

Financial Services Transformation in the Asia Pacific Region



Although the financial services sector is seeing a dramatic global shift to a fintech-based model, this situation is particularly pronounced in the Asia Pacific region, where only around one quarter of the population uses traditional banking and financial services. Accordingly, the rise of phenomena such as mobile banking services, online insurance sales and microlending represents not so much a market shift as the emergence of an entirely new market. This new market is very large – potentially consisting of over 400 million new customers.

There is no single correct approach to pursuing digital transformation in the Asia Pacific region. Unlike Europe, where the same product can be rolled out across a large number of structurally homogenous markets, Asia Pacific's markets are intimidatingly diverse. At one end of the spectrum, we see Singapore: a small population, but also a top-level developed country with a strong climate of state support for digital innovation. At the other end of the spectrum lies Indonesia: as the region's most populous country outside China, it is a highly desirable market, but beset by barriers ranging from a restrictive regulatory regime to a lack of investor confidence.

However, the nature of modern consumer expectations is common to all of these countries. The modern customer demands digital services, and companies seeking to provide financial services are faced with a stark choice: adapt or perish. Youthful populations, with their tendency to be early adopters of new digital products, increase the urgency of the challenges facing the financial sector.

It is often thought that digital transformation is about technology, but this is somewhat misleading. Instead, digital transformation is about harnessing the power of technology to a business culture that recognises the importance of fundamental changes in markets. The modern business seeks to build an agile, adaptable business model designed to thrive long into a future where change is the only constant. Technology is therefore not the goal, but the tool.

How well is digital transformation understood among financial executives?

In our capacity as Executive Search Consultants, we often hear observations from digital transformation experts that there is a lot of talk about digital transformation in the Asia Pacific region, but perhaps not so much understanding. The region's senior financial services specialists are already involved in a great deal of transformation into new business models in general, and digital transformation is sometimes seen as merely a "bolt-on" component to other, more important changes. Traditionally, financial services sector is conservative in many Asia Pacific countries, and this can result in a certain degree of resistance to change, however necessary such change might be.

The executives of the older generation remember the dotcom bubble of 2001 and can consequently be suspicious of similar enthusiasm for the current transition to fintech. To a limited degree, it should be acknowledged that this suspicion is justified: any phenomenon as large as the fintech transformation is bound to attract a certain number of snake oil salesmen and grifters, pitching glamorous but ultimately unsuitable miracle solutions. However, this suspicion does not highlight the limitations of digitisation so much as the difficulty experienced by leaders everywhere in anticipating and adapting to major changes in any era.

More than once we have heard the comment that where finding digital expertise is concerned, many senior executives “don’t know what ‘good’ looks like”. New parameters come with new requirements – and traditional recruitment criteria are not always relevant to ensuring that these requirements are met.

What is needed for successful digital transformation is true leadership buy-in at the executive level. To some extent, this challenge will solve itself in the coming decade: a new, younger generation of digital natives are entering the upper echelons of management, and they are less likely to ask “Why do we need a strong digital focus?” as they are to wonder “How could a modern business even imagine not being digitally focused?” At the same time, digital transformation is increasingly bringing to an end the era of entirely separate departments with firewalled responsibilities, and ushering in a new era of cross-departmental collaborations.

Before we reach the stage where fintech is viewed as the norm rather the exception in the Asian financial world, the journey of digital transformation will involve winners and losers. The winners will be the companies that adapt fastest.

Contemporary approaches to digital transformation

Broadly, two different approaches to digitisation are currently taking place in the financial services in the Asia Pacific region. On one hand, some companies have set up separate digital divisions to handle their digital products. This can be constructive, as it allows for a certain amount of sandboxing of new approaches. In the long run, this may sometimes even lead to the “main” company eventually being absorbed into the digital division, as the digital products become the primary products.

The other increasingly common approach is a more holistic one: setting up a Digital Transformation Team, headed by a Chief Digital Officer, and including the heads of key departments such as Sales, Finance, HR and Logistics. The Digital Transformation Team’s aim is to define the business’s goals in the digital era, and realign the entire business strategy to meet market demands. This approach depends on a particularly strong support network catering to all affected departments – which in practice means *all* departments. In this model, the makeup of the executive team itself is also changing: as well as the Chief Digital Officer, a growing number of boards are also bringing in a Chief Data Officer whose primary responsibility is to make the best use of digital analytics and big data to better understand how customers think and what they truly want.

In both models, digital transformation tends to involve focusing on the same, often overlapping, areas: the expectations and needs of customers; the means by which to deliver maximum commercial value; the development of innovative products; and the monitoring of the activities of competitors. These areas are, of course, of equal concern in more traditional business models. However, the advent of digital technology (and big data in particular) offers entirely new means of improving business models – and accordingly, requires entirely new approaches.

For this reason, working with third parties is fast becoming the norm. Digital disruption companies, specialising in devising strategies for the new digital landscape, offer products and services which most financial institutions lack the capacity to develop in-house. Accordingly, it is increasingly in the interests of the modern financial institution to be ready to outsource more and more of its activities. This creates its own additional challenges in terms of in-house IT systems: many institutions still rely on old-fashioned legacy systems which are no longer fit for purpose; accordingly, we are seeing a broad infrastructural shift towards using Application Program Interfaces which are specifically designed to be compatible with third party software.

Right now, the companies that we observe to be digitising most effectively in Asia Pacific are large players with strong existing customer bases. As well as the financial sector, we also see this in the fields of telecommunications, healthcare, pharmaceuticals, real estate, and retail in particular.

This is not only because these industries have the resources to pursue large scale transformation, but more significantly, because these tend to be the very industries whose sustainability is most obviously threatened by the emergence of disruptive startups. In many cases, they have begun their digital journey by focusing on the development of simple products that can be bought and sold online without human intervention. The lesson for the rest of the financial industry is clear: unless smaller players prioritise digital transformation, the financial giants of today are likely to still be the financial giants of tomorrow.

One model worth watching is the recent collaboration between HSBC and the Hong Kong Applied Science and Technology Research Institute (ASTRI). The two organisations launched a joint R&D innovation laboratory in late 2016, with a view to developing solutions to actual market problems affecting the bank and its customers. As well as exploring the obvious field of internet finance, the initiative also focuses on a range of related areas including Chinese character recognition by AI, big data analytics, blockchain, facial recognition, and biometric authentication. HSBC has stated that some of the products created as a result of this initiative will be trialled in HKMA's regulatory sandbox before being rolled out to the market. This shows how large blue-chip financial institutions can collaborate with third parties in order to overcome some of the risks associated with the introduction of new technologies and methodologies and promote digital transformation outside of their existing day-to-day operations, bringing finished products to the market at a later stage only. Smaller organisations would be wise to take note.

Talent management challenges

One type of senior executive in particular is in desperately short supply across the Asia Pacific region right now: a person with a deep understanding of both the commercial realities of the market *and* the digital sphere. Such executives are like gold dust in the present climate, and competition is fierce. Most leadership teams lack executives that can adequately and effectively fulfil this role, so they will need to adapt and change quickly in order to thrive in this digital world.

Of course, this situation is not unique to fintech. Across the entire economy worldwide there is a talent crunch in areas ranging from data analytics, IOT, cyber-security and machine learning. As the millennial generation start to be promoted to senior management positions over the coming years, this situation should improve but will by no means be resolved entirely. By some estimates, almost 50% of today's jobs will be automated in the next two decades. Rather than resting on their laurels as digital natives, millennials will in their turn face the same need to constantly reinvent and upgrade their skillsets to align with perpetually shifting market demands.

For financial institutions, this new environment will radically impact on what constitutes best practices in talent management. Adaptability is now king – and the most effective approach may well be to look outside traditional financial sector hiring profiles and identify individuals with the capacity to continually anticipate and adapt to rapidly-changing markets.

Conclusion

For the financial services sector, digital transformation is no longer an option, but a necessity for survival. The implications of this transformation impact every area of business – from corporate strategy to product development, and from corporate structure to talent management. The largest players in the sector have made their positions clear: they are going all-out to retain their long-term dominance of the sector by seeking to harness digital technology in order to develop the most agile, adaptable and sustainable business models, designed to thrive in a future where change is the only constant. The question of who will do this successfully depends in great part on the approaches that are taken to recruit and engage digital transformation specialists.



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