

## Asian Financial Forum 2018

### Banknovation: How Techfin and Fintech Transform the Future of Banking

Organised by:

Financial Services and the Treasury Bureau, The Government of the Hong Kong  
Special Administrative Region of the People's Republic of China

Hong Kong Monetary Authority

Hong Kong Trade Development Council

#### Synopsis

Digital revolution and transformation are expected to offer new, exciting, personalized financial services to meet customers' increasing and fast-changing demands. Emerging technologies such as artificial intelligence (AI), blockchain, cloud computing, big data and open API are expected to lead to new business and operating models, eventually elevating the quality of banking services to the next level. Depending on the response from banks, these developments can be seen as either challenges or opportunities. How should banks respond to make the best of this digital revolution? How should practitioners equip themselves with more advanced skills to deal with evolving challenges and take advantage of opportunities? How can regulators strike the right balance between promoting financial innovations and ensuring appropriate customer and investor protection?

#### Moderator

- **Mr Henri Arslanian**  
Adjunct Associate Professor, The University of Hong Kong

#### Speakers

- **Mr Arthur Yuen, JP**  
Deputy Chief Executive, Hong Kong Monetary Authority
- **Mr Aart Jan den Hartog**  
Country Manager Greater China & Mongolia, ING Bank N.V.
- **Ms Angel Ng**  
Chief Executive and Consumer Business Manager, Citibank Hong Kong
- **Ms Jessica Tan**  
Deputy Group CEO, Chief Operation Officer and Chief Information Officer,  
Ping An Insurance (Group) Company of China, Ltd.

Henri Arslanian asked the panel what they thought the banking landscape would look like in 15 years. Aart Jan den Hartog said banks will have to become more responsive to their clients' needs and preferences and offer more personalized service. He said ING's surveys show that customers want banking services but not banks. They simply want a platform for bill payments, mortgages, personal loans, etc. Banks will have to build a brand, personalize their services and make people enjoy using their platform. It is critical that fintech platforms be digital, mobile and open, and that they allow third-party access and focus on providing a different experience.

Angel Ng explained that public behaviour is changing, and banks need to evolve quickly to meet these changing needs. First, customer behaviour must drive the solutions the banks offer, and the most critical phenomenon is mobile. Second, customers want tailor-made solutions, and data analysis allows banks to determine needs and preferences so that they can provide personalized solutions. Third is co-operation: the product-solution cycle is never-ending, so banks must work with their clients continuously, identifying needs and creating solutions.

Arslanian's next question was what the mainland banking landscape will look like in 15 years. Jessica Tan replied that we know what the future will be, but we're not yet sure how to get there. She said China has three strengths: (1) a huge market, so that successful innovations really pay off; (2) tech-heavy consumers, who respond well to fintech innovations; and (3) a relatively profitable banking system. Since Ping An is an insurance company, their focus is on health and how tech, and particularly AI, can be applied to disease prevention.

Arthur Yuen pointed out that the ultimate purpose of banking is to transfer funds from people who have them to people who need them, but there is an element of risk. Managing this risk is crucial. If tech firms come to dominate the banking industry, they will suffer if there is another crisis. Tech may be more efficient than traditional banking, but the risk must be managed.

Den Hartog said that 98 per cent of ING's customers contact them through the web or mobile, and their focus on this has made ING the best-liked bank in Germany for 11 years in a row. There is no doubt that online banking is the way to go.

Ng pointed out that Citibank, recognizing that what works in New York may not be what is needed elsewhere, has decentralized innovation. Citi has successfully made Asia an innovation hub with credit card payments based in Hong Kong and Singapore, and social media transactions in Thailand.

Tan explained that AI and data analysis are being used increasingly in insurance for things such as facial recognition, address confirmation (often difficult in China), car insurance claims, and predicting when and where car accidents will happen in order to provide five-minute service to the 90 per cent service level. She said we are only scratching the surface and that the future of banking is in decentralizing services.

Yuen addressed the issue of how regulators will adjust to the new tech era – reg-tech. He said that of course there will be a lot of changes and that some resources will no longer be needed as tech takes over certain functions, but that these resources can be diverted to new tasks. The challenge for regulators will be to make sure the new engines do not cheat customers. This will involve updating the skill sets of the regulators. One way to make reg-tech smarter and more efficient in the future will be to ask banks to open up their databanks to regulators.

Arslanian asked if fintech is more respected than in the past and Ng said that this must come from the top. The CEO at Citi wants the bank to be a tech firm first and a bank second, which involves both outreach – building connections with the fintech community – and in-reach – training internal staff to keep up with all the changes. It requires a culture change in the organization.

Den Hartog said that fintech requires banks to develop a faster, more agile make-up. ING Bank has a US\$300 million venture fund to invest in fintech, and has trained 4,000 people. Every year ING gets about 1,000 ideas from staff, which it studies and tries to apply in order to help clients stay a step ahead. This helps to create a dynamic culture within the bank.

Yuen said that the HKMA's fintech officer is now the most respected person in the organisation.

Tan listed difficulties an innovation team may face, for example the different perspectives of data analysts and risk analysts create problems. She said there are three stages to implementing an innovation culture. Stage 1 involves finding a lot of developers. Ping An went from 3,000 to 22,000 developers, one-third of whom did not have a background in financial services. In Stage 2, everything is debated as tech (the wolves) merges with financial services (the sheep). In Stage 3, you have the tools, but you need incentives and tough targets to make sure that things move quickly.

The next question for the panel was which skills they look for in new employees. Den Hartog said ING seeks data analysts, engineers and modelers, but still needs risk-compliance people and that there will be a more dynamic, fast-changing environment in the future.

Ng said we need to think about how to transfer skills. Citi's goal is to create a forward compatible culture and motivate employees by having them work on different projects to get a sense of the future workplace and to create a free, comfortable entrepreneurial environment where they can contribute.

Yuen said that in the future, the HKMA will probably need experts in specific types of risk. The HKMA is recruiting risk experts now, especially those who understand the cyber-risk landscape. He said they will also need people who comprehend changes in customer behaviour and bank staff.

Tan said they will need both first-rate specialists and generalists. One problem in China is that staff have so many options. After three years' training, they can move on to another company for a higher salary. So they give their best people problems to solve on their top projects, hoping they will find the work more satisfying than moving elsewhere for more money. Den Hartog and Ng agreed that offering challenging opportunities is a good way to keep top people.

When asked what keeps them up at night, the overwhelming response was cybersecurity threats. When asked what they are most excited about, the reply was tech advances, especially AI.

**ENDS**