KPMG's Chia Tek Yew, Citi's Ivan Jaya, and OCBC NISP's Ka Jit

Will Indonesia's massive digital banking appetite trigger branch closures?

Bankers in Jakarta reveal that in-bank transactions are becoming less popular.

Digital banking is rapidly gaining popularity in Indonesia, with local banks splurging huge chunks of their budgets on establishing digital branches, developing mobile apps, and rolling out other digital banking initiatives. The increased popularity of digital banking transactions has resulted in branch closures as the volume of physical over-the-counter transactions has dwindled, according to industry insiders who spoke at *Asian Banking & Finance*'s Retail Banking Forum in Jakarta held on April 27, 2016.

However, they also warned that Indonesian banks need to come up with a well-thought-out strategy rather than just jumping blindly onto the digital banking bandwagon, or else they run the risk of having a poorly-executed digital platform which can create further inconvenience for their customers.

Banks are no longer that worried about fintech players, the key question now is how quickly the changes can be made and how seamless we can make it.

"The key thing is the pace of change. We are seeing banks react to the millennial generation, the smartphone generation. Banks are no longer that worried about fintech players, the key question now is how quickly the changes can be made and how seamless we can make it," said **Chia Tek Yew**, head of advisory, Financial Services KPMG.

Seamless customer service is key

Enhanced customer experience and a seamless integration of physical and digital banking services is crucial to the success of any digital banking strategy, shared **Ka Jit**, head of individual customer solutions, OCBC NISP.

"We come from a mid-sized, very traditional bank. The key challenge for us going into digital banking is to really not just adopt whatever new technological advancement there is in the market but to build an omni-channel experience for our customers. So we leverage on the branches we already have and enhance the customers' ongoing interactions through our digital channels," he said.

Ivan Jaya, head of wealth management at Citibank, noted that a robust digital banking framework will help banks provide more personalised solutions to their clients, while at the same time help in reducing costs and improving the efficiency of advisory services.

"I think in the wealth management world, the most important thing for clients, especially for high net worth individuals and affluent customers, is the ability to get real-time updates and the ability to get the update from their relationship managers. However not all of them currently get the service that they deserve. And this, along with the pace of the technology that we have been seeing so far, and the emergence of fintech as well, is going to help close that kind of gap," he said.

Diebold showcases their products at the event

Sharon Kam, regional director for China and Southeast Asia at strategic design consultancy, Allen International, warned that many Asian banks are too focussed on having a digital branch but do not appear to have given their digital strategies much thought.

"In my experience in working with banks around Asia, I have seen that a lot of banks are rushing onto the bandwagon. They all want to have digital branches. I have visited all the banks with digital branches in Indonesia, and my observation is I think it's too rushed. They didn't think through the customer journey very well, and also it is not integrated in a seamless way with the other channels," she said.

She illustrated that at some digital branches, clients can open an account online but will suddenly have to print out certain documents halfway through the process, then undergo manual checking. This creates a disruption in customer experience and can even take longer than purely manual processes, she said.

"A digital branch shouldn't replace brand engagement. You cannot just put in a live machine and think the customer will actually be loyal to you. Because what's important is how you engage with the customer. In fact, digital branches should enhance your brand rather than take away from it. It has to start not from the design, but from a strategy that integrates the rest of the network to how you actually envisage the branch," she said.

In-bank transactions slump

Jit and Jaya noted that the rapid rise in the popularity of digital banking solutions has resulted in a decline in in-bank transactions. The number of transactions handled by physical tellers has dropped precipitously in the past few years, while the number of digital banking transactions has risen steeply.

"The number of transactions handled by tellers has dropped drastically on a year-on-year basis. Right now, on average, daily transactions amount to just double-digits, from 60 to 100 transactions. This is much lower compared to five years ago. Customers are moving to digital transactions. What we're doing for the future is shifting the function of the branch to focus less on transactions, more on service and sales," Jit said.

Jaya shared that Citibank itself has closed 40% of its branches since the end of 2015, with the number of branches dropping to just 11 from 20 at the end of December last year. Despite the closures, Jaya said that Citibank has not lost a single account or customer, as 92% of customer transactions are already being done online. "Online services make customers stick," he said.

However, it's too early to bid goodbye to physical bank branches, Jit added. "I think the level of customer adoption on digital has been speeding up tremendously in the past couple of years. The way I look at it, the branch will still be important because it will be difficult to move away from the cash society significantly, but banks should look at it as an immediate challenge," he said.

Tellers and other bank staff needn't panic either, as it is unlikely that machines will completely make their jobs obsolete in the near future. "Not all customers like to make the decisions for themselves. Some customers still prefer to have their relationship manager to do it for them," Jaya said.

The branch will still be important because it will be difficult to move away from the cash society significantly, but banks should look at it as an immediate challenge.

"I wouldn't say that the teller role will disappear entirely, but I would say that it would expand and transform. We see tellers handling service and maybe doing sales as well," Jit noted.

Who's afraid of P2P?

Peer-to-peer lending in Indonesia is growing, but panelists noted that these fintech firms have not yet reached enough scale to disrupt the current banking system. And rather than eyeing the newcomers as rivals, banks are in fact looking to collaborate and share knowledge with the new players.

"Some people would call them disruptive, I would say that it create a lot of opportunity for synergy and collaboration. In fact, we are actually engaging them very closely for cross-learning opportunities and collaboration," Jit noted.

Meanwhile, Jaya said that Citibank is interested in how fintech companies can help the bank increase efficiency. "It's not up to the level of disruptive currently, however their ability to cut out the middlemen is what will make them successful," Jaya said.

Jit shared that OCBC is keeping a close eye on fintech players although they do not yet post a significant risk to the bank. "You can always learn from those fintechs because they are very nimble and very impressive."

Although the bankers are confident that P2P lending will not turn the banking system on its head, KPMG's Chia noted that there is still room to be cautious when it comes to dealing with these new players.

"Essentially the middleman in this case is the bank. If you take that away and say that you can lend through P2P without a bank, what the banks fear is not really losing revenues from lending, because lending comes with risk. What they fear is the loss of deposits," said Chia.

He noted that consumers might find it more rewarding to put excess cash in peer-to-peer lending platforms, as these offer significantly higher returns compared to keeping money in bank accounts.

"When that happens, deposits in banks come out. That's where the P2P lending industry can impact the whole market," Chia noted.