The State of Digital Banking in Thailand

Charting the roadmap to a digital future
Executive Summary

Digital banking is gaining traction in Thailand, with more and more technology heads convincing senior management to invest in a digital strategy for their respective banks. This was the main thesis of the roundtable discussion hosted by Akamai Technologies for senior executives from the financial services industry in Thailand.

The direct nature of mobile and online channels has given banks in Thailand the confidence to get in touch with the customer again. Instead of waiting for customers to visit bank branches or automated teller machines (ATMs) or dealing with increased privacy laws around outbound calling campaigns, banks are going digital to reconnect with the customer and establish a better understanding of what the customer wants from the bank.

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While going digital opens up a myriad of possibilities, finite budgets and business accountability means that digital banking executives will have to hedge their bets carefully.

This report maps out the future of digital banking in Thailand and provides an insight into the challenges that lie ahead as banks evolve their multi-channel strategies.

Key take-aways

1. Channel spending has been recalibrated, in line with customer migration towards digital channels. Spending budgets on branches and ATMs have either stalled or are pruned back while digital channel investment has increased exponentially.

2. There is also a paradigm shift in the thinking around the customer experience across channels. The advent of direct customer engagement from industry disruptors in other sectors has seen banks move from a cookie-cutter customer experience to enhancing and tailoring a digital customer experience.

3. There is a realization that mobile and online channels offer a huge untapped opportunity to add more functionality and to engage with the customers directly, while also maintaining that physical channels still have a unique role to play with their specific strengths.

4. Security and maintaining customer trust are top-of-mind for banks going into the digital space. Bankers tread a fine line in balancing innovation with availability, and anti-hacker protection with customer convenience.

5. With the dizzying pace of change in technology, there is need to chart a roadmap and prioritize channel expenditure. This ensures that the bank’s technology investment is on track to deliver on business demands and that there is a plan to address evolving customer needs.

Follow the money

There is a shift in channel spending in line with customer migration towards mobile and online channels among banks in Thailand.

Even larger Thai banks, with their sizeable customer bases, see the potential in digital banking to grow wallet share, as customers are more willing to try out new services both wirelessly and online.

The ATM seems to be the first channel affected by this digital transition. The current set-up in Thailand, where customers get three free transactions per month on other bank ATMs makes it more viable to share ATMs from an existing network built by different banks, especially for the smaller banks.

There is already on-going capital reduction and a slowdown in ATM deployment with some banks even completely holding off from investing in new ATMs to focus on more direct, more mobile banking.

Branches are still deemed necessary although the branch network mix is currently being tweaked with a balance of large branch centers and smaller in-store branches. Branches are still expected to feature very strongly in areas that require financial expertise, for example when selling bancassurance and retirement planning.

“The ATM seems to be the first channel affected by this digital transition”

While the future of banking in Thailand is digital, banking wirelessly on the go on smartphones and tablets has overtaken Internet banking on desktop and laptop computers. As in many large and developing markets, the infrastructure and connectivity issues with a large rural population mean that banks are leap-frogging the Internet website stage and placing a higher priority on developing mobile banking apps and services specifically for use on smartphones and tablets across a wide geographical base.
Enhancing the customer experience instead of one-size-fits-all

Banks recognize the need to tailor their offerings to be more suitable for each channel.

Thai bankers want to understand the customer’s needs in the mobile and online channels and then translate that to product-level functionality.

For example, one service that translates well on the smartphone is balance enquiry. One major bank has seen a huge take-up for its quick balance function on the smartphone, possibly freeing up 40% of ATM transactions and 60% of interactive voice response (IVR) transaction volume. To ensure quick access, the mobile balance enquiry offers instant visibility through the bank’s app and does not require the customer to log on.

Some banks are also experimenting with eliminating second-factor authentication in the mobile banking platform, opting instead for transaction authorization methods similar to those for mobile app purchases.

The thinking seems to have shifted from trying to achieve a similar customer experience across channels (such as transferring the online experience to mobile) to leveraging the unique features in each channel to enhance the customer experience.

Direct engagement with the ‘always-on’ customer

Another opportunity thrown up by the mobile platform is direct engagement with the customer especially as the smartphone seldom leaves the customer’s hands.

One bank found direct marketing through notifications and the bank’s app inbox as a more successful way to engage its customers.

In fact, customers felt that promotional campaigns were less intrusive on digital platforms, as they have voluntarily logged into their bank accounts, in their own time. They were more open to trying new services, and it gave the bank more opportunities to be flexible in giving out offers and trials.

The mobile and online channels were also seen as being especially useful as a means to increase financial literacy as customers are more willing to hear from the bank when logged on. In a website revamp, a mid-sized Thai bank moved away from taking the usual brochure approach online to creating various opportunities for the customer to interact with the bank. The bank also engaged bloggers to talk about common financial issues on their respective sites.

The focus for digital banking in Thailand has shifted from a one-way conversation with the customer to promoting financial literacy and engaging the customer around his or her needs.

Balancing a fine line between innovation and availability

In trying to keep up with technology, banks will also have to ensure that their investment does not come at too high a price. Thai bankers cited availability as a top concern, especially with the high-profile outages suffered by banks in other markets recently.

Customer trust is seen as the number one asset and that means any new technology will need to be road-worthy before the technology or channel head considers it.

Clients in Asia are especially sensitive to the stability and availability of their banks. In a 2014 EY Global Consumer Banking Survey, 66% of bank customers in the region cite financial stability as the reason for complete trust in their primary financial services provider. In fact, the top three reasons revolved around security procedures and the ability to withdraw money – still centered on availability.

<table>
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<tr>
<th>Reasons for complete trust in primary financial services provider</th>
<th>Global</th>
<th>Asia-Pacific</th>
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<tbody>
<tr>
<td>Financial stability</td>
<td>54%</td>
<td>54%</td>
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<tr>
<td>Ability to withdraw money</td>
<td>56%</td>
<td>56%</td>
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<tr>
<td>Their security procedures</td>
<td>53%</td>
<td>55%</td>
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<tr>
<td>The size of the company</td>
<td>33%</td>
<td>38%</td>
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<tr>
<td>The way I am treated</td>
<td>26%</td>
<td>35%</td>
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<tr>
<td>How they communicate with me</td>
<td>26%</td>
<td>25%</td>
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<tr>
<td>Quality of advice provided</td>
<td>25%</td>
<td>16%</td>
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<tr>
<td>Problem resolution/complaint handling</td>
<td>10%</td>
<td>16%</td>
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<tr>
<td>My relationship with certain employees</td>
<td>53%</td>
<td>10%</td>
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<tr>
<td>The fees I pay</td>
<td>25%</td>
<td>16%</td>
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<td>Interest rates I earn on my accounts</td>
<td>16%</td>
<td>9%</td>
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<tr>
<td>Interest rates I pay on my loans</td>
<td>16%</td>
<td>10%</td>
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<tr>
<td>Stories from friends or relatives</td>
<td>16%</td>
<td>9%</td>
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<tr>
<td>Their decision to open or close branches</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Recent articles or news stories</td>
<td>16%</td>
<td>9%</td>
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Source: EY Global Consumer Banking Survey 2014
Another top challenge for Thai banks is distinguishing hackers from legitimate customers. Security is a top concern, and banks are constantly investing in upgrading their mobile and online security given their higher public profile and bigger Internet footprint.

This is a legitimate concern. According to the Global DDoS Report published by Akamai Technologies, there was a 72% increase in average attack bandwidth and 46% in infrastructure attacks in the second quarter of 2014 (2Q2014) compared to that of the previous year.

"Banks in Thailand find themselves walking a fine line between keeping up with the latest innovation and ensuring availability"

Banks in Thailand find themselves walking a fine line between keeping up with the latest innovation and ensuring availability, and fortifying against hackers while ensuring a pain-free user experience for a legitimate customer.

The digital roadmap: Of budgets and sense

It is clear that digital banking deserves serious investment.

However, the proliferation of new devices and new technology also means that digital bankers need to prioritize the many projects on their plate.

Some banks have developed a technology roadmap that allows them to prioritize according to business needs. The roadmap also gives justification around return on investment (ROI), total cost of ownership (TCO) and proof numbers that the investment is in the right direction. With a five- to ten-year horizon, the roadmap ensures that the initial technology investment remains sound and scalable.

"With digital channels, banks will need to plan for an unknown transaction volume"

This is especially important, as digital channels do not have a ‘throttle’ or top end unlike the ATM or branch with a finite number of transactions processed per hour. With digital channels, banks will need to plan for an unknown transaction volume. Scalability becomes especially critical. The transition to digital means that – particularly with mobile channels – the bank is now constantly in the customer’s hands.

Conclusion

As customers become increasingly connected, the main challenge for banks is to understand what how the customer wants to engage in the digital space and to translate that into new functionalities, products and services in their digital channels.

The future for banking is clearly digital. With strong senior management support and the budget to manage the risks and challenges, Thai banks will be investing strongly in digital channels not only to attract new customers and increase wallet share but also to help optimize the current physical channel infrastructure.