

The Shape of Things to Come

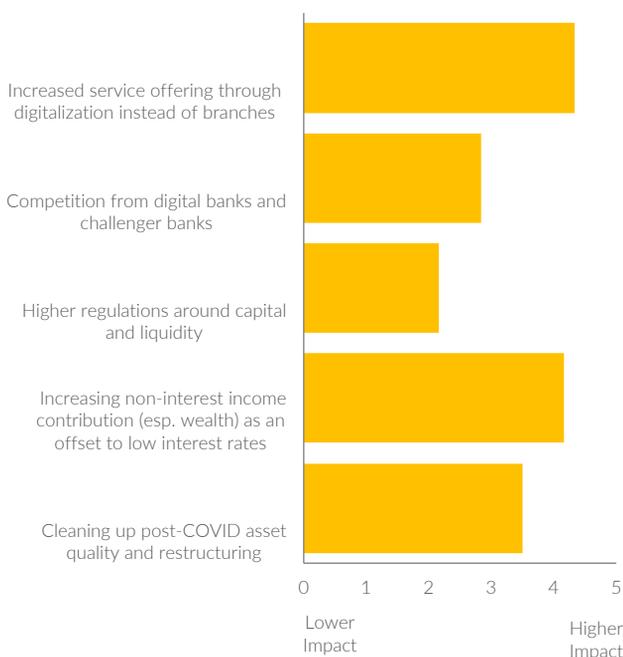


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We expect multiple drivers to shape the performance of ASEAN banks in the medium term. The sector is emerging from the Covid-19 pandemic relatively unscathed, but significant tail risks remain from renewed waves of infections and accompanying lockdowns and border closures. At the same time, new challengers in the form of digital banks are emerging looking to gain market share in the high growth, but under-banked markets in ASEAN.

All of this is taking place in the midst of huge social shifts in the financial industry, where operations are transforming to include more diversity, sustainability, hybrid work models as well rising requirements for new skills.

Our expectations on key profitability drivers in next 5 years



Source: Maybank Kim Eng

In Focus:

ASEAN banks are set to tap new opportunities with rising cross-border trade, higher digital adoption and rising wealth.

To win, they will need to adopt technology, new work models and become closer to customers.

But the path to growth needs to be tread carefully as tail risks from the pandemic remain.

Indeed, the common view of an ASEAN bank being a traditional, interest-income-driven business model is set for a major change. A survey by MKE’s ASEAN Financials Research Team shows that the critical factors that could drive medium term profitability is rising non-interest income contribution – particularly from wealth management as the region grows in affluence. The team expects most of these services to be delivered digitally with falling emphasis on branch banking.

As the sector emerges from these changes, there should be significant opportunities. Supply chains shifting from North Asia to ASEAN, increasing cross-border trade, higher digital adoption and rising wealth should all offer attractive paths for growth, we believe.



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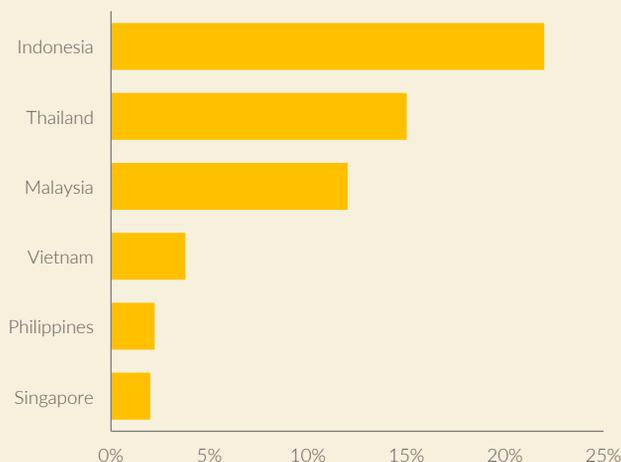


Lessons learnt and the path to growth

At the beginning of the pandemic, governments and central banks across ASEAN launched extraordinary measures to maintain liquidity in the banking system, while also providing relief to borrowers impacted by lockdowns and border closures. These resulted in loan moratoriums and restructurings, which are not recognized as NPLs.

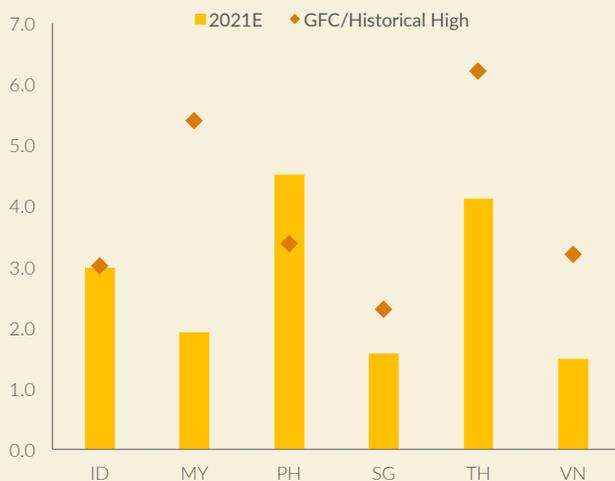
While this creates a notable tail risk, moratorium exits so far in Singapore, Malaysia and Philippines have shown low levels of subsequent delinquencies. Indeed, overall NPL expectations for 2021E are coming in largely below levels seen during the GFC.

Loans under moratorium/restructuring as a % of system loans



Source: Maybank Kim Eng

2021E NPL expectations vs. GFC/historical high



Source: Maybank Kim Eng

Together with strong balance sheets and CET1 ratios, this puts ASEAN banks in a sustainable path to growth as vaccine rollouts accelerate and border openings timelines become clearer.

Of course, significant unknowns remain: what approaches will regulators take in future pandemics? How will stress-testing and regulatory capital requirement evolve? What other risks are out there?

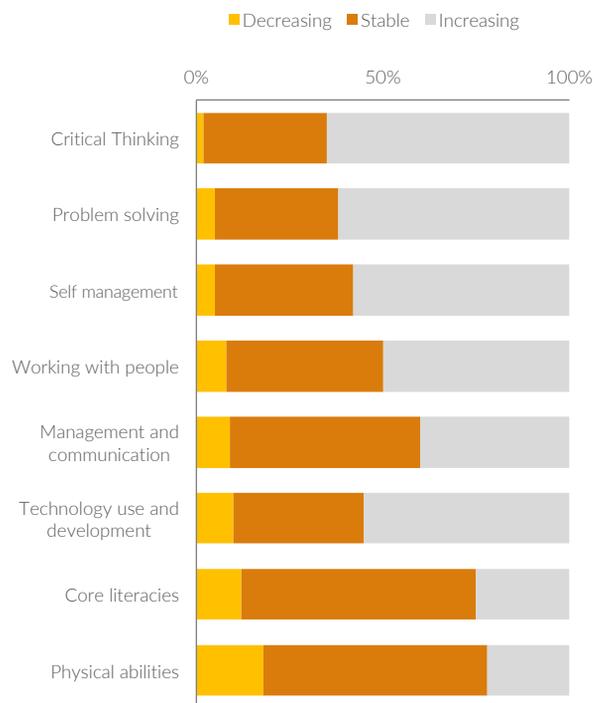
The future of work in ASEAN banking

StanChart, DBS, UOB have announced flexible working arrangements allowing staff to work from home for several days a week. They are joining a rising set of financial institutions offering hybrid work solutions catalyzed by pandemic lockdowns.

However, it is not the only instance where work in the financial sector is changing. ASEAN banks are set to undergo major shifts in who will actually work for them and how they will be led.

Increasingly, the ability to execute routine, sequential tasks is set to lose value in favour of skills such as critical thinking, problem solving and technology use and development, according to the World Economic Forum Future of Work survey of global companies. As banks increasingly adopt technology to automate operations and drive customer insights, the definition of a 'bank job' is set to change.

Perceived skills with growing demand by 2025, by share of companies surveyed



Source: World Economic Forum

Top 3 industries with the highest representation of women in company boards (2017)

Rank	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
1	Industrials (26%)	Healthcare (27%)	Industrials (20%)	Consumer discretionary (15%)	Consumer discretionary (24%)	Consumer staples (24%)
2	Real estate (20%)	Financials (20%)	Financials (16%)	Real estate (15%)	Consumer staples (24%)	Consumer discretionary (20%)
3	Consumer staples (15%)	Energy (19%)	Consumer staples (15%)	Financials (14%)	Financials (20%)	Real estate (19%)

Source: IFC

Separately, diversity and representation are becoming critical issues in management and succession planning. While the financial sector features as a top-3 industry in terms of female board representation in most ASEAN countries, it still lags OECD counterparts, according to the IFC.

How will ultimate work structures evolve under a post-pandemic environment?

What are the implications for corporate culture and what does it mean to customers and other stakeholders?

What are the implications to bank leadership?

How will human and social capital be measured going forward?

Growing in growth markets

The continuing trade war and tech war between the US and China is opening opportunities for ASEAN as companies look to relocate supply chains and manage business risk with a China + 1 model. Indeed, foreign bank claims (lending) to ASEAN rose an average 6% in 2020, despite pandemic disruptions. In the three years prior to the pandemic, credit flows to ASEAN outpaced flows to China.

Apart from the direct demand for credit and other banking services from corporates that are relocating, this should also drive significant investments in the domestic economies in terms of infrastructure and support services.

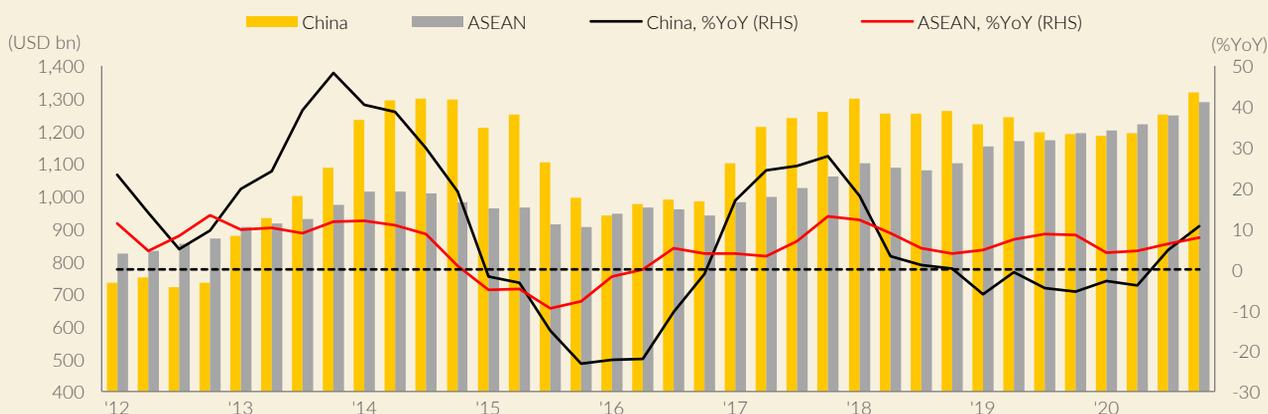
Separately, domestic-driven growth is set to accelerate. Rising digital adoption is opening new customer touch points for banks in ASEAN. This is further catalyzed by pandemic-led forced digitalization of customer segments (such as SMEs and seniors) as well as the underbanked.

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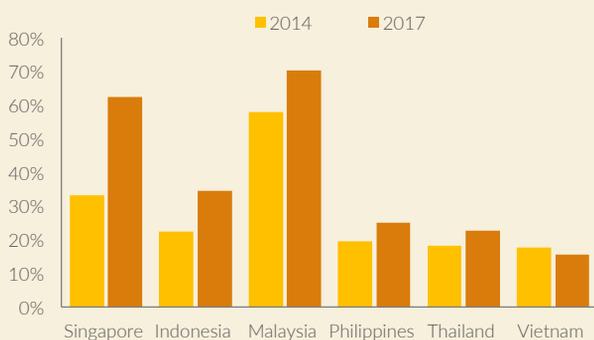
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Foreign bank claims on ASEAN vs. China



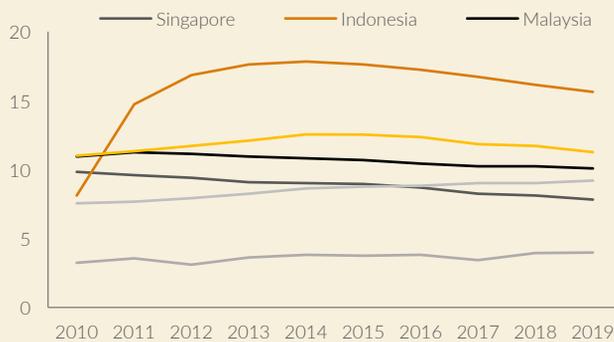
Source: BIS, CEIC, Maybank Kim Eng

Customers who made/received a digital payment



Source: ASEAN Secretariat

Commercial bank branches (per 100,000 adults)



Source: World Bank

The end of traditional branch banking?

On the other hand, increasing digitization may spell the end of traditional branch banking. Even in higher growth markets such as Indonesia, the Philippines and Vietnam, physical branch availability is falling. Banks such as DBS has announced they are cutting 20% of their floor space in the next few years, while modifying their branches to offer more automated services.

How should ASEAN banks balance between being close to their communities and their digital offerings?

Which countries could benefit the most from North-South supply chain shifts?

What solutions may become available for the underbanked?



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