five key principles: foundation consolidation, digital transformation, comprehensive growth, efficiency, and sustainability. Digital transformation is among the three most important development strategies of the bank over the next five years.

To achieve that end, Mr. Trung said the bank has made elaborate preparations in terms of technological infrastructure as well as human resources, focusing on upgrading the customer experience. It is worth noting that investment in technology infrastructure is not merely about technology but also about creating new product development processes, new business models, and new ways of serving customers. "Over the past three years, MBBank has invested around \$50 million each year in technology, and this investment strategy will continue for at least the next five years," he told VET.

Like other banks in the region, Vietnamese banks have had to respond to

Covid-19 by rethinking and accelerating their vision for digital transformation in several areas. Lockdowns have shown that the pandemic can create significant idle capacity at bank branches and networks, agent networks, and ATMs, etc. Banks had to reconsider what portion of that physical capacity can be reallocated to adjust cost bases, free up productivity gains, and capture more value from digital offerings.

At the same time, more "digital onboarding" of customers is needed. While 71 per



Banks have opportunities to partner or acquire fintech / e-wallet solutions to gain market share as well as to rethink their online and offline customer journeys to provide integrated and multiple touchpoints for consumers."

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Managing Partner, McKinsey & Co. Vietnam

cent of Vietnamese bank customers are open to purchasing banking products and services through digital channels, only 23 per cent actually do so. "This can be addressed through five digital onboarding pillars: digital education campaigns, awareness raising of the value proposition of digital, incentives such as discounts or fee waivers for using digital channels, phasing out of legacy channels over time, and having in place secure but easy-to-use security measures," Mr. Delteil said.

There are also challenges to be faced by Vietnamese banks during their digital transformation journey, such as cyber security, difficulties in accessing and exploiting a national citizen database when implementing eKYC (electronic know your customer) solutions for account openings, and an incomplete legal framework in some areas, which may delay banks' digital transformation and partnership expansions, according to Mr. Dong.

Based on customer needs and trends, there are several areas in need of addressing for innovation in Vietnam's banking system to take hold, including bridging the gap between customer appetite and actual purchasing behavior. To close this gap, Mr. Delteil recommended that banks be prepared to introduce innovative features and compelling value propositions to engage customers more deeply. They will also need to leverage data streaming and advanced analytical capabilities to anticipate customer needs in near real time and deliver highly personalized messages and offers to each customer at scale, at the right time, and via the preferred channel. Since digital offerings will be more rapid than traditional banking, banks' operating models and talent capabilities need to be developed to match this new speed.

Brand positioning is another important factor. Each bank must be clear about its position in Vietnam's increasingly competitive market for financial services. Throughout Asia-Pacific emerging markets, the penetration of fintech tools and e-wallets increased from 38 to 54 per cent between 2017 and 2021. Fintech offerings have grown much faster over the same period, increasing market penetration by 40 percentage points, from 16 to 56 per cent. Given the recent strong showing of fintech innovators like MoMo, Shopee, and Grab, banks should note that, in Vietnam, approximately 60 per cent of customers are open to switching to a digital-only bank. "This sentiment may be encouraging to full-service digital banking platforms, but it should also challenge incumbents to double down on customer engagement through digital channels and rethink branches as a profit center," he believes. ■