



With the expected benefits of fintech adoption accompanied by very real costs, it is time for banks to weigh the balance between the potential costs of action and inaction. PHOTO: REUTERS

Time ripe for banks to adopt fintech solutions

As current IT systems creak under increasing demands, new tech will help improve efficiency, increase revenues and capture savings while being supported by govts. **BY DAVID BECKER**

THE financial industry has experienced a decade of change since the global financial crisis upended traditional business models and cut profit margins to the bone. Many banks have slimmed operations and aggressively cut costs.

However, many banks continue to struggle with low profitability amid fierce competition and ever-stricter regulatory requirements.

And the industry is now facing one of the biggest regulatory shakeups in decades as the European Union implements new financial market rules in the form of the Markets in Financial Instruments Directive II (MIFID II) on Jan 3, 2018. While designed to lower systemic risk, MIFID II will almost certainly mean higher regulatory compliance costs and a need to upgrade information technology across many financial market segments.

With most banks having already achieved all the cost cutting that they can within their own four walls, the time is ripe for banks in Singapore – and across Asia – to adopt fintech solutions to help improve efficiency, increase revenues and capture savings.

Clickbait headlines have long promised that fintech would solve the challenges facing banks. Most of these claims are exaggerated, but we believe that fintech is already initiating structural changes that could drive a renaissance in financial industry profitability.

These technologies include cloud computing, blockchain and artificial intelligence (AI). Among the three, cloud computing is the most developed and widely adopted. In fact, many believe cloud technology is on the cusp of widespread adoption as banks struggle to serve client needs and meet regulatory requirements using legacy IT infrastructures. Cloud applications offer the benefits of cost mutualisation and processing power that is billed based on usage.

Blockchain will arguably be the next big wave in fintech adoption, with many firms having completed proofs of concept and targeting roll outs going forward. This includes the Monetary Authority of Singapore (MAS), which recently announced a partnership with the Hong Kong Monetary Authority (HKMA) to develop a cross-border distributed ledger technology-based (DLT-based) trade finance platform.

Similarly, in early December 2017 the Australian Stock Exchange announced that it will partner with Digital Asset Holdings, in which Broadridge has an equity stake, to replace its ageing post-trade settlement infrastructure

with a blockchain-based system.

The expected benefits of blockchain include the potential for real-time transaction processing, a high degree of cybersecurity and an immutable “golden copy” of transactions. These and other benefits are forecast to deliver savings of US\$15 billion to US\$35 billion per annum across the financial services ecosystem, according to Broadridge and Bain & Company estimates.

AI is already driving a financial industry revolution. Early AI implementations have eliminated a lot of costly and error-prone manual processing trading functions. Similarly, machine-based learning is increasingly widespread, taking automation a step forward by allowing machines to be trained to handle exceptions based on previous occurrences.

True AI, where machines learn by doing rather than being trained, is the Holy Grail of automated transaction processing. True AI would enable machines to handle tasks that are now solely the province of humans (or a combination of humans and machines) due to their complexity or the nuanced decisions that need to be made.

In Singapore, the MAS is supporting the promise of AI, announcing US\$20 million in financing for AI and data analytics projects and support during the November 2017 Singapore Fintech Festival.

MAKING THE CHANGES HAPPEN

Taken together, these technologies stand to help banks improve efficiency, increase revenues and capture savings in ways that were previously inconceivable.

However, the devil is in the details. All of these technologies require significant upfront investment, which may seem to be an insurmountable challenge after 10 years of belt-tightening and cost cutting. But we see several reasons why the time may be ripe to move ahead with these projects in Asia:

- Legacy IT infrastructures are creaking: New regulatory requirements and the increasing complexity of financial markets mean that many banks’ in-house IT systems are not able to meet current needs, let alone support the demands of new fintech applications. In fact, in a recent survey of 150 buy and sell-side analysts, Broadridge found that 39 per cent at the director/vice-president level and 28 per cent at the C-suite level considered legacy technology to be their biggest operational pain point.
- Current macro conditions: Rising interest rates, improving economic conditions and

growing corporate profits provide an opportunity to invest in new technology that we have not seen since the global financial crisis.

- Governments and regulators in the region are supportive: The Australian, Hong Kong, Japanese and Singapore governments and regulators, among others, have thrown their support behind fintech development.

So how can firms take practical steps to incorporate fintech solutions into their existing operations?

- Focus on simplifying complex, obsolete legacy technology: Perhaps nowhere is this clearer than with blockchain, which could deliver real-time transaction processing, provide an immutable transaction record and raise resilience to cyberattack.

- Increasingly engage industry utilities and partners to mutualise the costs of non-differentiating functions: This entails adopting next-generation, multi-tenant technology platforms (many offered via the cloud) to address complex but repetitive tasks. Broadridge’s Global Post Trade Management (GPTM) solution is one example of such a solution.

- Accelerate the adoption of new technologies to cut costs, simplify operating models and drive innovation: The ongoing evolution of automation towards true AI is an example of an area where companies can adopt best-in-class technology now to benefit from early AI applications and be prepared for “true AI”.

With the expected benefits of fintech adoption accompanied by very real costs, it is time for banks to weigh the balance between the potential costs of action and inaction. As current in-house IT systems creak under increasing demands, there is a real need for new technologies to simplify current processes and potentially spread costs across the industry.

Singapore, in collaboration with Hong Kong, has shown how government regulators and industry can work together on these goals. This environment presents opportunities for capital market firms to take ownership of the impending changes.

Companies are increasingly focusing internal technology efforts on things that genuinely differentiate their firms. They are leveraging new technologies with global partners to innovate in areas where they lack expertise or scale, or to enable them to focus their expertise on their most differentiating areas.

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